# SECURITIES AND EXCHANGE COMMISSION

# FORM 497

Definitive materials filed under paragraph (a), (b), (c), (d), (e) or (f) of Securities Act Rule 497

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## FILER

| Filer | Mailing Address | Business Address |
|---|---|---|
| **INSURED MUNICIPAL SECURITIES TRUST SERIES 32 LG NY 16 NJ 12**<br>CIK:**919280**\| State of Incorp.:**NY** \| Fiscal Year End: **1231**<br>Type: **497** \| Act: **33** \| File No.: **033-52397** \| Film No.: **94522971** | *C/O BEAR STEARNS & CO INC*<br>*245 PARK AVE*<br>*NEW YORK NY 10167* | *C/O BEAR STEARNS & CO INC*<br>*245 PARK AVE*<br>*NEW YORK NY 10167* |
| **MUNICIPAL SECURITIES TRUST MULTI STATE SERIES 45**<br>CIK:**920902**\| State of Incorp.:**NY** \| Fiscal Year End: **1231**<br>Type: **497** \| Act: **33** \| File No.: **033-52829** \| Film No.: **94522972** | *245 PARK AVENUE*<br>*C/O BEAR STEARNS & CO INC*<br>*NEW YORK NY 10167* | *245 PARK AVENUE*<br>*C/O BEAR STEARNS & CO INC*<br>*NEW YORK NY 10167*<br>*2128566806* |

Rule 497(b)
Registration Nos. 33-52397
33-52829

(LOGO)

INSURED MUNICIPAL SECURITIES TRUST
SERIES 32, NEW YORK NAVIGATOR
INSURED SERIES 16
AND
NEW JERSEY NAVIGATOR INSURED SERIES 12
STANDARD & POOR'S CORPORATION RATING: AAA
AND

MUNICIPAL SECURITIES TRUST
SERIES 55 (INTERMEDIATE) AND MULTI-STATE SERIES 45

The Trust consists of five separate unit investment trusts designated Series 32 ('Insured Trust'), New York Navigator Insured Series 16 ('New York Navigator Trust') and New Jersey Navigator Insured Series 12 ('New Jersey Navigator Trust') (the New York Navigator Trust and the New Jersey Navigator Trust are collectively known as the 'Navigator Trusts' and together with the Insured Trust are collectively known as the 'Insured Trusts'), Series 55 (Intermediate) ('Municipal Trust') and Multi-State Series 45, (Virginia Trust) (the 'Virginia Trust' or 'State Trust') (the Insured Trusts, Municipal Trust and the State Trust are collectively known as the 'Trusts'). The Sponsors for the Navigator Trusts are Bear, Stearns & Co. Inc. and Gruntal & Co., Incorporated. The Sponsor for the Insured Trust, the Municipal Trust and the State Trust is Bear, Stearns & Co. Inc. only. Each Trust was formed to preserve capital and to provide interest income (including earned original issue discount) through investment in (a) for the Insured Trust and the Navigator Trusts, an underlying portfolio of long-term insured tax-exempt bonds and (b) for the Municipal Trust and the State Trust, an underlying portfolio of intermediate or long-term tax-exempt bonds issued by or on behalf of states, municipalities and public authorities (the 'Bonds') which interest income in the opinion of bond counsel to the respective issuers, is, with certain exceptions, currently exempt from regular federal income taxes under existing law and is exempt from state and local taxes to the extent indicated when received by residents of the state in which the issuer of any Bond is located. Units of the New York Navigator Trust will be offered to residents of Connecticut, Colorado, the District of Columbia, Florida, Hawaii, New Jersey, New York and Wyoming. Units of the New Jersey Navigator Trust will be offered to residents of Delaware, Pennsylvania, Colorado, the District of Columbia, Florida, Hawaii, New Jersey, New York and Wyoming. Units of the Virginia Trust will be offered to residents of Virginia, Maryland, Colorado, the District of Columbia, Florida, Hawaii, New Jersey, New York and Wyoming. Except for these states, Units of each of the Navigator Trusts and the State Trust will not be offered to residents of any other state. Units of the Insured Trust and the Municipal Trust will be offered to residents of all 50 states and the District of Columbia. On the Date of Deposit, all of the Bonds in each of the Insured Trusts are irrevocably insured and therefore the Units of each of the Insured Trusts are rated 'AAA' by Standard & Poor's Corporation and all of the Bonds in the Municipal Trust and State Trust were rated 'A' or better by Standard & Poor's Corporation or Moody's Investors Service, Inc. None of the

Bonds in the Municipal Trust and State Trusts are insured. The value of the Units of the Trusts will fluctuate with the value of the underlying Bonds. Minimum purchase: 1 Unit.

This Prospectus consists of two parts. Part A contains the Summary of Essential Information including descriptive material relating to the Trusts, the Statement of Condition of the Trusts and the Portfolios. Part B contains general information about the Trusts. Part A may not be distributed unless accompanied by Part B.

Please read and retain both parts of this Prospectus for future reference.

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

PROSPECTUS PART A DATED APRIL 14, 1994

INSURED MUNICIPAL SECURITIES TRUST
SERIES 32

SUMMARY OF ESSENTIAL INFORMATION AS OF APRIL 13, 1994*

| | |
|---|---|
| DATE OF DEPOSIT: April 14, 1994 | |
| PRINCIPAL AMOUNT OF BONDS................. | $3,000,000 |
| NUMBER OF UNITS........................... | 3,000 |
| FRACTIONAL UNDIVIDED INTEREST IN TRUST PER UNIT................................ | 1/3,000 |
| PRINCIPAL AMOUNT OF BONDS PER UNIT........ | $1,000 |
| PUBLIC OFFERING PRICE**+ | |
| Aggregate Offering Price of Bonds in Trust................................ | $2,922,803 |
| Divided by 3,000 Units.................. | $974.27 |
| Plus Sales Charge of 4.9% of Public Offering Price........................ | $50.19 |
| Public Offering Price per Unit.......... | $1,024.46 |
| REDEMPTION PRICE PER UNIT+++.............. | $970.27 |
| SPONSOR'S INITIAL REPURCHASE PRICE PER UNIT+o................................. | $974.27 |
| EXCESS OF PUBLIC OFFERING PRICE OVER REDEMPTION PRICE PER UNIT............... | $54.19 |
| EXCESS OF SPONSOR'S INITIAL REPURCHASE PRICE OVER REDEMPTION PRICE PER UNIT+o... | $4.00 |
| EVALUATION TIME: 4:00 p.m. New York Time.. | |
| MINIMUM PRINCIPAL DISTRIBUTION: $1.00 per Unit | |
| WEIGHTED AVERAGE LIFE TO MATURITY: 27.9 Years | |
| MINIMUM VALUE OF TRUST: Trust may be terminated if the value of Trust is less than $1,200,000 in principal amount of Bonds. | |
| MANDATORY TERMINATION DATE: The earlier of December 31, 2044 or the disposition of the last Bond in the Trust. | |
| TRUSTEE: United States Trust Company of New York. | |
| TRUSTEE'S ANNUAL FEE:*** Monthly plan $1.39 per $1,000 and semi-annual plan $.94 per $1,000. | |
| EVALUATOR: Kenny S&P Evaluation Services. | |
| EVALUATOR'S FEE FOR EACH EVALUATION: Minimum of $3 plus $.25 per each issue of Bonds in excess of 50 issues (treating separate maturities as separate issues). | |
| SPONSOR: Bear, Stearns & Co. Inc. | |
| SPONSOR'S ANNUAL FEE: Maximum of $.25 per $1,000 principal amount of bonds (see 'Trust Expenses and Charges' in Part B). | |

PER UNIT INFORMATION BASED UPON INTEREST DISTRIBUTION PLAN ELECTED

| | MONTHLY OPTION | SEMI-ANNUAL OPTION |
|---|---|---|
| Gross annual interest income (cash) oo............................... | $61.20 | $ 61.20 |
| Less estimated annual fees and expenses............................. | 2.45 | 1.89 |
| Estimated net annual interest income (cash) ++++oo.................. | 58.75 | 59.31 |
| Estimated daily interest accrual oo................................. | .1632 | .1647 |
| Estimated current return based on Public Offering Price oo(1)........ | 5.73% | 5.79% |
| Estimated long term return ++oo(1).................................. | 5.73% | 5.79% |
| First record date................................................... | 5/1/94 | 5/1/94 |
| First interest distribution date.................................... | 5/15/94 | 5/15/94 |
| Subsequent record dates............................................. | 1st of each month | June 1 and Dec. 1 |
| Subsequent interest distribution dates.............................. | 15th of each month | June 15 and Dec. 15 |

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* The business day prior to the Date of Deposit. The Date of Deposit is the date on which the Trust Agreement was signed and the deposit of bonds with the Trustee made.

** For information regarding offering price per unit and applicable sales charge under the Total Reinvestment Plan, see 'Total Reinvestment Plan' in Part B.

*** During the first year estimated gross annual interest income per Unit will be $60.98, estimated expenses will be $2.23 under the monthly plan and $1.67 under the semi-annual plan; and estimated net interest income per Unit will remain as shown. The Trustee has agreed during the first year only, to reduce its fee and to the extent necessary, reimburse the expenses of the Trust by approximately $.22 per Unit to cover interest on any Bonds accruing prior to their expected dates of delivery since interest will not accrue to the benefit of the Certificateholders until such Bonds are actually delivered to the Trust. To the extent such non-accrual is in excess of the reduction of the Trustee's fee, the estimated current return reflected above will be somewhat lower during the first year, although the cash distribution will be the same. See 'Interest and Principal Distributions' in Part B.

+No accrued interest will be added for any person contracting to purchase Units on the Date of Deposit. Anyone ordering Units after such Date will pay accrued interest from April 21, 1994 to the date of settlement (five business days after order) less distributions from the Interest Account subsequent to April 21, 1994.

++The estimated current return and estimated long-term return are increased for transactions entitled to a discount (see 'Volume and Other Discounts' in Part B), and are higher under the semiannual and annual options due to lower Trustee's fees and expenses.

+++Based solely upon the bid side evaluation of the underlying Bonds. Upon tender for redemption, the price to be paid will be calculated as described under 'Trustee Redemption' in Part B.

++++The first interest distribution of $1.63 per Unit will be made on May 15, 1994 (the 'First Payment Date') to all Certificateholders of record on May 1, 1994 (the 'First Record Date'). The regular monthly payment will be $4.89 on June 15, 1994. The first semi-annual payment will be $4.94 on June 15, 1994 and $29.65 thereafter.

o See 'Comparison of Public Offering Price, Sponsors' Repurchase Price and Redemption Price' in Part B.

oo Does not include income accrual from original issue discount bonds.

(1) Estimated long term return is calculated by computing the average of the yields to maturity (or earlier call date) of the Bonds in the portfolio of the Trust in accordance with accepted bond practices (taking into account the amortization of premiums, accretion of discounts, market value, and estimated retirement of each Bond) and subtracting from the average yield so calculated the fees, expenses and sales charge of the Trust. Estimated current return is calculated by dividing the estimated net annual interest income by the Public Offering Price per Unit. In contrast to the estimated long term return, the estimated current return does not take into account the amortization of premium or accretion of discount on the underlying Bonds, if any. These returns do not include the effects of any delay in payments to Unitholders and a calculation which includes those effects would be lower. See 'Estimated Long Term Return and Estimated Current Return' in Part B.



INSURED MUNICIPAL SECURITIES TRUST
NEW YORK NAVIGATOR INSURED SERIES 16
SUMMARY OF ESSENTIAL INFORMATION AS OF APRIL 13, 1994*

<TABLE>

| <S> | <C> |
|---|---|
| DATE OF DEPOSIT: April 14, 1994 | |
| PRINCIPAL AMOUNT OF BONDS................ | $3,000,000 |
| NUMBER OF UNITS.......................... | 3,000 |

| | |
|---|---|
| FRACTIONAL UNDIVIDED INTEREST IN TRUST PER UNIT................................ | 1/3,000 |
| PRINCIPAL AMOUNT OF BONDS PER UNIT........ | $1,000 |
| PUBLIC OFFERING PRICE**+ | |
| Aggregate Offering Price of Bonds in Trust................................ | $2,821,105 |
| Divided by 3,000 Units................. | $940.37 |
| Plus Sales Charge of 4.9% of Public Offering Price....................... | $48.45 |
| Public Offering Price per Unit......... | $988.82 |
| REDEMPTION PRICE PER UNIT +++............ | $936.37 |
| SPONSORS' INITIAL REPURCHASE PRICE PER UNIT +o................................ | $940.37 |
| EXCESS OF PUBLIC OFFERING PRICE OVER REDEMPTION PRICE PER UNIT.............. | $52.45 |
| EXCESS OF SPONSORS' INITIAL REPURCHASE PRICE OVER REDEMPTION PRICE PER UNIT o.. | $4.00 |
| EVALUATION TIME: 4:00 p.m. New York Time.. | |
| MINIMUM PRINCIPAL DISTRIBUTION: $1.00 per Unit | |
| WEIGHTED AVERAGE LIFE TO MATURITY: 23.4 Years | |
| MINIMUM VALUE OF TRUST: Trust may be terminated if the value of Trust is less than $1,200,000 in principal amount of Bonds. | |
| MANDATORY TERMINATION DATE: The earlier of December 31, 2044 or the disposition of the last Bond in the Trust. | |
| TRUSTEE: United States Trust Company of New York. | |
| TRUSTEE'S ANNUAL FEE: Monthly plan $1.40 per $1,000 and semi-annual plan $.95 per $1,000. | |
| EVALUATOR: Kenny S&P Evaluation Services. | |
| EVALUATOR'S FEE FOR EACH EVALUATION: Minimum of $3 plus $.25 per each issue of Bonds in excess of 50 issues (treating separate maturities as separate issues). | |
| SPONSORS: Bear, Stearns & Co. Inc.<br>Gruntal & Co., Incorporated | |
| SPONSORS' ANNUAL FEE: Maximum of $.25 per $1,000 principal amount of bonds (see 'Trust Expenses and Charges' in Part B). | |

</TABLE>

PER UNIT INFORMATION BASED UPON INTEREST DISTRIBUTION PLAN ELECTED

<TABLE>
<CAPTION>

| | MONTHLY OPTION | SEMI-ANNUAL OPTION |
|---|---|---|
| <S> | <C> | <C> |
| Gross annual interest income (cash) oo.............................. | $57.66 | $ 57.66 |
| Less estimated annual fees and expenses............................. | 2.46 | 1.90 |
| Estimated net annual interest income (cash) ++++oo.................. | 55.20 | 55.76 |
| Estimated daily interest accrual oo................................. | .1533 | .1548 |
| Estimated current return based on Public Offering Price oo(1)........ | 5.58% | 5.64% |
| Estimated long term return ++oo(1).................................. | 5.62% | 5.68% |
| First record date.................................................. | 5/1/94 | 5/1/94 |
| First interest distribution date.................................... | 5/15/94 | 5/15/94 |
| Subsequent record dates............................................. | 1st of each month | June 1 and Dec. 1 |
| Subsequent interest distribution dates.............................. | 15th of each month | June 15 and Dec. 15 |

</TABLE>

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* The business day prior to the Date of Deposit. The Date of Deposit is the date on which the Trust Agreement was signed and the deposit of bonds with the Trustee made.

** For information regarding offering price per unit and applicable sales charge under the Total Reinvestment Plan, see 'Total Reinvestment Plan' in Part B.

\+ No accrued interest will be added for any person contracting to purchase

Units on the Date of Deposit. Anyone ordering Units after such Date will pay accrued interest from April 21, 1994 to the date of settlement (five business days after order) less distributions from the Interest Account subsequent to April 21, 1994.

++ The estimated current return and estimated long-term return are increased for transactions entitled to a discount (see 'Volume and Other Discounts' in Part B), and are higher under the semiannual and annual options due to lower Trustee's fees and expenses.

+++ Based solely upon the bid side evaluation of the underlying Bonds. Upon tender for redemption, the price to be paid will be calculated as described under 'Trustee Redemption' in Part B.

++++ The first interest distribution of $1.53 per Unit will be made on May 15, 1994 (the 'First Payment Date') to all Certificateholders of record on May 1, 1994 (the 'First Record Date'). The regular monthly payment will be $4.60 on June 15, 1994. The first semi-annual payment will be $4.64 on June 15, 1994 and $27.88 thereafter.

o See 'Comparison of Public Offering Price, Sponsors' Repurchase Price and Redemption Price' in Part B.

oo Does not include income accrual from original issue discount bonds.

(1) Estimated long term return is calculated by computing the average of the yields to maturity (or earlier call date) of the Bonds in the portfolio of the Trust in accordance with accepted bond practices (taking into account the amortization of premiums, accretion of discounts, market value, and estimated retirement of each Bond) and subtracting from the average yield so calculated the fees, expenses and sales charge of the Trust. Estimated current return is calculated by dividing the estimated net annual interest income by the Public Offering Price per Unit. In contrast to the estimated long term return, the estimated current return does not take into account the amortization of premium or accretion of discount on the underlying Bonds, if any. These returns do not include the effects of any delay in payments to Unitholders and a calculation which includes those effects would be lower. See 'Estimated Long Term Return and Estimated Current Return' in Part B.



INSURED MUNICIPAL SECURITIES TRUST
NEW JERSEY NAVIGATOR INSURED SERIES 12
SUMMARY OF ESSENTIAL INFORMATION AS OF APRIL 13, 1994*

<TABLE>

| <S> | <C> |
|---|---|
| DATE OF DEPOSIT: April 14, 1994 | |
| PRINCIPAL AMOUNT OF BONDS................. | $3,000,000 |
| NUMBER OF UNITS.......................... | 3,000 |
| FRACTIONAL UNDIVIDED INTEREST IN TRUST PER UNIT............................... | 1/3,000 |
| PRINCIPAL AMOUNT OF BONDS PER UNIT........ | $1,000 |
| PUBLIC OFFERING PRICE**+ | |
| Aggregate Offering Price of Bonds in Trust................................ | $2,912,132 |
| Divided by 3,000 Units................. | $970.71 |
| Plus Sales Charge of 4.9% of Public Offering Price....................... | $50.01 |
| Public Offering Price per Unit......... | $1,020.72 |
| REDEMPTION PRICE PER UNIT +++............ | $966.71 |
| SPONSORS' INITIAL REPURCHASE PRICE PER UNIT +o | $970.71 |
| EXCESS OF PUBLIC OFFERING PRICE OVER REDEMPTION PRICE PER UNIT.............. | $54.01 |
| EXCESS OF SPONSORS' INITIAL REPURCHASE PRICE OVER REDEMPTION PRICE PER UNIT o.. | $4.00 |
| EVALUATION TIME: 4:00 p.m. New York Time.. | |
| MINIMUM PRINCIPAL DISTRIBUTION: $1.00 per Unit | |
| WEIGHTED AVERAGE LIFE TO MATURITY: 27 Years | |
| MINIMUM VALUE OF TRUST: Trust may be terminated if the value of Trust is less than $1,200,000 in principal amount of Bonds. | |
| MANDATORY TERMINATION DATE: The earlier of December 31, 2044 or the disposition of the last Bond in the Trust. | |
| TRUSTEE: United States Trust Company of New York. | |
| TRUSTEE'S ANNUAL FEE: Monthly plan $1.41 per $1,000 and semi-annual plan $.96 per $1,000. | |
| EVALUATOR: Kenny S&P Evaluation Services. | |

EVALUATOR'S FEE FOR EACH EVALUATION:
Minimum of $3 plus $.25 per each issue of Bonds in excess of 50 issues (treating separate maturities as separate issues).
SPONSORS: Bear, Stearns & Co. Inc.
Gruntal & Co., Incorporated
SPONSORS' ANNUAL FEE: Maximum of $.25 per $1,000 principal amount of bonds (see 'Trust Expenses and Charges' in Part B).
</TABLE>

PER UNIT INFORMATION BASED UPON INTEREST DISTRIBUTION PLAN ELECTED

<TABLE>
<CAPTION>

| <S> | MONTHLY OPTION <C> | SEMI-ANNUAL OPTION <C> |
|---|---|---|
| Gross annual interest income (cash) oo.............................. | $ 59.19 | $59.19 |
| Less estimated annual fees and expenses............................. | 2.47 | 1.91 |
| Estimated net annual interest income (cash) ++++oo.................. | 56.72 | 57.28 |
| Estimated daily interest accrual oo................................. | .1575 | .1591 |
| Estimated current return based on Public Offering Price oo(1)........ | 5.56% | 5.61% |
| Estimated long term return ++oo(1).................................. | 5.58% | 5.63% |
| First record date................................................... | 5/1/94 | 5/1/94 |
| First interest distribution date.................................... | 5/15/94 | 5/15/94 |
| Subsequent record dates............................................. | 1st of each month | June 1 and Dec. 1 |
| Subsequent interest distribution dates.............................. | 15th of each month | June 15 and Dec. 15 |

</TABLE>

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* The business day prior to the Date of Deposit. The Date of Deposit is the date on which the Trust Agreement was signed and the deposit of bonds with the Trustee made.

** For information regarding offering price per unit and applicable sales charge under the Total Reinvestment Plan, see 'Total Reinvestment Plan' in Part B.

\+ No accrued interest will be added for any person contracting to purchase Units on the Date of Deposit. Anyone ordering Units after such Date will pay accrued interest from April 21, 1994 to the date of settlement (five business days after order) less distributions from the Interest Account subsequent to April 21, 1994.

++ The estimated current return and estimated long-term return are increased for transactions entitled to a discount (see 'Volume and Other Discounts' in Part B), and are higher under the semiannual and annual options due to lower Trustee's fees and expenses.

+++ Based solely upon the bid side evaluation of the underlying Bonds. Upon tender for redemption, the price to be paid will be calculated as described under 'Trustee Redemption' in Part B.

++++ The first interest distribution of $1.57 per Unit will be made on May 15, 1994 (the 'First Payment Date') to all Certificateholders of record on May 1, 1994 (the 'First Record Date'). The regular monthly payment will be $4.72 on June 15, 1994. The first semi-annual payment will be $4.77 on June 15, 1994 and

$28.64 thereafter.

o See 'Comparison of Public Offering Price, Sponsors' Repurchase Price and Redemption Price' in Part B.

oo Does not include income accrual from original issue discount bonds.

(1) Estimated long term return is calculated by computing the average of the yields to maturity (or earlier call date) of the Bonds in the portfolio of the Trust in accordance with accepted bond practices (taking into account the amortization of premiums, accretion of discounts, market value, and estimated retirement of each Bond) and subtracting from the average yield so calculated the fees, expenses and sales charge of the Trust. Estimated current return is calculated by dividing the estimated net annual interest income by the Public Offering Price per Unit. In contrast to the estimated long term return, the estimated current return does not take into account the amortization of premium or accretion of discount on the underlying Bonds, if any. These returns do not include the effects of any delay in payments to Unitholders and a calculation which includes those effects would be lower. See 'Estimated Long Term Return and Estimated Current Return' in Part B.

MUNICIPAL SECURITIES TRUST
SERIES 55 (INTERMEDIATE)
SUMMARY OF ESSENTIAL INFORMATION AS OF APRIL 13, 1994*

| | |
|---|---|
| DATE OF DEPOSIT: April 14, 1994 | |
| PRINCIPAL AMOUNT OF BONDS................. | $3,000,000 |
| NUMBER OF UNITS.......................... | 3,000 |
| FRACTIONAL UNDIVIDED INTEREST IN TRUST PER UNIT............................... | 1/3,000 |
| PRINCIPAL AMOUNT OF BONDS PER UNIT........ | $1,000 |
| PUBLIC OFFERING PRICE** | |
| Aggregate Offering Price of Bonds in Trust................................ | $2,922,336 |
| Divided by 3,000 Units................. | $974.11 |
| Plus Sales Charge of 3.9% of Public Offering Price....................... | $39.53 |
| Public Offering Price per Unit +........ | $1,013.64 |
| REDEMPTION PRICE PER UNIT++.............. | $970.11 |
| SPONSOR'S INITIAL REPURCHASE PRICE PER UNIT o | $974.11 |
| EXCESS OF PUBLIC OFFERING PRICE OVER REDEMPTION PRICE PER UNIT o............ | $43.53 |
| EXCESS OF SPONSOR'S INITIAL REPURCHASE PRICE OVER REDEMPTION PRICE PER UNIT.... | $4.00 |
| EVALUATION TIME: 4:00 p.m. New York time................................... | |
| MINIMUM PRINCIPAL DISTRIBUTION: $1.00 per Unit | |
| WEIGHTED AVERAGE LIFE TO MATURITY: 9.8 years | |
| MINIMUM VALUE OF TRUST: Trust may be terminated if value of Trust is less than $1,200,000 in principal amount of Bonds. | |
| MANDATORY TERMINATION DATE: The earlier of December 31, 2044 or the disposition of the last Bond in the Trust. | |
| TRUSTEE: United States Trust Company of New York. | |
| TRUSTEE'S ANNUAL FEE:*** Monthly plan $1.36 per $1,000 and semi-annual plan $.91 per $1,000. | |
| EVALUATOR: Kenny S&P Evaluation Services. | |
| EVALUATOR'S FEE FOR EACH EVALUATION: Minimum of $3 plus $.25 per each issue of Bonds in excess of 50 issues (treating separate maturities as separate issues). | |
| SPONSOR: Bear, Stearns & Co. Inc. | |
| SPONSOR'S ANNUAL FEE: Maximum of $.25 per $1,000 principal amount of Bonds (see 'Trust Expenses and Charges' in Part B). | |

PER UNIT INFORMATION BASED UPON INTEREST DISTRIBUTION PLAN ELECTED

| | MONTHLY OPTION | SEMI-ANNUAL OPTION |
|---|---|---|
| Gross annual interest income (cash) oo........................ | $ 54.04 | $ 54.04 |
| Less estimated annual fees and expenses....................... | 2.42 | 1.86 |
| Estimated net annual interest income (cash) ++++oo............ | 51.62 | 52.18 |
| Estimated daily interest accrual oo........................... | .1434 | .1449 |
| Estimated current return based on Public Offering Price ++oo(1) | 5.09% | 5.15% |
| Estimated long term return ++oo(1).............................. | 5.30% | 5.36% |
| First record date............................................. | 5/1/94 | 5/1/94 |
| First interest distribution date.............................. | 5/15/94 | 5/15/94 |
| Subsequent record dates....................................... | 1st of each month | June 1 & Dec. 1 |

| | | |
|---|---|---|
| Subsequent interest distribution dates........................ | 15th of each month | June 15 & Dec. 15 |

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* The business day prior to the Date of Deposit. The Date of Deposit is the date on which the Trust Agreement was signed and the Bonds were deposited with the Trustee.

** For information regarding offering price per Unit and applicable sales charge under the Total Reinvestment Plan, see 'Total Reinvestment Plan' in Part B.

*** During the first year, estimated gross annual interest income per Unit will be $53.72; estimated expenses will be $2.10 under the monthly plan and $1.54 under the semi-annual plan; and estimated net interest income per Unit will remain as shown. The Trustee has agreed, during the first year only, to reduce its fee and, to the extent necessary, reimburse the expenses of the Trust by approximately $.32 per Unit to cover interest on any Bonds accruing prior to their expected dates of delivery since interest will not accrue to the benefit of the Certificateholders until such Bonds are actually delivered to the Trust. To the extent such non-accrual is in excess of the reduction of the Trustee's fee, the estimated current return reflected above will be somewhat lower during the first year, although the cash distribution will be the same. See 'Interest and Principal Distributions' in Part B.

\+ No accrued interest will be added for any person contracting to purchase Units on the Date of Deposit. Anyone ordering Units after such Date will pay accrued interest from April 21, 1994 to the date of settlement (five business days after order) less distributions from the Interest Account subsequent to April 21, 1994.

++ The estimated current return and estimated long term return are increased for transactions entitled to a sales charge discount (see 'Volume and Other Discounts' in Part B), and are higher under the semi-annual and annual options due to lower Trustee's fees and expenses.

+++ Based solely upon the bid side evaluation of the underlying Bonds. Upon tender for redemption, the price to be paid will be calculated as described under 'Trustee Redemption' in Part B.

++++ The first interest distribution of $1.43 per Unit will be made on May 15, 1994 (the 'First Payment Date') to all Certificateholders of record on May 1, 1994 (the 'First Record Date'). The first regular monthly payment will be $4.30 on June 15, 1994. The first semi-annual payment will be $4.34 on June 15, 1994 and $26.09 thereafter.

o See 'Comparison of Public Offering Price, Sponsors' Repurchase Price and Redemption Price' in Part B.

oo Does not include income accrual from original issue discount Bonds.

(1) Estimated long term return is calculated by computing the average of the yields to maturity (or earlier call date) of the Bonds in the portfolio of the State Trust in accordance with accepted bond practices (taking into account the amortization of premiums, accretion of discounts, market value, and estimated retirement of each Bond) and subtracting from the average yield so calculated the fees, expenses and sale charge of the State Trust. Estimated current return is calculated by dividing the estimated net annual interest income by the Public Offering Price per Unit. In contrast to the estimated long term return, the estimated current return does not take into account the amortization of premium or accretion of discount on the underlying Bonds, if any. These returns do not include the effects of any delay in payments to Unitholders and a calculation which includes those effects would be lower. See 'Estimated Long Term Return and Estimated Current Return' in Part B.



MUNICIPAL SECURITIES TRUST
MULTI-STATE SERIES 45
VIRGINIA TRUST
SUMMARY OF ESSENTIAL INFORMATION AS OF APRIL 13, 1994*

<TABLE>
<S> <C>

| | |
|---|---|
| DATE OF DEPOSIT: April 14, 1994 | |
| PRINCIPAL AMOUNT OF BONDS................. | $3,000,000 |
| NUMBER OF UNITS........................... | 3,000 |
| FRACTIONAL UNDIVIDED INTEREST IN TRUST PER UNIT................................ | 1/3,000 |
| PRINCIPAL AMOUNT OF BONDS PER UNIT........ | $1,000 |
| PUBLIC OFFERING PRICE** | |
| Aggregate Offering Price of Bonds in Trust................................ | $2,816,980 |
| Divided by 3,000 Units................. | $938.99 |
| Plus Sales Charge of 4.9% of Public Offering Price........................ | $48.38 |
| Public Offering Price per Unit +........ | $987.37 |
| REDEMPTION PRICE PER UNIT ++............. | $934.99 |
| SPONSOR'S INITIAL REPURCHASE PRICE PER UNIT +o | $938.99 |
| EXCESS OF PUBLIC OFFERING PRICE OVER REDEMPTION PRICE PER UNIT o............ | $52.38 |
| EXCESS OF SPONSOR'S INITIAL REPURCHASE PRICE OVER REDEMPTION PRICE PER UNIT.... | $4.00 |
| EVALUATION TIME: 4:00 p.m. New York time................................... | |
| MINIMUM PRINCIPAL DISTRIBUTION: $1.00 per Unit | |
| WEIGHTED AVERAGE LIFE TO MATURITY: 26.6 years | |
| MINIMUM VALUE OF TRUST: Trust may be terminated if value of Trust is less than $1,200,000 in principal amount of Bonds. | |
| MANDATORY TERMINATION DATE: The earlier of December 31, 2044 or the disposition of the last Bond in the Trust. | |
| TRUSTEE: United States Trust Company of New York. | |
| TRUSTEE'S ANNUAL FEE: Monthly plan $1.37 per $1,000 and semi-annual plan $.92 per $1,000. | |
| EVALUATOR: Kenny S&P Evaluation Services. | |
| EVALUATOR'S FEE FOR EACH EVALUATION: Minimum of $3 plus $.25 per each issue of Bonds in excess of 50 issues (treating separate maturities as separate issues). | |
| SPONSOR: Bear, Stearns & Co. Inc. | |
| SPONSOR'S ANNUAL FEE: Maximum of $.25 per $1,000 principal amount of Bonds (see 'Trust Expenses and Charges' in Part B). | |

</TABLE>

PER UNIT INFORMATION BASED UPON INTEREST DISTRIBUTION PLAN ELECTED

<TABLE>
<CAPTION>

| <S> | MONTHLY OPTION <C> | SEMI-ANNUAL OPTION <C> |
|---|---|---|
| Gross annual interest income (cash) oo........................ | $ 57.67 | $ 57.67 |
| Less estimated annual fees and expenses........................ | 2.43 | 1.87 |
| Estimated net annual interest income (cash) ++++oo............ | 55.24 | 55.80 |
| Estimated daily interest accrual oo........................... | .1534 | .1550 |
| Estimated current return based on Public Offering Price ++oo(1) | 5.59% | 5.65% |
| Estimated long term return ++oo(1)............................ | 5.69% | 5.75% |
| First record date............................................. | 5/1/94 | 5/1/94 |
| First interest distribution date.............................. | 5/5/94 | 5/5/94 |
| Subsequent record dates....................................... | 1st of each month | June 1 & Dec. 1 |
| Subsequent interest distribution dates........................ | 15th of each month | June 15 & Dec. 15 |

</TABLE>

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* The business day prior to the Date of Deposit. The Date of Deposit is the date on which the Trust Agreement was signed and the Bonds were deposited with the Trustee.

** For information regarding offering price per Unit and applicable sales charge under the Total Reinvestment Plan, see 'Total Reinvestment Plan' in Part B.

+ No accrued interest will be added for any person contracting to purchase Units on the Date of Deposit. Anyone ordering Units after such Date will pay accrued interest from April 21, 1994 to the date of settlement (five business days after order) less distributions from the Interest Account subsequent to April 21, 1994.

++ The estimated current return and estimated long term return are increased for transactions entitled to a sales charge discount (see 'Volume and Other Discounts' in Part B), and are higher under the semi-annual and annual options due to lower Trustee's fees and expenses.

+++ Based solely upon the bid side evaluation of the underlying Bonds. Upon tender for redemption, the price to be paid will be calculated as described under 'Trustee Redemption' in Part B.

++++ The first interest distribution of $1.53 per Unit will be made on May 15, 1994 (the 'First Payment Date') to all Certificateholders of record on May 1, 1994 (the 'First Record Date'). The first regular monthly payment will be $4.60 on June 15, 1994. The first semi-annual payment will be $4.65 on June 15, 1994 and $27.90 thereafter.

o See 'Comparison of Public Offering Price, Sponsors' Repurchase Price and Redemption Price' in Part B.

oo Does not include income accrual from original issue discount Bonds.

(1) Estimated long term return is calculated by computing the average of the yields to maturity (or earlier call date) of the Bonds in the portfolio of the State Trust in accordance with accepted bond practices (taking into account the amortization of premiums, accretion of discounts, market value, and estimated retirement of each Bond) and subtracting from the average yield so calculated the fees, expenses and sale charge of the State Trust. Estimated current return is calculated by dividing the estimated net annual interest income by the Public Offering Price per Unit. In contrast to the estimated long term return, the estimated current return does not take into account the amortization of premium or accretion of discount on the underlying Bonds, if any. These returns do not include the effects of any delay in payments to Unitholders and a calculation which includes those effects would be lower. See 'Estimated Long Term Return and Estimated Current Return' in Part B.



## THE TRUSTS

Each Trust is a unit investment trust and was formed to preserve capital and to provide interest income (including earned original issue discount) which, in the opinions of bond counsel to the respective issuers, is, with certain exceptions, currently exempt from regular federal income tax under existing law and from state and local taxes to the extent indicated herein when received by persons subject to state and local income taxation in a state in which the issuers of the Bonds are located. Each of the Insured Trusts seeks to achieve its investment objectives through investment in a fixed, diversified portfolio of long-term insured bonds issued by or on behalf of states, municipalities and public authorities which, because of irrevocable insurance, are rated 'AAA' by Standard & Poor's Corporation. The Municipal Trust and the State Trust each seeks to achieve its investment objective through investment in a fixed, diversified portfolio of intermediate or long-term bonds issued by or on behalf of states, municipalities and public authorities. None of the Bonds in the Municipal Trust and the State Trust are insured. Although the Supreme Court has determined that Congress has the authority to subject the interest on bonds such as the Bonds in the Trusts to regular federal income taxation, existing law excludes such interest from regular federal income tax. Such interest income may, however, be a specific preference item for purposes of the federal individual and/or corporate alternative minimum tax. (See 'Description of Portfolios' in this Part A for a list of these Bonds which pay interest income subject to the federal individual alternative minimum tax. See also 'Tax Status' in Part B.) Some of the aggregate principal amount of the Bonds in the Trusts may be 'Zero Coupon Bonds,' which are original issue discount bonds that provide for payment at maturity at par value, but do not provide for the payment of current interest (for the amount of Zero Coupon Bonds in each Trust, and the cost of such Bonds to that Trust, see 'Description of Portfolios' in this Part A). All of the Bonds in the Insured Trust and each Navigator Trust were rated 'AAA' by Standard & Poor's Corporation on the Date of Deposit (see 'Portfolio'). This rating results from insurance relating only to the Bonds in the Insured Trusts and not to Units of the Insured Trusts. The Units of the Insured Trusts are not insured. The insurance does not therefore remove market risk, as it does not guarantee the market value of the Units. All of the Bonds in the Municipal Trust and the State Trust were rated 'A' or better by Standard & Poor's Corporation or Moody's Investors Service, Inc. on the Date of Deposit (see 'Portfolio'). For a discussion of the significance of such ratings, see 'Description of Bond Ratings' in Part B. The payment of interest and preservation of capital are, of course, dependent upon the continuing ability of the issuers of the Bonds or the insurer thereof to meet their obligations. There can be no assurance that the Trusts' investment objectives will be achieved.

Investment in the Trusts should be made with an understanding of the risks which an investment in intermediate or long-term fixed rate debt obligations as the case may be, may entail, including the risk that the value of the underlying portfolio will decline with increases in interest rates, and that the value of Zero Coupon Bonds is subject to greater fluctuation in response to such changes in interest rates. The Sponsors have a limited right to substitute other bonds in the Trusts' portfolios in the event of a failed contract. (See 'Portfolio' in Part B.) Each Unit in the Trusts represents an undivided interest in the principal and net income of that Trust in the ratio of one Unit for each $1,000 principal amount of Bonds initially deposited in that Trust. (See 'Organization' in Part B.) (For the specific number of Units in each Trust, see the 'Summary of Essential Information' for the relevant Trust, in this Part A).

## INSURANCE FOR THE INSURED TRUST AND NAVIGATOR TRUSTS

Each of the Bonds in the Insured Trust are insured by a municipal bond guaranty insurance policy obtained by either the Sponsors ('Sponsor-Insured Bonds') or by issuers, underwriters or prior owners of the Bonds ('Pre-Insured Bonds') and

issued by one of the insurance companies described under 'Insurance on the Bonds' in Part B (the 'Insurance Companies'). Such insurance covers the scheduled payment of principal thereof and interest thereon when such amounts shall become due for payment but shall not have been paid by the issuer or any other insurer thereof. The insurance, unless obtained by MBIA Corp., will also cover any accelerated payments of principal and any increase in



interest payments or premiums, if any, payable upon mandatory redemption of the Bonds if interest on any such Bond is ultimately deemed to be subject to federal income tax. Insurance obtained from MBIA Corp. only guarantees the accelerated payments required to be made by or on behalf of an issuer of small industrial revenue bonds and pollution control revenue bonds if there occurs an event which results in the loss of tax-exempt status of the interest on such Bonds, including principal, interest or premium payments, if any, as and when required. To the extent, therefore, that Bonds are only covered by insurance obtained from MBIA Corp., such Bonds will be not be covered for the accelerated payments required to be made by or on behalf of an issuer of other than small industrial revenue bonds or pollution control revenue bonds if there occurs an event which results in the loss of tax-exempt status of the interest on such Bonds. None of the insurance will cover accelerated payments of principal or penalty interest or premiums unrelated to taxability of interest on the Bonds (although the insurance, including insurance obtained by MBIA Corp., does guarantee payment of principal and interest in such amounts and at such times as such amounts would have been due absent such acceleration). The insurance relates only to the prompt payment of principal of and interest on the securities in the portfolios, and does not remove market risks nor does it guarantee the market value of Units in the Insured Trust. The terms of the insurance are more fully described herein. For a discussion of the effect of an occurrence of nonpayment of principal or interest on any Bonds in the Insured Trust, see 'Portfolio Supervision' in Part B. No representation is made herein as to any Bond insurer's ability to meet its obligations under a policy of insurance relating to any of the Bonds. In addition, investors should be aware that subsequent to the Date of Deposit the rating of the claims-paying ability of the insurer of an underlying Bond may be downgraded, which may result in a downgrading of the rating of the Units in the Insured Trust. The approximate percentage of the aggregate principal amount of the Portfolio of the Insured Trust that is insured by each Insurance Company is as follows: AMBAC Indemnity Corp. ('AMBAC'), 33.3%; Financial Guaranty Insurance Company ('Financial Guaranty'), 13.3%; and Municipal Bond Investors Assurance Corporation ('MBIA Corp.'), 53.4%.

Each of the Bonds in the Navigator Trusts are insured by a financial guaranty insurance policy obtained by the Sponsors (the 'Navigator Sponsor-Insured Bonds') from MBIA Corp. covering regularly scheduled payments of principal thereof and interest thereon when such amounts become due for payment but shall not have been paid. Such amounts shall be reduced by any amounts received by the holders or the owners of the Bonds from any trustee for the Bonds issuers, any other Bond insurers or any other source other than MBIA Corp. MBIA Corp. has issued such policy or policies covering each of the Bonds in the Navigator Trusts and each such policy will remain in force until the payment in full of such Bonds, whether or not such Bonds continue to be held in the Navigator

Trusts. The insurer's policies relating to small industrial development bonds and pollution control revenue bonds also guarantee the accelerated payments required to be made by or on behalf of an issuer of Bonds pursuant to the terms of the Bonds if there occurs an event which results in the loss of the tax-exempt status of the interest on such Bonds, including principal, interest or premium payments, if any, as and when thereby required. The insurance does not cover for any accelerated payments required to be made by or on behalf of an issuer of other than small industrial revenue bonds or pollution control revenue bonds if there occurs an event which results in the loss of the tax-exempt status of interest on such bonds nor will the insurance cover accelerated payments of principal or penalty interest or premiums unrelated to taxability of interest on any of the Bonds, including pollution control revenue bonds and small industrial development bonds. In the event of such an acceleration, the payments guaranteed by MBIA Corp. shall be made in such amounts and at such times as such payments would have been made absent such an acceleration. The insurance will not cover accelerated payments of principal or penalty interest or premiums unrelated to taxability of interest on any of the Bonds, including pollution control revenue bonds or small industrial development bonds. The insurance relates only to the prompt payment of principal of and interest on the securities in the Navigator Portfolios and does not remove market risk nor does it guarantee the market value of Units in the Navigator Trusts. The terms of the insurance are more fully described herein. For discussion of the effect of an occurrence of non-payment of principal or interest on any Bonds in the Navigator Trusts see 'Portfolio Supervision' in Part B. No representation is made herein as to any bond insurer's ability meet its obligations under a policy of insurance relating to any of the



Bonds in the Navigator Trusts. In addition, investors should be aware that subsequent to the Date of Deposit the rating of the claims-paying ability of MBIA Corp. may be downgraded, which may result in a downgrading of the rating of the Units in the Navigator Trusts. The premiums for the Navigator Sponsor-Insured Bonds are obligations of the Sponsors. Additionally, some of the Bonds in the Navigator Trusts may be Pre-Insured Bonds. The premium for the Pre-Insured Bonds is an obligation of the issuers, underwriters or prior owners of those Bonds. The insurance policy or policies relating to the Navigator Sponsor-Insured Bonds provides that, to the extent that Bonds are both Pre-Insured Bonds and Navigator Sponsor-Insured Bonds, coverage is effective after a claim has been made upon the insurer of the Pre-Insured Bonds.

Upon notification from the trustee for any bond issuer or any holder or owner of the Bonds that such trustee or paying agent has insufficient funds to pay any principal or interest in full when due, MBIA Corp. will be obligated to deposit funds promptly with Citibank, N.A., New York, New York, as fiscal agent for MBIA Corp., sufficient to fully cover the deficit. If notice of nonpayment is received on or after the due date, MBIA Corp. will provide for payment within one business day following receipt of the notice. Upon payment by MBIA Corp. of any Bonds, coupons, or interest payments, MBIA Corp. shall succeed to the rights of the owner of such Bonds, coupons or interest payments with respect thereto.

All of the Bonds in the Navigator Trusts are covered by insurance obtained by the Sponsors from MBIA Corp. 46.7% of the Bonds in the New York Navigator Trust

and 57% in the New Jersey Navigator Trust are Pre-Insured Bonds. The approximate percentage of the aggregate principal amount of the Portfolio of each of the Navigator Trusts that is insured by an Insurance Company with respect to Pre-Insured Bonds is as follows: New York Navigator Trust; AMBAC, 16.7% and MBIA Corp., 30% and for the New Jersey Navigator Trust; AMBAC, 17.7% and MBIA Corp., 39.3%

## PUBLIC OFFERING PRICE

The Public Offering Price of each Unit of each Trust is equal to the aggregate offering price of the Bonds in such Trust divided by the number of Units outstanding, plus a sales charge of (i) for the Insured Trusts and the State Trust: 4.9% of the Public Offering Price (5.152% of the net amount invested in Bonds per Unit) or (ii) for the Municipal Trust: 3.9% of the Public Offering Price (4.058% of the net amount invested in Bonds per unit). In addition, for Units ordered after the date hereof, accrued interest will be payable from the first settlement date for Units of the Trust (five business days from the date hereof) to the expected date of settlement (five business days after order). For additional information regarding the Public Offering Price, the descriptions of interest and principal distributions, repurchase and redemption of Units and other essential information regarding the Trusts, see the Summary of Essential Information for that Trust. During the initial offering period orders involving at least 100 Units will be entitled to a volume discount from the Public Offering Price. The Public Offering Price per Unit may vary on a daily basis in accordance with fluctuations in the aggregate offering price of the Bonds. (See 'Public Offering' in Part B.)

## DISTRIBUTIONS

Distributions of interest income, less expenses, will be made by each Trust either monthly or semi-annually depending upon the plan chosen by the Certificateholder. Certificateholders purchasing Units in the secondary market will initially receive distributions in accordance with the elections of the prior owner. The first interest distributions will be made on the First Payment Date to all Certificateholders of record on the First Record Date and thereafter distributions will be made in accordance with the distribution plan chosen by the Certificateholder. Distributions of principal, if any, will be made semi-annually on December 15 and June 15 of each year. (See 'Rights of Certificateholders--Interest and Principal Distributions' in Part B. For estimated monthly and semi-annual interest distributions, the amount of the first interest distributions and the specific dates



representing the First Payment Date and the First Record Date see 'Summary of Essential Information.')

ESTIMATED LONG TERM RETURN AND ESTIMATED CURRENT RETURN

Units of each Trust are offered to investors on a 'dollar price' basis (using

the computation method previously described under 'Public Offering Price') as distinguished from a 'yield price' basis often used in offerings of tax exempt bonds (involving the lesser of the yield as computed to maturity of bonds or to an earlier redemption date). Since they are offered on a dollar price basis, the rate of return on an investment in Units of each Trust is measured in terms of 'Estimated Current Return' and 'Estimated Long Term Return'.

Estimated Long Term Return is calculated by: (1) computing the yield to maturity or to an earlier call date (whichever results in a lower yield) for each Bond in a Trust's portfolio in accordance with accepted bond practices, which practices take into account not only the interest payable on the Bond but also the amortization of premiums or accretion of discounts, if any; (2) calculating the average of the yields for the Bonds in each Trust's portfolio by weighing each Bond's yield by the market value of the Bond and by the amount of time remaining to the date to which the Bond is priced (thus creating an average yield for the portfolio of each Trust); and (3) reducing the average yield for the portfolio of each Trust in order to reflect estimated fees and expenses of that Trust and the maximum sales charge paid by Unitholders. The resulting Estimated Long Term Return represents a measure of the return to Unitholders earned over the estimated life of each Trust. The Estimated Long Term Return as of the day prior to the Date of Deposit is stated for each Trust under 'Summary of Essential Information' in Part A.

Estimated Current Return is computed by dividing the Estimated Net Annual Interest Income per Unit by the Public Offering Price per Unit. In contrast to the Estimated Long Term Return, the Estimated Current Return does not take into account the amortization of premium or accretion of discount, if any, on the Bonds in the portfolios of each Trust. Moreover, because interest rates on Bonds purchased at a premium are generally higher than current interest rates on newly issued bonds of a similar type with comparable rating, the Estimated Current Return per Unit may be affected adversely if such Bonds are redeemed prior to their maturity. On the day prior to the Date of Deposit, the Estimated Net Annual Interest Income per Unit divided by the Public Offering Price resulted in the Estimated Current Return stated for each Trust under 'Summary of Essential Information' in Part A.

The Estimated Net Annual Interest Income per Unit of each Trust will vary with changes in the fees and expenses of the Trustee and the Evaluator applicable to each Trust and with the redemption, maturity, sale or other disposition of the Bonds in each Trust. The Public Offering Price will vary with changes in the offering prices (bid prices in the case of the secondary market) of the Bonds. Therefore, there is no assurance that the present Estimated Current Return or Estimated Long Term Return will be realized in the future.

A schedule of cash flow projections is available from the Sponsors upon request.

MARKET FOR UNITS

The Sponsors, although not obligated to do so, intend to maintain a secondary market for the Units of each Trust after the initial public offering has been completed. The secondary market repurchase price will be based on the aggregate bid price of the Bonds in the Trust portfolio; and the reoffer price will be based on the aggregate bid price of the Bonds plus a sales charge of (i) for the

Insured Trusts and the State Trusts: 4.9% (5.152% of the net amount invested) plus net accrued interest or (ii) for the Municipal Trust: 3.9%(4.058% of the net amount invested) plus net accrued interest. If a market is not maintained a Certificateholder will be able to redeem his Units with the Trustee at a price based on the aggregate bid price of the Bonds. (See 'Sponsor Repurchase' in Part B.)



TOTAL REINVESTMENT PLAN

Certificateholders under the semi-annual plan of distribution have the opportunity to have all their regular interest distributions, and principal distributions, if any, reinvested in available series of 'Insured Municipal

Securities Trust' or 'Municipal Securities Trust.' (See 'Total Reinvestment Plan' in Part B. Residents of Texas see 'Total Reinvestment Plan for Texas Residents' in Part B.) The Plan is not designed to be a complete investment program.

## DESCRIPTION OF PORTFOLIOS

At least 80% of the assets of the New York Navigator Trust and the New Jersey Navigator Trust are invested in obligations of issuers located in New York and New Jersey, respectively. For the specific number of issues located in New York and New Jersey, see the summaries of the New York and New Jersey Portfolios, below. On the Date of Deposit, the Sponsors deposited with the Trustee an aggregate of $15,000,000 principal amount of intermediate or long-term bonds, including delivery statements relating to contracts for the purchase of certain such bonds (the 'Bonds') and cash or an irrevocable letter of credit issued by a major commercial bank in the amount required for such purchases. Of such principal amount of Bonds, $3,000,000 was deposited in the Insured Trust, $3,000,000 was deposited in the New York Navigator Trust, $3,000,000 was deposited in the New Jersey Navigator Trust, $3,000,000 was deposited in the Municipal Trust and $3,000,000 was deposited in the Virginia Trust. Thereafter, the Trustee, in exchange for the Bonds so deposited, delivered to the Sponsors the certificates evidencing the ownership of all Units of the Trusts. The Sponsors have not participated as a sole underwriter or manager, co-manager or member of underwriting syndicates from which any of the Bonds were acquired for the Insured Trust, New York Navigator Trust, New Jersey Navigator Trust, Municipal Trust and Virginia Trust.

### INSURED TRUST

The portfolio of the Insured Trust consists of 10 issues representing obligations of 10 issuers located in 5 states and one in the District of Columbia. None of the Bonds are obligations of state and local housing authorities; approximately 13.3% are hospital revenue bonds and none are issued in connection with the financing of nuclear generating facilities. None of the issues comprising the aggregate principal amount of the Trust are mortgage revenue bonds. Portfolio No. 8 which represents 10% of the aggregate principal amount of the bonds in the Trust has been purchased on a 'when, as and if' issued basis with delivery expected to take place within 13 days after the settlement date for the purchase of units. Three of the issues representing $900,000 of the aggregate principal amount of the Bonds are general obligation bonds. Seven issues representing $2,100,000 of the aggregate principal amount of Bonds are payable from the income of a specific project or authority and are not supported by the issuer's power to levy taxes. The portfolio is divided for purpose of issue as follows: Convention Center, 1; Electric, 1; Hospital, 2; Jails, 1; Sewer, 1 and Water, 1.

For an explanation of the significance of these factors see 'Portfolios' in Part B.

Approximately 33.3% of the Bonds in the Insured Trust are original issue discount bonds. None of the Bonds in this Trust were purchased at a 'market' discount from par value at maturity. All of the Bonds are subject to redemption prior to maturity pursuant to sinking fund or optional call provisions.

On the Date of Deposit, based on the offering side evaluation, approximately 33.3% of the aggregate principal amount of Bonds in the portfolio were acquired at a discount from par, approximately 36.7% were at a premium over par and 30% were at par. A Certificateholder may receive more or less than his original purchase price upon disposition of his Units because the value of Units fluctuates with the value of the underlying Bonds, which vary inversely with interest rates. On the Date of Deposit, the bid side evaluation was lower than the offering side evaluation by .4% of the aggregate offering price for this Trust. (See 'Public Offering' in Part B.)

None of the Bonds in the Trust are subject to the federal individual alternative minimum tax under the Tax Reform Act of 1986.



No issues have been deposited in the Insured Trust and 10 issues are represented by the Sponsors' contracts to purchase, which are expected to be settled on or about May 4, 1994.

NEW YORK NAVIGATOR TRUST

The portfolio of the New York Navigator Trust consists of 8 issues representing obligations of 8 issuers located in the State of New York. None of the Bonds are obligations of state and local housing authorities; 3.3% are hospital revenue bonds and none are issued in connection with the financing of nuclear generating facilities. None of the issues comprising the aggregate principal amount of the Trust are mortgage revenue bonds. There are no 'when, as and if' issued bonds in the portfolio. Two issues representing $500,000 of the aggregate principal amount of the Bonds are general obligation bonds. Six issues representing $2,500,000 of the aggregate principal amount of Bonds are payable from the income of a specific project or authority and are not supported by the issuer's power to levy taxes. The portfolio is divided for purpose of issue as follows: Bridge and Tunnel, 1; Hospital, 1; Local Government Assistance, 1; University, 1; Urban Development Corp., 1 and Water, 1. For an explanation of the significance of these factors see 'Portfolios' in Part B.

Approximately 75% of the Bonds in the New York Navigator Trust are original issue discount bonds. None of the Bonds in this Trust were purchased at a 'market' discount from par value at maturity. All of the Bonds are subject to redemption prior to maturity pursuant to sinking fund or optional call provisions.

On the Date of Deposit, based on the offering side evaluation, approximately 75% of the aggregate principal amount of Bonds in the Trust were acquired at a discount from par, approximately 25% were at a premium over par and none were at par. A Certificateholder may receive more or less than his original purchase price upon disposition of his Units because the value of Units fluctuates with the value of the underlying Bonds, which varies inversely with interest rates. On the Date of Deposit, the bid side evaluation was lower than the offering side evaluation by .4% of the aggregate offering price of this Trust. (See 'Public Offering' in Part B.)

None of the Bonds in the Trust are subject to the Federal individual alternative minimum tax under the Tax Reform Act of 1986.

No issues have been deposited in the New York Navigator Trust and 8 issues are represented by the Sponsors' contracts to purchase, which are expected to be settled on or about April 21, 1994.

NEW JERSEY NAVIGATOR TRUST

The portfolio of the New Jersey Navigator Trust consists of 11 issues representing obligations of 9 issuers located in the State of New Jersey and one in Puerto Rico. None of the Bonds are obligations of state and local housing authorities; 31% are hospital revenue bonds and none are issued in connection with the financing of nuclear generating facilities. None of the issues comprising the aggregate principal amount of the Trust are mortgage revenue bonds. There are no 'when, as and if' issued bonds in the portfolio. None of the issues representing the aggregate principal amount of the Bonds are general obligation bonds. Eleven issues representing $3,000,000 of the principal amount of the Bonds are payable from the income of a specific project or authority and are not supported by the issuer's power to levy taxes. The portfolio is divided for purpose of issue as follows: Electric and Gas, 1; Hospital, 3; Office Building, 1; Port Authority, 1; Public Building, 2; School, 1; Turnpike, 1 and Water, 1. For an explanation of the significance of these factors see 'Portfolios' in Part B.

Approximately 31% of the Bonds in the New Jersey Navigator Trust are original issue discount bonds. 45.2% of the Bonds in this Trust were purchased at a 'market' discount from par value at maturity. All of the Bonds are subject to redemption prior to maturity pursuant to sinking fund or optional call provisions.

On the Date of Deposit, based on the offering side evaluation, approximately 76.2% of the aggregate principal amount of the Bonds in the Trust were acquired at a discount from par, approximately 23.8% were at a premium over par and none were at par. A Certificateholder may receive more or less than his original purchase price upon disposition of his Units because the value of Units fluctuates with the value of the underlying Bonds, which vary inversely with interest rates. On the Date of Deposit, the



bid side evaluation was lower than the offering side evaluation by .4% of the aggregate offering price of this Trust. (See 'Public Offering' in Part B.)

Portfolio No. 5 in the principal amount of $400,000, which represents 13.3% of the aggregate principal amount of the Bonds in the Trust (which also represents 14.6% of the annual interest income), will pay interest income which is includable as a preference item in computing the Federal individual and corporate alternative minimum taxes. This may result in an increase in the overall Federal tax liability of certain corporations and individuals. Investors will realize taxable capital gain upon maturity or earlier redemption of any market discount Bonds in the Trust. In addition, interest income on the Bonds in the Trust may be subject to the Federal corporate alternative minimum tax. See 'Tax Status' in Part B.

No issues have been deposited in the New Jersey Navigator Trust and 11 issues are represented by the Sponsors' contracts to purchase, which are expected to be settled on or about April 21, 1994.

MUNICIPAL TRUST

The portfolio of the Municipal Trust consists of 11 issues representing obligations of 11 issuers located in 8 states, one in the District of Columbia and one in Puerto Rico. None of the Bonds are obligations of state and local housing authorities; 5.8% are hospital revenue bonds and 20.8% of the Bonds are issued in connection with the financing of nuclear generating facilities. None of the issues comprising the aggregate principal amount of the Trust are mortgage revenue bonds. Portfolio Nos. 1, 2, 3 and 11, which represent 19.7% of the aggregate principal amount of the bonds in the Trust have been purchased on a 'when, as and if' issued basis with delivery expected to take place 13 days after the settlement date for the purchase of units. None of the Bonds are subject to redemption prior to their stated maturity dates pursuant to a sinking fund or call provision except for Portfolio Nos. 7, 10, 11 and 14. Five issues representing $1,070,000 of the aggregate principal amount of the Bonds are general obligation bonds. Nine issues representing $1,930,000 of the principal amount of Bonds are payable from the income of a specific project or authority and are not supported by the issuer's power to levy taxes. The portfolio is divided for purpose of issue as follows: Electric, 2; Hospital, 1; Jails, 1; Lease Revenue, 3 and Nuclear, 2. For an explanation of the significance of these factors see 'The Portfolios' in Part B.

Approximately 65.8% of the aggregate principal amount of the Bonds in the Municipal Trust are original issue discount bonds. Based on the offering side evaluation, none of the Bonds in the Municipal Trust were purchased at a 'market' discount from par value at maturity.

Based on the offering side evaluation on the Date of Deposit, 65.8% of the aggregate principal amount of Bonds in the portfolio were acquired at a discount from par, 34.2% were at a premium over par and none were at par. A Certificateholder may receive more or less than his original purchase price upon disposition of his Units because the value of Units fluctuates with the value of the underlying Bonds, which varies inversely with interest rates, including fluctuations in the offering prices and bid prices. On the Date of Deposit, the bid side evaluation was lower than the offering side evaluation by .4% of the aggregate offering price of the Municipal Trust. See 'Public Offering' in Part B.

None of the Bonds in the Minucipal Trust are subject to the Federal individual alternative minimum tax under the Tax Reform Act of 1986. See 'Tax Status' in Part B.

No issues have been deposited in the Municipal Trust and 14 issues are represented by the Sponsors' contracts to purchase, which are expected to be settled on or about May 4, 1994.

VIRGINIA TRUST

The portfolio of the Virginia Trust consists of 9 issues, 7 issues representing obligations of the Commonwealth of Virginia or municipalities, authorities or other political subdivisions thereof and 2 issues representing obligations of the Government of Puerto Rico or by its authorities. Approximately 11.7% of the Bonds are obligations of state and local housing authorities; 22.3% are hospital revenue bonds and none of the Bonds are issued in connection with the financing of nuclear generating facilities. None of the issues comprising the aggregate principal amount of the Trust are mortgage revenue bonds. There are no 'when, as and if' issued bonds in the portfolio. All of the Bonds are



subject to redemption prior to their stated maturity dates pursuant to a sinking fund or optional call provision. One issue representing $400,000 of the aggregate principal amount of the Bonds is a general obligation bond. Eight issues representing $2,600,000 of the principal amount of Bonds are payable from the income of a specific project or authority and are not supported by the issuer's power to levy taxes. The portfolio is divided for purpose of issue as follows: Building Authority, 1; Electric, 1; Expressway, 1; Highway, 1; Hospital, 2; Multi-family Housing, 1 and Water, 1. For an explanation of the significance of these factors see 'The Portfolios' in Part B.

Approximately 73.3% of the aggregate principal amount of the Bonds in the Virginia Trust are original issue discount bonds. Based on the offering side evaluation, none of the Bonds in the Virginia Trust were purchased at a 'market' discount from par value at maturity.

Based on the offering side evaluation on the Date of Deposit, 73.3% of the aggregate principal amount of Bonds in the portfolio were acquired at a discount from par, 26.7% were at a premium over par and none were at par. A Certificateholder may receive more or less than his original purchase price upon disposition of his Units because the value of Units fluctuates with the value of the underlying Bonds, which varies inversely with interest rates, including fluctuations in the offering prices and bid prices. On the Date of Deposit, the bid side evaluation was lower than the offering side evaluation by .4% of the aggregate offering price of the Virginia Trust. See 'Public Offering' in Part B.

None of the Bonds in the Virginia Trust are subject to the Federal individual alternative minimum tax under the Tax Reform Act of 1986.

No issues have been deposited in the Virginia Trust and 9 issues are represented by the Sponsors' contracts to purchase, which are expected to be settled on or

about April 21, 1994.



INDEPENDENT AUDITORS' REPORT

The Sponsors, Trustee, and Certificateholders:

Insured Municipal Securities Trust -- Series 32, New York Navigator Insured Series 16 and New Jersey Navigator Insured Series 12; and Municipal Securities Trust, Series 55 (Intermediate) and Multi-State Series 45 (Virginia Trust)

We have audited the accompanying Statements of Condition and Portfolios (the 'financial statements') of the Insured Municipal Securities Trust -- Series 32, New York Navigator Insured Series 16 and New Jersey Navigator Insured Series 12; and Municipal Securities Trust, Series 55 (Intermediate) and Multi-State Series 45 (Virginia Trust) as of April 14, 1994. These financial statements are the responsibility of the Sponsors. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. The irrevocable letters of credit deposited in connection with the securities owned as of April 14, 1994, pursuant to contracts to purchase, as shown in the Statements of Condition, were confirmed to us by United States Trust Company of New York, the Trustee.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Insured Municipal Securities Trust -- Series 32, New York Navigator Insured Series 16 and New Jersey Navigator Insured Series 12; and Municipal Securities Trust, Series 55 (Intermediate) and Multi-State Series 45 (Virginia Trust), as of April 14, 1994, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK

New York, New York
April 14, 1994



INSURED MUNICIPAL SECURITIES TRUST, SERIES 32
NEW YORK NAVIGATOR INSURED SERIES 16 AND
NEW JERSEY NAVIGATOR INSURED SERIES 12
AND
MUNICIPAL SECURITIES TRUST,
SERIES 55 (INTERMEDIATE) AND MULTI-STATE SERIES 45

STATEMENTS OF CONDITION

AS OF DATE OF DEPOSIT, APRIL 14, 1994

TRUST PROPERTY

<TABLE>
<CAPTION>

| | INSURED TRUST | NEW YORK NAVIGATOR TRUST | NEW JERSEY NAVIGATOR TRUST | MUNICIPAL TRUST | MULTI-STATE SERIES 45 (VIRGINIA TRUST) |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Investment in Securities--Sponsors' Contracts to Purchase Underlying Bonds Backed by Letters of Credit(1)........... | $2,922,803 | $2,821,105 | $2,912,132 | $2,922,336 | $2,816,980 |
| Accrued Interest to Date of Deposit on Bonds(1)................................ | 54,975 | 33,281 | 56,519 | 31,028 | 28,261 |
| Total........................... | $2,977,778 | $2,854,386 | $2,968,651 | $2,953,364 | $2,845,241 |

</TABLE>

LIABILITY AND INTEREST OF CERTIFICATEHOLDERS

<TABLE>

| | | | | | |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Liability for Accrued Interest to Date of Deposit on Bonds(1)(4).................. | $ 54,975 | $ 33,281 | $ 56,519 | $ 31,028 | $ 28,261 |
| Interest of Certificateholders--Units of Fractional Undivided Interest Outstanding (Insured Trust: 3,000 Units, New York Navigator Trust: 3,000 Units, New Jersey Navigator Trust: 3,000 Units, Municipal Trust: 3,000 Units, and Virginia Trust: 3,000 Units): | | | | | |
| Cost to Certificateholders(2)......... | 3,073,400 | 2,966,462 | 3,062,179 | 3,040,932 | 2,962,124 |
| Less-Gross Underwriting Commissions(3)...................... | 150,597 | 145,357 | 150,047 | 118,596 | 145,144 |
| Net Amount Applicable to Certificateholders................. | 2,922,803 | 2,821,105 | 2,912,132 | 2,922,336 | 2,816,980 |
| Total........................... | $2,977,778 | $2,854,386 | $2,968,651 | $2,953,364 | $2,845,241 |

</TABLE>

(1) Aggregate cost to each Trust of the Bonds listed in the Portfolio of such Trust is based on offering prices determined by the Evaluator on the basis set forth under 'Public Offering--Offering Price' as of 4:00 p.m. on April 13, 1994. Irrevocable letters of credit issued by Morgan Guaranty Trust Company in an aggregate amount of $15,500,000 have been deposited with the Trustee to cover the purchase of $15,000,000 principal amount of Bonds pursuant to contracts to purchase such Bonds and $248,302 accrued interest on such Bonds to the expected dates of delivery.

(2) Aggregate public offering price (exclusive of interest) computed on 3,000 Units of the Insured Trust, 3,000 Units of New York Navigator Trust, 3,000 Units of New Jersey Navigator Trust, 3,000 Units of the Municipal Trust and 3,000 Units of the Virginia Trust on the basis set forth under 'Public Offering--Offering Price' in Part B.

(3) Sales charge of 4.9% computed on 3,000 Units of the Insured Trust, 3,000 Units of New York Navigator Trust, 3,000 Units of New Jersey Navigator Trust, and 3,000 Units of the Virginia Trust and a sales charge of 3.9% computed on 3,000 Units of the Municipal Trust on the basis set forth under 'Public Offering--Offering Price' in Part B.

(4) On the basis set forth under 'Public Offering--Accrued Interest', the Trustee will advance the amount of accrued interest as of April 21, 1994 (the 'First Settlement Date') and all accrued interest to the First Settlement Date will be distributed to the Sponsors as the Certificateholders of record as of the First Settlement Date. Consequently, the amount of accrued interest to be added to the public offering price of Units will include only accrued interest from the First Settlement Date to date of settlement, less any distributions from the Interest Account subsequent to the First Settlement Date.



INSURED MUNICIPAL SECURITIES TRUST
PORTFOLIO

SERIES 32

AS OF APRIL 14, 1994

A MONTHLY PAYMENT SERIES OR
SEMI-ANNUAL PAYMENT SERIES

<TABLE>
<CAPTION>

| PORTFOLIO NO. | AGGREGATE PRINCIPAL AMOUNT | NAME OF ISSUER AND TITLE OF BONDS CONTRACTED FOR(6) | RATINGS(1) | COUPON/ MATURITY DATE(2) | REDEMPTION FEATURE S.F.--SINKING FUND OPT.--OPTIONAL(2)(3) |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| 1 | $ 100,000 | Cal. Hlth. San Diego Hosp. (MBIA Corp.) | AAA | 6.625% 5/01/2019 | 5/01/07 @ 100 S.F. 5/01/99 @ 101 Opt. |
| 2 | 100,000 | D.C. G. O. Series B (MBIA Corp.) | AAA | 6.300% 6/01/2012 | 6/01/11 @ 100 S.F. 6/01/02 @ 102 Opt. |
| 3 | 300,000 | Ill. Hlth. Fac. Auth. Rev. Bds., Series 1993 (The Children's Memorial Hosp.) (MBIA Corp.) | AAA | 5.000% 8/15/2022 | 8/15/14 @ 100 S.F. 8/15/03 @ 102 Opt. |
| 4 | 400,000 | Metro. Pier & Expo. Auth. Ill. McCormick Place Expansion Pjct. Bonds Series 1992 A (Financial Guaranty) | AAA | 6.500% 6/15/2027 | 6/15/23 @ 100 S.F. 6/15/03 @ 102 Opt. |
| 5 | 400,000 | Rgnl. Trans. Auth. Ill. Cook, DuPage, Kane, Lake, McHenry, and Will Counties Gen. Oblig. Series 1992A (AMBAC) | AAA | 6.500% 6/01/2015 | 6/01/13 @ 100 S.F. 6/01/02 @ 102 Opt. |
| 6 | 400,000 | City of Chicago Genl. Oblig. Bds. Pjct. Series 1993 (Financial Guaranty) | AAA | 5.500% 1/01/2024 | 1/01/19 @ 100 S.F. 1/01/04 @ 102 Opt. |
| 7 | 400,000 | Piedmont Muni. Pwr. Agncy (S.C.) Elec. Rev. Bds., 1992 Rfndg. Series (MBIA Corp.) | AAA | 6.300% 1/01/2022 | 1/01/15 @ 100 S.F. 1/01/03 @ 102 Opt. |
| 8 | 300,000(4) | Charleston Cnty, S.C. Charleston Pub. Facs. Corp. Rfndg. Certs. of Part. Series 1994 (MBIA Corp.) | AAA | 6.100% 6/01/2011 | No Sinking Fund 6/01/04 @ 102 Opt. |
| 9 | 200,000 | Houston, TX Wtr. & Swr. Sys. Rev. Bonds Jr. Lien--Ser. 1991A (AMBAC) | AAA | 6.500% 12/01/2021 | 12/01/09 @ 100 S.F. 12/01/01 @ 102 Opt. |
| 10 | 400,000 | Muncplty of Metro. Seattle (Seattle, WA) Swr. Rev. Bds., Series W (MBIA Corp.) | AAA | 6.300% 1/01/2033 | 1/01/24 @ 100 S.F. 1/01/03 @ 102 Opt. |
| | $3,000,000 | | | | |

<CAPTION>

| PORTFOLIO NO. | COST OF BONDS TO TRUST(5) |
|---|---|
| 1 | $ 101,860 |
| 2 | 100,000 |
| 3 | 248,742 |
| 4 | 404,700 |
| 5 | 405,884 |
| 6 | 359,664 |
| 7 | 400,000 |
| 8 | 298,395 |
| 9 | 203,558 |
| 10 | 400,000 |
| | $ 2,922,803 |

</TABLE>



INSURED MUNICIPAL SECURITIES TRUST
PORTFOLIO

NEW YORK NAVIGATOR INSURED SERIES 16

AS OF APRIL 14, 1994

A MONTHLY PAYMENT SERIES OR
SEMI-ANNUAL PAYMENT SERIES

<TABLE>
<CAPTION>

| PORTFOLIO NO. | AGGREGATE PRINCIPAL AMOUNT | NAME OF ISSUER AND TITLE OF BONDS CONTRACTED FOR(6) | RATINGS(1)(7) | COUPON/ MATURITY DATE(2) | REDEMPTION FEATURE S.F.--SINKING FUND OPT.--OPTIONAL(2)(3) |
|---|---|---|---|---|---|
| 1 | $ 500,000 | N.Y. St. Dorm. Auth. Rev. Mt. Sinai Sch. of Med. (MBIA Corp.) | AAA | 5.000% 7/01/2016 | No Sinking Fund 7/01/04 @ 102 Opt. |
| 2 | 100,000 | N.Y. St. Dorm. Auth. Revs. Univ. Rochester-- Strong Mem. Hosp. (MBIA Corp.) | AAA | 5.500% 7/01/2021 | 7/01/18 @ 100 S.F. 7/01/04 @ 102 Opt. |
| 3 | 500,000 | N.Y. St. Loc. Govt. Asst. Corp. Rfndg. Rev. Series A (MBIA Corp.) | AAA | 5.500% 4/01/2023 | 4/01/20 @ 100 S.F. 4/01/04 @ 101.5 Opt. |
| 4 | 400,000 | N.Y. St. U. D. C. Youth Fac. (MBIA Corp.) | AAA | 5.700% 4/01/2014 | 4/01/10 @ 100 S.F. 4/01/04 @ 102 Opt. |
| 5 | 250,000 | The City of N.Y. Genl. Oblig. Bonds Fiscal 1993 Series B (MBIA Corp.) | AAA | 7.000% 10/01/2009 | No Sinking Fund 10/01/02 @ 101.5 Opt. |
| 6 | 250,000 | N.Y. City Genl. Oblig. Rev. Bonds 1994 Series C (MBIA Corp.) | AAA | 5.375% 10/01/2022 | No Sinking Fund 10/01/03 @ 101.5 Opt. |
| 7 | 500,000 | N.Y. City Muni. Wtr. Finc. Auth. Wtr. & Swr. Sys. Rev. Rfndg. Bonds (MBIA Corp.) | AAA | 6.750% 6/15/2017 | No Sinking Fund 6/15/01 @ 101 Opt. |
| 8 | 500,000 | Trib. Brdg. & Tnnl. Auth. Rev. Rfndg. Spec. Oblig. Series 1992 (MBIA Corp.) | AAA | 5.500% 1/01/2017 | 1/01/16 @ 100 S.F. 1/01/02 @ 100 Opt. |
| | $3,000,000 | | | | |

<CAPTION>

PORTFOLIO   COST OF BONDS

| NO. | TO TRUST(5) |
|---|---|
| 1 | $ 428,100 |
| 2 | 90,842 |
| 3 | 453,160 |
| 4 | 381,660 |
| 5 | 266,953 |
| 6 | 222,575 |
| 7 | 517,365 |
| 8 | 460,450 |
| | $ 2,821,105 |



INSURED MUNICIPAL SECURITIES TRUST
PORTFOLIO

NEW JERSEY NAVIGATOR INSURED SERIES 12

AS OF APRIL 14, 1994

A MONTHLY PAYMENT SERIES OR
SEMI-ANNUAL PAYMENT SERIES

| PORTFOLIO NO. | AGGREGATE PRINCIPAL AMOUNT | NAME OF ISSUER AND TITLE OF BONDS CONTRACTED FOR(6) | RATINGS(1)(7) | COUPON/ MATURITY DATE(2) | REDEMPTION FEATURE S.F.--SINKING FUND OPT.--OPTIONAL(2)(3) |
|---|---|---|---|---|---|
| 1 | $ 395,000 | N.J. Hlth. Care Facs. Fincg. Auth. Rev. Bonds Centrastate Med. Cntr. Issue Series A (MBIA Corp.) | AAA | 6.000% 7/01/2021 | 7/01/05 @ 100 S.F. 7/01/01 @ 100 Opt. |
| 2 | 400,000 | N.J. Hlth. Care Facs. Fncg. Auth. Rev. Bonds Community Med. Cntr Series 1989D (MBIA Corp.) | AAA | 6.000% 7/01/2019 | 7/01/10 @ 100 S.F. 7/01/99 @ 100 Opt. |
| 3 | 135,000 | N.J. Hlth. Care Fac. Rev. Riverview Hosp. 1994 Series (MBIA Corp) | AAA | 5.500% 7/01/2018 | 7/01/17 @ 100 S.F. 7/01/04 @ 102 Opt. |
| 4 | 270,000 | N.J. Econ. Dev. Auth. Rev. Bonds (St. Barnabas Realty Dev. Corp. Prjt.) Series 1993 (MBIA Corp.) | AAA | 5.250% 7/01/2020 | 7/01/14 @ 100 S.F. 7/01/03 @ 102 Opt. |
| 5 | 400,000 | N.Y. & N.J. Port Auth. Cnsldtd. Rev. Bonds Seventy-Sixth Series (AMT) (MBIA Corp) | AAA | 6.500% 11/01/2026 | 11/01/13 @ 100 S.F. 11/01/01 @ 101 Opt. |
| 6 | 315,000 | N.J. Tnpke. Auth. Tnpke. Rev. Bonds Series 1991C (MBIA Corp.) | AAA | 6.500% 1/01/2016 | 1/01/12 @ 100 S.F. None |
| 7 | 175,000 | Monmouth Co. Imprvmt. Auth. (Monmouth Co., N.J.) Rev. Bonds, Series 1993 (Millstone Twnshp Brd. of Ed. Pjct.) (MBIA Corp.) | AAA | 5.550% 12/15/2018 | 2/15/14 @ 100 S.F. 2/15/03 @ 102 Opt. |
| 8 | 110,000 | No. Jersey Dstrct. Wtr. Supl. Commsn. of the State of N.J. Wanaque So. Prjt. Rev. Rfndg. Bonds Series 1993 (MBIA Corp.) | AAA | 6.000% 7/01/2021 | 7/01/13 @ 100 S.F. 7/01/03 @ 102 Opt. |
| 9 | 400,000 | Poll. Cntrl. Fncg. Auth. of Salem Cnty. (N.J.) Poll. Cntrl. Rev. Rfndg. Bonds 1993A (Pub. Serv. Elec. & Gas Co. Prjt.) (MBIA Corp.) | AAA | 5.700% 5/01/2028 | 5/01/06 @ 100 S.F. 5/01/03 @ 102 Opt. |
| 10 | 280,000 | P.R. Pub. Bldgs. Auth. Pub. Ed. & Hlth. Facs. Rev. Rfndg. Bonds Gtd. By The Commonwlth. of P.R. Series L (MBIA Corp.) | AAA | 5.750% 7/01/2015 | 7/01/11 @ 100 S.F. 7/01/03 @ 101.5 Opt. |
| 11 | 120,000 | P.R. Pub. Bldgs. Auth. Pub. Ed. & Hlth. Facs. Rev. Rfndg. Bonds Gtd. By The Commonwlth. of P.R. Series M (MBIA Corp.) | AAA | 5.500% 7/01/2021 | 7/01/17 @ 100 S.F. 7/01/03 @ 101.5 Opt. |
| | $3,000,000 | | | | |

<CAPTION>

| PORTFOLIO NO. | COST OF BONDS TO TRUST(5) |
|---|---|
| 1 | $ 389,743 |
| 2 | 394,836 |
| 3 | 124,008 |
| 4 | 238,534 |
| 5 | 408,532 |
| 6 | 331,969 |
| 7 | 161,938 |
| 8 | 109,258 |
| 9 | 374,436 |
| 10 | 268,394 |
| 11 | 110,484 |
| | $ 2,912,132 |

</TABLE>



MUNICIPAL SECURITIES TRUST
PORTFOLIO

SERIES 55 (INTERMEDIATE)

AS OF APRIL 14, 1994

A MONTHLY PAYMENT SERIES OR
SEMI-ANNUAL PAYMENT SERIES

<TABLE>
<CAPTION>

| PORTFOLIO NO. | AGGREGATE PRINCIPAL AMOUNT | NAME OF ISSUER AND TITLE OF BONDS CONTRACTED FOR(6) | RATINGS(1) | COUPON/ MATURITY DATE(S)(2) | REDEMPTION FEATURE S.F.--SINKING FUND OPT.--OPTIONAL(2)(3) |
|---|---|---|---|---|---|
| 1 | $ 95,000(4) | Ca. Pub. Works Bd. Lease Rntl. (Dept. of Vets. Affrs.) 1994 Series A (So. Ca. Vets. Home-- Barstow Fac.) | A | 5.800% 10/01/2001 | No Sinking Fund None |
| 2 | 100,000(4) | Ca. Pub. Works Bd. Lease Rntl. (Dept. of Vets. Affrs.) 1994 Series A (So. Ca. Vets. Home-- Barstow Fac.) | A | 5.900% 10/01/2002 | No Sinking Fund None |
| 3 | 95,000(4) | Ca. Pub. Works Bd. Lease Rntl. (Dept. of Vets. Affrs.) 1994 Series A (So. Ca. Vets. Home-- Barstow Fac.) | A | 6.050% 10/01/2003 | No Sinking Fund None |
| 4 | 300,000 | D.C. (Wash., D.C.) Genl. Oblig. Ref. Bonds Series 1994 A-2 (AMBAC) | AAA | 4.650% 6/01/2002 | No Sinking Fund None |
| 5 | 175,000 | City of Venice, Fla. Hlth. Facs. Rev. Bonds Series 1994 (Venice Hosp., Inc. Proj.) | A* | 5.500% 12/01/2004 | No Sinking Fund None |
| 6 | 300,000 | Ga. Muni. Elec. Pwr. Rev. Gen. Ser. D (Financial Guaranty) | AAA | 4.750% 1/01/2004 | No Sinking Fund None |
| 7 | 300,000 | St. of Ill. Genl. Oblig. Ref. Bonds Series of January, 1994 | Aa* | 4.600% 12/01/2005 | No Sinking Fund 12/01/03 @ 102 Opt. |
| 8 | 205,000 | The City of N.Y. Genl. Oblig. Bonds, Fiscal 1994 Series H | A- | 5.700% 8/01/2003 | No Sinking Fund None |
| 9 | 95,000 | The City of N.Y. Genl. Oblig. Bonds, Fiscal 1994 Series H | A- | 5.800% 8/01/2004 | No Sinking Fund None |
| 10 | 325,000 | N.C. Eastern Muni. Pwr. Agcy. Pwr. Sys. Rev. Bonds Series 1993 B | A* | 6.000% 1/01/2005 | No Sinking Fund 1/01/03 @ 102 Opt. |
| 11 | 300,000(4) | Charleston Cnty., S.C. Charleston Pub. Facs. Corp. Rfndg. Certs. of Part. Series 1994 | AAA | 5.700% 6/01/2005 | No Sinking Fund 6/01/04 @ 102 Opt. |

| | | | | | |
|---|---|---|---|---|---|
| 12 | 170,000 | State of Wash. Genl. Oblig. Rfndg. Bonds Series R 92 A | AA | 6.400% 9/01/2003 | No Sinking Fund None |
| 13 | 300,000 | Wa. Pub. Pwr. Spply. Systm. Nuc. Proj. No 2 Rev. Rfndg. Series 1994A | AA | 4.600% 7/01/2002 | No Sinking Fund None |
| 14 | 240,000 | P.R. Elec. Pwr. Auth. Pwr. Rev. Bonds Series Q | A- | 6.200% 7/01/2004 | No Sinking Fund 7/01/02 @ 101.5 Opt. |
| | $3,000,000 | | | | |

<CAPTION>

| PORTFOLIO NO. | COST OF BONDS TO TRUST(5) |
|---|---|
| 1 | $ 96,144 |
| 2 | 101,326 |
| 3 | 96,708 |
| 4 | 278,778 |
| 5 | 170,185 |
| 6 | 278,934 |
| 7 | 269,826 |
| 8 | 202,077 |
| 9 | 93,546 |
| 10 | 328,806 |
| 11 | 298,755 |
| 12 | 181,373 |
| 13 | 276,708 |
| 14 | 249,170 |
| | $ 2,922,336 |

</TABLE>



MUNICIPAL SECURITIES TRUST
MULTI-STATE SERIES 45
PORTFOLIO

VIRGINIA TRUST

AS OF APRIL 14, 1994

A MONTHLY PAYMENT SERIES
SEMI-ANNUAL PAYMENT SERIES OR ANNUAL PAYMENT SERIES

<TABLE>
<CAPTION>

| PORTFOLIO NO. | AGGREGATE PRINCIPAL AMOUNT | NAME OF ISSUER AND TITLE OF BONDS CONTRACTED FOR(6) | RATINGS(1) | COUPON/ MATURITY DATE(S)(2) | REDEMPTION FEATURE S.F.--SINKING FUND OPT.--OPTIONAL(2)(3) |
|---|---|---|---|---|---|
| 1 | $ 400,000 | Albemarle Cnty. Va. Ind. Dev. Auth. Hosp. Rfndg. Rev. Bonds (Martha Jefferson Hosp.) Series 1993 | A* | 5.500% 10/01/2015 | 10/01/14 @ 100 S.F. 10/01/03 @ 102 Opt. |
| 2 | 400,000 | Indus. Dev. Auth. of the City of Alexandria, Va. Poll. Cntl. Rev. Rfndg. Bonds | A+ | 5.375% 2/15/2024 | No Sinking Fund 2/15/04 @ 102 Opt. |
| 3 | 300,000 | Fairfax Cnty. Va. Dev. Auth. Hosp. Rev. Rfndg. Bonds (Inova Hlth. Sys. Hosps. Prjt.) Series 1993A | Aa* | 5.000% 8/15/2023 | 8/15/20 @ 100 S.F. None |
| 4 | 400,000 | Fairfax Cnty. Wtr. Auth. Wtr. Rfndg. Rev. Bonds Series 1992 | Aa* | 5.750% 4/01/2029 | 4/01/23 @ 100 S.F. 4/01/02 @ 100 Opt. |

| | | | | | |
|---|---|---|---|---|---|
| 5 | 350,000 | Harrisonburg Va. Redev. & Hsg. Auth. Multifam. Hsg. Rev. Rfndg. Bonds (Hanover Crossing Aprtmts. Prjt.) Series 1993 | AA | 6.150% 3/01/2009 | 3/01/04 @ 100 S.F. 3/01/03 @ 102 Opt. |
| 6 | 400,000 | Richmond Va. Genl. Oblig. Pub. Imprvmt. Rev. Bonds Series 1991A | AA | 6.250% 1/15/2021 | 1/15/12 @ 100 S.F. 1/15/01 @ 102 Opt. |
| 7 | 400,000 | Richmond Metro. Auth. Expy. Rev. & Rfndg. Bonds, Series 1992B | AAA | 6.250% 7/15/2022 | 7/15/13 @ 100 S.F. 7/15/02 @ 102 Opt. |
| 8 | 150,000 | P.R. Hwy. Auth. Hwy. Rev. Rfndg. Bonds (Series Q) | A | 6.000% 7/01/2020 | 7/01/18 @ 100 S.F. 7/01/00 @ 100 Opt. |
| 9 | 200,000 | P.R. Pub. Bldgs. Auth. Pub. Ed. & Hlth. Facs. Rev. Rfndg. Bonds Gtd. By the Cmmnwlth. of P.R. Series M | AAA | 5.500% 7/01/2021 | 7/01/17 @ 100 S.F. 7/01/03 @ 101.5 Opt. |
| | $3,000,000 | | | | |

<CAPTION>

| PORTFOLIO NO. | COST OF BONDS TO TRUST(5) |
|---|---|
| <S> | <C> |
| 1 | $ 362,608 |
| 2 | 352,888 |
| 3 | 249,837 |
| 4 | 369,056 |
| 5 | 348,285 |
| 6 | 402,628 |
| 7 | 405,084 |
| 8 | 146,120 |
| 9 | 180,474 |
| | $2,816,980 |

</TABLE>



FOOTNOTES TO PORTFOLIOS

(1) All ratings are by Standard & Poor's Corporation except for those identified by an asterisk (*), which are by Moody's Investors Service, Inc. A brief description of the rating symbols and their meanings is set forth under 'Description of Bond Ratings' in Part B.

(2) This column indicates whether the Bonds are subject to mandatory sinking fund redemption on or after a specified date and whether such Bonds are subject to unrestricted optional call by the issuer (for purposes of a refunding or otherwise) on or after a specified date at prices which may or may not include a premium. See 'Tax Status' in Part B for a statement of the federal tax consequences to a certificateholder upon the sale, redemption or maturity of a Bond and the state and local tax consequences of a sale of a Bond.

(3) The Bonds may also be subject to other calls, which may be permitted or required by events which cannot be predicted (such as destruction, condemnation, termination of a contract, or receipt of excess or unanticipated revenues).

(4) Bonds were in syndication at the Evaluation Time on the day prior to Date of Deposit. (See 'Public Offering--Offering Price' in Part B.)

(5) Evaluation of Bonds by the Evaluator was made on the basis of current offering prices for the Bonds. The offering prices are greater than the current bid prices of the Bonds which are the basis on which Unit Value is determined for purposes of redemption of Units. (See 'Comparison of Public Offering Price, Sponsors' Repurchase Price and Redemption Price' in Part B.) The aggregate value of Bonds in the Trusts, based on the bid prices on the Date of Deposit, are as follows:

<TABLE>
<CAPTION>

| | VALUE OF BONDS BASED UPON BID SIDE EVALUATION | COST OF BONDS BASED UPON OFFERING SIDE EVALUATION | DIFFERENCE IN DOLLARS | % DIFFERENCE BETWEEN BID SIDE EVALUATION AND OFFERING SIDE EVALUATION |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| Insured Trust................................. | $2,910,803 | $2,922,803 | $ 12,000 | .4% |
| New York Navigator Trust...................... | $2,809,105 | $2,821,105 | $ 12,000 | .4% |
| New Jersey Navigator Trust.................... | $2,900,132 | $2,912,132 | $ 12,000 | .4% |
| Municipal Trust............................... | $2,910,336 | $2,922,336 | $ 12,000 | .4% |
| Virginia Trust................................ | $2,804,980 | $2,816,980 | $ 12,000 | .4% |

</TABLE>

Additional information regarding the Trusts is as follows:

<TABLE>
<CAPTION>

| | SPONSORS' PURCHASE PRICE (INCLUDING PREMIUM PAID ON SPONSOR-INSURED AND NAVIGATOR SPONSOR-INSURED BONDS) | SPONSORS' PROFIT/LOSS (DATE OF DEPOSIT) | ANNUAL INTEREST INCOME |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Insured Trust........................................ | $2,900,857 | $21,946 | $ 183,625 |
| New York Navigator Trust............................. | $2,788,047 | $33,058 | $ 172,988 |
| New Jersey Navigator Trust........................... | $2,885,966 | $26,166 | $ 177,588 |
| Municipal Trust...................................... | $2,912,946 | $ 9,390 | $ 162,138 |
| Virginia Trust....................................... | $2,796,706 | $20,274 | $ 173,025 |

</TABLE>

(6) Forward contracts to purchase the Bonds were entered into from April 12, 1994 through April 13, 1994. All such contracts are expected to be settled on or about the First Settlement Date of the Trust which is expected to be April 21, 1994 except for Portfolio No. 8 in the Insured Trust and Portfolio Nos. 1, 2, 3 and 11 in the Municipal Trust which are expected to be settled on or about May 4, 1994. The Purchase Cost to Sponsors includes the premium paid, if any, by the Sponsors for insurance on the Navigator Sponsor-Insured Bonds. Accordingly, the Sponsors' Profit (or Loss) on Deposit reflects the deduction of such premiums.

(7) These Bonds are rated 'AAA' by Standard & Poor's Corporation and are insured or guaranteed by the indicated municipal bond insurance company. (See 'Insurance of the Bonds' in Part B). In the event a bond whose rating is conditional upon the issuance of insurance does not receive such a rating, then the Sponsors may purchase Replacement Bonds. See 'Portfolios' in Part B.



UNDERWRITING SYNDICATES

The names and addresses of the Underwriters of the Units and their participations in the offering of each Trust are as follows:

<TABLE>
<CAPTION>

| UNDERWRITER | UNITS OF INSURED TRUST | UNITS OF N.Y. NAVIGATOR TRUST | UNITS OF N.J. NAVIGATOR TRUST | UNITS OF MUNICIPAL TRUST | UNITS OF VIRGINIA TRUST |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| BEAR, STEARNS & CO. INC.<br>245 Park Avenue<br>New York, NY 10167.................................. | 2,550 | 1,950 | 1,600 | 2,500 | 2,500 |
| GRUNTAL & CO., INCORPORATED<br>14 Wall Street<br>New York, NY 10005.................................. | -- | 750 | 750 | -- | -- |
| OPPENHEIMER & CO., INC.<br>Oppenheimer Tower | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| World Financial Center<br>New York, NY 10281.................................. | 100 | 100 | 100 | 100 | -- |
| J.C. BRADFORD & CO.<br>330 Commerce Street<br>Nashville, TN 37201................................. | 100 | -- | -- | -- | 100 |
| GIBRALTAR SECURITIES CO.<br>Ten James Street<br>Florham Park, NJ 07932.............................. | -- | 100 | 100 | -- | -- |
| RAYMOND JAMES & ASSOCIATES, INC.<br>The Raymond James Financial Center<br>880 Carillon Parkway<br>St. Petersburg, FL 33716............................ | 100 | -- | -- | 100 | -- |
| B.C. CHRISTOPHER<br>DIV. OF FAHNESTOCK & CO. INC.<br>4717 Grand Avenue<br>Kansas City, MO 64112............................... | 50 | -- | 100 | -- | -- |
| AEGIS CAPITAL CORP.<br>70 East Sunrise Highway, Suite 415<br>Valley Stream, NY 11581-1264......................... | -- | -- | -- | 100 | -- |
| ANDERSON & STRUDWICK, INCORPORATED<br>1108 East Main Street<br>Richmond, VA 23212.................................. | -- | -- | -- | -- | 100 |
| BRANCH, CABELL & CO.<br>919 East Main Street<br>Richmond, VA 23217.................................. | -- | -- | -- | -- | 100 |
| DAIN BOSWORTH INCORPORATED<br>Dain Bosworth Plaza<br>60 South Sixth Street<br>Minneapolis, MN 55402............................... | 50 | -- | -- | 50 | -- |
| DAVENPORT & CO. OF VIRGINIA, INC.<br>One James Center<br>Richmond, VA 23219.................................. | -- | -- | -- | -- | 100 |
| NATHAN & LEWIS SECURITIES, INC.<br>119 West 40th Street<br>New York, NY 10018.................................. | -- | 100 | -- | -- | -- |

</TABLE>



UNDERWRITING SYNDICATES

<TABLE>
<CAPTION>

| UNDERWRITER | UNITS OF INSURED TRUST | UNITS OF N.Y. NAVIGATOR TRUST | UNITS OF N.J. NAVIGATOR TRUST | UNITS OF MUNICIPAL TRUST | UNITS OF VIRGINIA TRUST |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| ROOSEVELT & CROSS INCORPORATED<br>20 Exchange Place<br>New York, NY 10005.................................. | -- | -- | 100 | -- | -- |
| SOUTHWEST SECURITIES INC.<br>1201 Elm Street, Suite 4300<br>Dallas, TX 75270.................................... | -- | -- | -- | 100 | -- |
| STIFEL, NICOLAUS & COMPANY, INCORPORATED<br>500 North Broadway<br>St. Louis, MO 63102................................. | 50 | -- | -- | 50 | -- |
| WHEAT FIRST, BUTCHER & SINGER CAPITAL MARKETS<br>901 East Byrd Street<br>Richmond, VA 23219.................................. | -- | -- | -- | -- | 100 |
| J.B. HANAUER & CO.<br>Four Gate Hall Drive<br>Parsippany, NJ 07054................................ | -- | -- | 50 | -- | -- |
| JANNEY MONTGOMERY SCOTT INC.<br>1801 Market Street<br>Philadelphia, PA 19103.............................. | -- | -- | 50 | -- | -- |

| | | | | | |
|---|---|---|---|---|---|
| LEBENTHAL & CO., INC.<br>25 Broadway<br>New York, NY 10004 | -- | -- | 50 | -- | -- |
| MABON SECURITIES CORP.<br>One Liberty Plaza<br>New York, NY 10006 | -- | -- | 50 | -- | -- |
| STUART, COLEMAN & CO., INC.<br>11 West 42nd Street, 15th Floor<br>New York, NY 10036 | -- | -- | 50 | -- | -- |
| Totals | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 |

</TABLE>



(LOGO)

FEATURES

o INSURANCE FOR THE INSURED TRUSTS

Each Insured Trust is rated 'AAA' by Standard & Poor's Corporation. Each Insured portfolio is comprised solely of Bonds irrevocably insured, all rated 'AAA', guaranteeing the timely payment of interest and principal. There is no insurance premium for you or the Insured Trust to pay. The cost of insurance is borne by the issuers or by the Sponsors.

o TAX FREE INCOME

In the opinion of bond counsel, all interest income (including earned original issue discount) distributed by the Trusts is free, under current law, from regular Federal income taxes and is exempt from state and local taxes to the extent indicated when received by persons subject to state and local income taxation in a state in which the issue of the Bonds is located. However, interest income may be subject to the federal corporate and individual alternative minimum taxes and state and local taxes (except with respect to bonds in the Navigator Trusts and the Virginia Trust and with regard to interest paid to persons subject to state and local taxation in a state where the issuer of the bonds is located). Interest income accrual on original issue discount bonds is not distributed.

o DIVERSIFICATION

Each Trust offers investors the opportunity for greater diversification than they might acquire themselves by participating in a portfolio of long-term tax-exempt bonds.

o RELATIVE STABILITY

With preservation of capital an important Trust objective, all Bonds, when deposited in each Insured portfolio, are rated 'AAA' by Standard & Poor's Corporation and all Bonds when deposited in the Municipal Trust and the State Trust, are rated 'A' or better by either Standard & Poor's Corporation or Moody's Investors Service, Inc. The value of the Units, however, may fluctuate with changes in the value of the underlying Bonds.

o FIXED MATURITY

Bonds in each Trust will have a fixed maturity-- when the Bonds reach maturity the principal will be paid out to the Certificateholders.

o PROFESSIONAL SELECTION

All bonds in each Trust are selected by seasoned municipal bond professionals.

o MARKETABILITY

Although not obligated to do so, the Sponsors intend to maintain a market for units, at prices based on the aggregate bid-side evaluation of each Trust's Bonds, which may be more or less than the original Purchase Price. A Certificateholder will also be able to tender his Units to the Trustee for redemption at prices based on the net asset value per unit of the Bonds in each Trust, which may be more or less than the original Purchase Price.

o CONVENIENCE

Certificateholders do not have to monitor or evaluate the portfolio for calls, refundings, or bonds coming to maturity, etc. The bond professionals supervise these duties for each Trust. Furthermore, the Trustee safekeeps each Trust's Bonds, clips coupons and collects interest.

o MONTHLY OR SEMI-ANNUAL CHECK

Certificateholders can receive their interest income checks either monthly or semi-annually depending upon their investment goals. The monthly checks are ideal for Certificateholders intending to spend their interest income, while the semi-annual checks offer the convenience of only one or two checks, with a slightly higher return due to lower administrative charges.

o TOTAL REINVESTMENT PLAN

Certificateholders who have chosen to receive interest income semi-annually have the option to reinvest the regular interest and principal distributions in fractional units of Available Series of 'Insured Municipal Securities Trust' or 'Municipal Securities Trust' at a reduced sales charge of 3 1/2%. There is no assurance that the current return on units of Available Series of 'Insured Municipal Securities Trust', or 'Municipal Securities Trust' will be the same as or greater than the current return on Units of this Series. Series of 'Municipal Securities Trust' do not have insurance.

o VOLUME DISCOUNT

Investors wishing to purchase more than 100, 250, 500, 750 or 1000 Units may receive a discount. See Prospectus.

(LOGO)

TAX-FREE VS. TAXABLE INCOME FOR INDIVIDUALS

These tables show the approximate current returns that taxable securities must earn in various income brackets in the Insured Trusts, the Municipal Trust and the State Trust to produce, after Federal income taxes, (and, for the Navigator Trusts, after New York State and City personal income taxes or New Jersey personal income taxes and, for the State Trust, after Virginia state and local taxes), returns equivalent to tax-exempt bond current returns for the Insured Trusts, the Municipal Trust and the State Trust. The table is computed on the theory that the taxpayers' highest tax rate is applicable to the entire amount of any increase or decrease in his taxable income that results from a switch from taxable to tax-exempt securities or vice versa. Under current law, the highest Federal income tax rate for 1994 and thereafter will be 39.6%, although the effective marginal rate on a portion of a taxpayer's income could be higher.

TAXABLE EQUIVALENT RETURNS

For example--Unitholders of the Insured Trust and the Municipal Trust filing a joint return with taxable income in excess of $250,000 in 1994 would have to receive a 8.28% taxable return on another investment to have the same spendable income++ that a 5.00% tax-exempt return would provide. Unitholders of the New York Navigator Trust filing a joint return with taxable income in excess of $250,000 in 1994 would have to receive a 10.35% taxable return on another investment to have the same spendable income++ that a 5.5% tax-exempt return would provide. Unitholders of the New Jersey Navigator Trust filing a joint return with taxable income in excess of $250,000 in 1994 would have to receive a 9.76% taxable return on another investment to have the same spendable income++ that a 5.5% tax-exempt return would provide. Unitholders of the Virginia Trust filing a joint return with taxable income in excess of $250,000 in 1994 would have to receive a 9.66% taxable return on another investment to have the same spendable income++ that a 5.5% tax-exempt return would have. These tables do not reflect the taxable return for individuals who are subject to the federal alternative minimum tax.

1994 FEDERAL TAX FREE RATES

<TABLE>
<CAPTION>

| FEDERAL JOINT TAXABLE INCOME(1) | % FEDERAL TAX BRACKET | 4.25% | 4.50% | 4.75% | 5.00% | 5.25% | 5.50% | 5.75% | 6.00% |
|---|---|---|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| $ 0 - 38,000 | 15.0% | 5.00 | 5.29 | 5.59 | 5.88 | 6.18 | 6.47 | 6.76 | 7.06 |
| $ 38,001 - 91,850 | 28.0% | 5.90 | 6.25 | 6.60 | 6.94 | 7.29 | 7.64 | 7.99 | 8.33 |
| $ 91,851 - 140,000 | 31.0% | 6.16 | 6.52 | 6.88 | 7.25 | 7.61 | 7.97 | 8.33 | 8.70 |
| $140,001 - 250,000 | 36.0% | 6.64 | 7.03 | 7.42 | 7.81 | 8.20 | 8.59 | 8.98 | 9.38 |
| $250,000+ | 39.6% | 7.04 | 7.45 | 7.86 | 8.28 | 8.69 | 9.11 | 9.52 | 9.93 |

</TABLE>

(1) After exemptions and deductions other than state and local income tax deductions.

1994 NEW YORK TRIPLE TAX FREE RATES
(ASSUMES NO FEDERAL OR NEW YORK STATE OR CITY TAXES)

<TABLE>
<CAPTION>

| FEDERAL JOINT TAXABLE INCOME(1) | FEDERAL TAX BRACKET | APPROX. 1994 FEDERAL, NY STATE AND NY CITY(2) | A TAX-EXEMPT RETURN OF | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | 4.25% | 4.50% | 4.75% | 5.00% | 5.25% | 5.50% | 5.75% | 6.00% |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| $ 0 - 38,000 | 15.0% | 25.19 | 5.68 | 6.02 | 6.35 | 6.68 | 7.02 | 7.35 | 7.69 | 8.02 |
| $ 38,001 - 91,850 | 28.0% | 36.64 | 6.71 | 7.10 | 7.50 | 7.89 | 8.29 | 8.68 | 9.08 | 9.47 |
| $ 91,851 - 140,000 | 31.0% | 39.32 | 7.00 | 7.42 | 7.83 | 8.24 | 8.65 | 9.06 | 9.48 | 9.89 |
| $140,001 - 250,000 | 36.0% | 43.71 | 7.55 | 7.99 | 8.44 | 8.88 | 9.32 | 9.77 | 10.21 | 10.66 |
| $250,000+ | 39.6% | 46.88 | 8.00 | 8.47 | 8.94 | 9.41 | 9.88 | 10.35 | 10.82 | 11.30 |

</TABLE>

(1) After exemptions and deductions other than state and local income tax deductions.

(2) In cases of overlap between federal and state/city brackets, the highest state/city bracket is generally assumed. Assumes investor is a New York City resident. The table is based on 1994 tax rates assuming that the 1994 scheduled New York State tax rate decreases take effect. If, however, the New York State tax rate is postponed, then the equivalent yields will be higher than depicted above. There can be no assurance that such rates will remain unchanged.

- ------------------

++ Interest income accrual on original issue discount bonds is not distributed.

(LOGO)

1994 NEW JERSEY TAX FREE RATES
(ASSUMES NO FEDERAL OR NEW JERSEY STATE TAXES)

<TABLE>
<CAPTION>

| FEDERAL JOINT TAXABLE INCOME(1) | % FEDERAL TAX BRACKET | APPROX. 1994 FEDERAL AND NJ TAX RATE(2) | A TAX-EXEMPT RETURN OF | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | 4.25% | 4.50% | 4.75% | 5.00% | 5.25% | 5.50% | 5.75% | 6.00% |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| $ 0 - 38,000 | 15.0% | 17.02% | 5.12 | 5.42 | 5.72 | 6.03 | 6.33 | 6.63 | 6.93 | 7.23 |
| $ 38,001 - 91,850 | 28.0% | 32.45% | 6.29 | 6.66 | 7.03 | 7.40 | 7.77 | 8.14 | 8.51 | 8.88 |
| $ 91,851 - 140,000 | 31.0% | 35.26% | 6.56 | 6.95 | 7.34 | 7.72 | 8.11 | 8.50 | 8.88 | 9.27 |
| $140,001 - 250,000 | 36.0% | 40.26% | 7.11 | 7.53 | 7.45 | 8.37 | 8.79 | 9.21 | 9.63 | 10.04 |
| $250,000+ | 39.6% | 43.62% | 7.54 | 7.98 | 8.42 | 8.87 | 9.31 | 9.76 | 10.20 | 10.64 |

</TABLE>

(1) After exemptions and deductions other than state income tax deductions.

(2) These rates may be subject to change.

1994 VIRGINIA TAX FREE RATES
(ASSUMES NO FEDERAL OR VIRGINIA STATE TAXES)

| FEDERAL JOINT TAXABLE INCOME(1) | FEDERAL TAX BRACKET | APPROXIMATE 1994 FEDERAL AND CALIFORNIA TAXES(2) | 4.25% | 4.50% | 4.75% | 5.00% | 5.25% | 5.50% | 5.75% | 6.00% |
|---|---|---|---|---|---|---|---|---|---|---|
| $ 0 - 38,000 | 15.0% | 19.89% | 5.31 | 5.62 | 5.93 | 6.24 | 6.55 | 6.87 | 7.18 | 7.49 |
| $ 38,001 - 91,850 | 28.0% | 32.14% | 6.26 | 6.63 | 7.00 | 7.37 | 7.74 | 8.10 | 8.47 | 8.84 |
| $ 91,851 - 140,000 | 31.0% | 34.97% | 6.54 | 6.92 | 7.30 | 7.69 | 8.07 | 8.46 | 8.84 | 9.23 |
| $140,001 - 250,000 | 36.0% | 39.68% | 7.05 | 7.46 | 7.87 | 8.29 | 8.70 | 9.12 | 9.53 | 9.95 |
| $250,000+ | 39.6% | 43.07% | 7.47 | 7.90 | 8.34 | 8.78 | 9.22 | 9.66 | 10.10 | 10.54 |

(1) After exemptions and deductions other than state and local income tax deductions.

(2) In the case of overlap between federal and state brackets, the highest state bracket is generally assumed. These rates may be subject to change.

(LOGO)

INSURED MUNICIPAL SECURITIES TRUST

MUNICIPAL SECURITIES TRUST

PROSPECTUS PART B
PART B OF THIS PROSPECTUS MAY NOT BE
DISTRIBUTED UNLESS ACCOMPANIED BY
PART A

## THE TRUST

### ORGANIZATION

The Trust consists of five 'unit investment trusts' designated as set forth in Part A. Each Trust was created under the laws of the State of New York pursuant to a Trust Indenture and Agreement (the 'Trust Agreement'), dated the Date of Deposit, among Bear, Stearns & Co. Inc., and Gruntal & Co., Incorporated as Sponsors, United States Trust Company of New York, as Trustee, and Kenny S&P Evaluation Services, a division of Kenny Information Systems, Inc. as Evaluator. Each Trust will be administered as a distinct entity with separate certificates, expenses, books and records.

On the Date of Deposit the Sponsors deposited with the Trustee intermediate or long-term bonds in the aggregate principal amount set forth in Part A, including delivery statements relating to contracts for the purchase of certain such bonds (the 'Bonds') and cash or an irrevocable letter of credit issued by a major commercial bank in the amount required for such purchases. Thereafter, the Trustee, in exchange for the Bonds so deposited delivered to the Sponsors the Certificates evidencing the ownership of all Units of the Trusts. The Sponsors have a limited right to substitute other bonds in each Trust portfolio in the event of a failed contract. See 'Portfolios'.

A 'Unit' represents an undivided interest or pro rata share in the principal and interest of each Trust in the ratio of one Unit for each $1,000 principal amount of Bonds initially deposited in that Trust. To the extent that any Units are redeemed by the Trustee, the fractional undivided interest or pro rata share in such Trust represented by each unredeemed Unit will increase, although the actual interest in such Trust represented by such fraction will remain unchanged. Units will remain outstanding until redeemed upon tender to the Trustee by Certificateholders, which may include the Sponsors or the Underwriters, or until the termination of the Trust Agreements.

OBJECTIVES

Each Trust offers investors the opportunity to participate in a portfolio of intermediate or long-term tax-exempt bonds with a greater diversification than they might be able to acquire themselves. The objectives of each Trust are

to preserve capital and to provide interest income (including earned original issue discount) which, in the opinion of bond counsel given at the time of original delivery of the Bonds, is currently exempt from regular federal income tax under existing law and exempt from state and local income tax to the extent indicated herein when received by persons subject to state and



local taxation in a state in which the issuers of the Bonds are located. Such interest income may, however, be subject to the federal individual and corporate alternative minimum taxes. (See 'Description of Portfolio' in Part A for a list of those Bonds which pay interest income subject to federal individual alternative minimum tax. See also 'Tax Status'). Consistent with such objectives, the Sponsors of the Navigator Trusts have obtained bond insurance guaranteeing the scheduled payment of principal and interest on the Bonds. Some of the Bonds may additionally have already been covered by insurance when purchased by the Navigator Trusts. (See 'Insurance on the Bonds'). Investors should be aware that there is no assurance the Trusts' objectives will be achieved as these objectives are dependent on the continuing ability of the issuers of the Bonds to meet their interest and principal payment requirements, on the continuing satisfaction of the Bonds of the conditions required for the exemption of interest thereon from regular federal income tax and from state and local income taxes, on the market value of the Bonds, which can be affected by fluctuations in interest rates and other factors and, with respect to the Navigator Trusts, on the ability of the Insurance Companies to meet their obligations under the policies of insurance issued on the Bonds.

Since disposition of Units prior to final liquidation of the Trusts may result in an investor receiving less than the amount paid for such Units (see 'Comparison of Public Offering Price, Sponsors' Repurchase Price and Redemption Price'), the purchase of a Unit should be looked upon as a long-term investment. Neither the Trusts nor the Total Reinvestment Plan are designed to be complete investment programs.

PORTFOLIOS

The portfolios of each Trust consists of the Bonds described in 'Description of Portfolios' in Part A and are represented by the Sponsors' contracts to purchase, which are expected to be settled by the date set forth in Part A. The Trusts may contain Bonds which have been purchased on a when, as, and if issued basis. Accordingly, the delivery of such Bonds may be delayed or may not occur. (See 'Description of Portfolios' in Part A.) Interest on these Bonds begins accruing to the benefit of Certificateholders on their respective dates of delivery. Certificateholders will be 'at risk' with respect to these Bonds (i.e., may derive either gain or loss from fluctuations in the offering side evaluation of the Bonds) from the date they commit for Units. (See 'Description of Portfolios' in Part A.) For a discussion of the Sponsors' obligations in the event of the failure of any contract for the purchase of any of the Bonds and limited right to substitute other bonds to replace any failed contract, see 'Substitution of Bonds' in this Part B. On the Date of Deposit, all of the Bonds in the Navigator Trusts were rated 'AAA' by Standard & Poor's

Corporation because each Bond was insured by a municipal bond guaranty insurance policy (See 'Insurance on the Bonds') and all of the Bonds in the State Trusts were rated 'A' or better by Standard & Poor's Corporation or Moody's Investors Service, Inc.

When selecting Bonds for the Trusts, the following factors, among others, were considered by the Sponsors: (a) the quality of the Bonds and with respect to the Navigator Trusts, whether such Bonds, as insured, were rated 'AAA' by Standard & Poor's Corporation, and with respect to the State Trusts, whether such Bonds were rated 'A' or better by Standard & Poor's Corporation or Moody's Investors Service, Inc., (b) the yield and price of the Bonds relative to other tax-exempt securities of comparable quality and maturity, (c) income to the Certificateholders of the Trusts, (d) with respect to the Navigator Trusts, whether a Bond is insured, or insurance is available for the Bonds at a reasonable cost, and (e) the diversification of each Trust portfolio, as to purpose of issue and location of issuer, taking into account the availability in the market of issues which meet such Trust's quality, rating, yield and price criteria. Subsequent to the Date of Deposit, a Bond may cease to be rated or its rating may be reduced below that specified above. Neither event requires an elimination of such Bond from the Trusts but may be considered in the Sponsors' determination to direct the Trustee to dispose of the Bond. (See 'Portfolio Supervision'.) For an interpretation of the bond ratings see 'Description of Bond Ratings'.

Housing Bonds. Some of the aggregate principal amount of Bonds may consist of obligations of state and local housing authorities whose revenues are primarily derived from mortgage loans to rental housing projects for low to moderate income families. Since such obligations are usually not general obligations of a particular state or municipality and are generally payable primarily or solely



from rents and other fees, adverse economic developments including failure or inability to increase rentals, fluctuations of interest rates and increasing construction and operating costs may reduce revenues available to pay existing obligations.

The housing bonds in the Trust, despite their optional redemption provisions which generally do not take effect until ten years after the original issuance dates of such Bonds (often referred to as 'ten year call protection') do contain provisions which require the issuer to redeem such obligations at par from unused proceeds of the issue within a stated period. In recent periods of declining interest rates there have been increased redemptions of housing bonds pursuant to such redemption provisions. In addition, the housing bonds in the Trusts are also subject to mandatory redemption in whole or in part at par at any time that voluntary or involuntary prepayments of principal on the underlying mortgages are made to the trustee for such Bonds or that the mortgages are sold by the bond issuer. Prepayments of principal tend to be greater in periods of declining interest rates; it is possible that such prepayments could be sufficient to cause a housing bond to be redeemed

substantially prior to its stated maturity date, earliest call date or sinking fund redemption date. See the 'Portfolio Summary' in Part A for the amount housing bonds contained in the Trust.

Hospital Revenue Bonds. Some of the aggregate principal amount of Bonds may consist of hospital revenue bonds. Ratings of hospital bonds are often based on feasibility studies which contain projections of occupancy levels, revenues and expenses. Actual experience may vary considerably from such projections. A hospital's gross receipts and net income will be affected by future events and conditions including, among other things, demand for hospital services and the ability of the hospital to provide them, physicians' confidence in hospital management capability, economic developments in the service area, competition, actions by insurers and governmental agencies and the increased cost and possible unavailability of malpractice insurance. Additionally, a major portion of hospital revenue typically is derived from federal or state programs such as Medicare and Medicaid which have been revised substantially in recent years and which are undergoing further review at the state and federal level.

Proposals for significant changes in the health care system and the present programs for third party payment of health care costs are under consideration in Congress and many states. Future legislation or changes in the areas noted above, among other things, would affect all hospitals to varying degrees and, accordingly, any adverse change in these areas may affect the ability of such issuers to make payment of principal and interest on such bonds. See the 'Portfolio Summary' in Part A for the amount of hospital revenue bonds contained in the Trust.

Nuclear Power Facility Bonds. Certain Bonds may have been issued in connection with the financing of nuclear generating facilities. In view of recent developments in connection with such facilities, legislative and administrative actions have been taken and proposed relating to the development and operation of nuclear generating facilities. The Sponsors are unable to predict whether any such actions or whether any such proposals or litigation, if enacted or instituted, will have an adverse impact on the revenues available to pay the debt service on the Bonds in the portfolio issued to finance such nuclear projects. See the 'Portfolio Summary' in Part A for the amount of bonds issued to finance nuclear generating facilities contained in the Trust.

Mortgage Revenue Bonds. Certain Bonds may be 'mortgage revenue bonds.' Under the Internal Revenue Code of 1986, as amended (the 'Code') (and under similar provisions of the prior tax law) 'mortgage revenue bonds' are obligations the proceeds of which are used to finance owner-occupied residences under programs which meet numerous statutory requirements relating to residency, ownership, purchase price and target area requirements, ceiling amounts for state and local issuers, arbitrage restrictions, and certain information reporting, certification, and public hearing requirements. There can be no assurance that additional federal legislation will not be introduced or that existing legislation will not be further amended, revised, or enacted after delivery of these Bonds or that certain required future actions will be taken by the issuing governmental authorities, which action or failure to act could cause interest on the Bonds to be subject to federal income tax. If any portion of the Bonds proceeds are not committed for the purpose of the issue, Bonds in such

amount could be subject to earlier mandatory redemption at par, including issues of Zero Coupon Bonds (see 'Discount and Zero



Coupon Bonds'). See the 'Portfolio Summary' in Part A for the amount of mortgage revenue bonds contained in the Trust.

Other Private Activity Bonds. The portfolios of the Trust may contain other Bonds which are 'private activity bonds' (often called Industrial Revenue Bonds ('IRBs') if issued prior to 1987) which would be primarily of two types: (1) Bonds for a publicly owned facility which a private entity may have a right to use or manage to some degree, such as an airport, seaport facility or water system and (2) facilities deemed owned or beneficially owned by a private entity but which were financed with tax-exempt bonds of a public issuer, such as a manufacturing facility or a pollution control facility. In the case of the first type, bonds are generally payable from a designated source of revenues derived from the facility and may further receive the benefit of the legal or moral obligation of one or more political subdivisions or taxing jurisdictions. In most cases of project financing of the first type, issuers are obligated to pay the principal of, any premium then due, or interest on the private activity bonds only to the extent that funds are available from receipts or revenues of the Issuer derived from the project or the operator or from the unexpended proceeds of the bonds. Such revenues include user fees, service charges, rental and lease payments, and mortgage and other loan payments.

The second type of issue will generally finance projects which are owned by or for the benefit of, and are operated by, corporate entities. Ordinarily, such private activity bonds are not general obligations of governmental entities and are not backed by the taxing power of such entities, and are solely dependent upon the creditworthiness of the corporate user of the project or corporate guarantor.

The private activity bonds in the Trust have generally been issued under bond resolutions, agreements or trust indentures pursuant to which the revenues and receipts payable under the issuer's arrangements with the users or the corporate operator of a particular project have been assigned and pledged to the holders of the private activity bonds. In certain cases a mortgage on the underlying project has been assigned to the holders of the private activity bonds or a trustee as additional security. In addition, private activity bonds are frequently directly guaranteed by the corporate operator of the project or by another affiliated company. See the 'Portfolio Summary' in Part A for the amount of private activity bonds contained in the Trust.

Litigation. Litigation challenging the validity under state constitutions of present systems of financing public education has been initiated in a number of states. Decisions in some states have been reached holding such school financing in violation of state constitutions. In addition, legislation to effect changes in public school financing has been introduced in a number of states. The Sponsors are unable to predict the outcome of the pending litigation and legislation in this area and what effect, if any, resulting changes in the sources of funds, including proceeds from property taxes applied to the support of public schools, may have on the school bonds in the Trusts.

To the Sponsors' knowledge, there is no litigation pending as of the Date of Deposit with respect to any Bonds which might reasonably be expected to have a material adverse effect on the Trusts. Subsequent to the Date of Deposit, litigation may be initiated on a variety of grounds with respect to Bonds in the Trusts. Such litigation, as, for example, suits challenging the issuance of pollution control revenue bonds under recently enacted environmental protection statutes, may affect the validity of such Bonds or the tax-free nature of the interest thereon. The Sponsors are unable to predict whether any such litigation may be instituted or, if instituted, whether it might have a material adverse effect on the Trusts.

Other Factors. In 1976 the federal bankruptcy laws were amended so that an authorized municipal debtor could more easily seek federal court protection to assist in reorganizing its debts so long as certain requirements were met. Historically, very few financially troubled municipalities have sought court assistance for reorganizing their debts; notwithstanding, the Sponsors are unable to predict to what extent financially troubled municipalities may seek court assistance in reorganizing their debts in the future and, therefore, what effect, if any, the applicable federal bankruptcy law provisions will have on the Trusts.

The Trusts may also include 'moral obligation' bonds. Under statutes applicable to such bonds, if an issuer is unable to meet its obligations, the repayment of such bonds becomes a moral commitment but not a legal obligation of the state or municipality in question.



All the Bonds in the Trusts are subject to redemption prior to their stated maturity dates pursuant to sinking fund or call provisions. A sinking fund is a reserve fund appropriated specifically toward the retirement of a debt. A callable bond is one which is subject to redemption or refunding prior to maturity at the option of the issuer. A refunding is a method by which a bond is redeemed at or before maturity from the proceeds of a new issue of bonds. In general, call provisions are more likely to be exercised when the offering side evaluation of a bond is at a premium over par than when it is at a discount from par. A listing of the sinking fund and call provisions, if any, with respect to each of the Bonds is contained under 'Portfolio' for such Trust. Certificateholders will realize a gain or loss on the early redemption of such Bonds, depending upon whether the purchase price of such Bonds is at a discount from or at a premium over par at the time Certificateholders purchase their Units.

PUERTO RICO BONDS

Certain of the Bonds in the portfolio may be general obligations and/or revenue bonds of issuers located in Puerto Rico which will be affected by general economic conditions in Puerto Rico. The economy of Puerto Rico is closely integrated with that of the mainland United States. During fiscal year 1991, approximately 87% of Puerto Rico's exports were to the United States mainland, which was also the source of 67% of Puerto Rico's imports. In fiscal 1991, Puerto Rico experienced a $2,325.5 million positive adjusted trade

balance. The economy of Puerto Rico is dominated by the manufacturing and service sectors. The manufacturing sector has experienced a basic change over the years as a result of increased emphasis on higher wage, high technology industries such as pharmaceuticals, electronics, computers, microprocessors, professional and scientific instruments, and certain high technology machinery and equipment. The service sector, including finance, insurance and real estate, also plays a major role in the economy. It ranks second only to manufacturing in contribution to the gross domestic product and leads all sectors in providing employment. In recent years, the service sector has experienced significant growth in response to and paralleling the expansion of the manufacturing sector. Since fiscal 1987, personal income has increased consistently in each fiscal year. In fiscal 1991, aggregate personal income was $21.4 billion ($18.7 billion in 1987 prices) and personal income per capita was $6.038 ($5.287 in 1987 prices). Real personal income showed a small decrease in fiscal 1991 principally as a result of a decline in real transfer payments. Real transfer payments grew at an above normal rate in fiscal 1990 due to the receipt of non-recurrent relief of federal funds for hurricane Hugo victims. Personal income includes transfer payments to individuals in Puerto Rico under various social programs. Total federal payments to Puerto Rico, which include many types in addition to federal transfer payments, are lower on a per capita basis in Puerto Rico than in any state. Transfer payments to individuals in fiscal 1991 were $4.6 billion, of which $3.0 billion, or 65.4%, represent entitlement to individuals who had previously performed services or made contributions under programs such as social security, veterans benefits and medicare. The number of persons employed in Puerto Rico rose to a record level during fiscal 1991. Unemployment, although at the lowest level since the late 1970s, remains above the average for the United States. In fiscal 1991, the unemployment rate in Puerto Rico was 15.2%. From fiscal 1987 through fiscal 1990, Puerto Rico experienced an economic expansion that affected almost every sector of its economy and resulted in record levels of employment. Factors behind this expansion include Commonwealth sponsored economic development programs, the relatively stable prices of oil imports, the continued growth of the United States economy, periodic declines in exchange value of the United States dollar and the relatively low cost borrowing during the period. Real gross product amounted to approximately $19.2 billion in fiscal 1991, or .9% above the fiscal 1990 level. The economy continued its growth during fiscal 1991 but at a slower rate. The Puerto Rico Planning Board's economic activity index, a composite index for thirteen economic indicators, increased .4% for the first eleven months of fiscal 1992 compared to the same period in fiscal 1991, which period showed a decrease of .5% over the same period in fiscal 1990. Growth in the Puerto Rico economy in fiscal 1993 depends on several factors, including the state of the United States economy and the relative stability in the price of oil imports, the exchange value of the U.S. dollar and the cost of borrowing.



SUBSTITUTION OF BONDS

Neither the Sponsors nor the Trustee shall be liable in any way for any default, failure or defect in any of the Bonds. In the event of a failure to deliver any Bond that has been purchased for any of the Trusts under a contract, including those Bonds purchased on a 'when, as and if' issued basis ('Failed Bonds'), the Sponsors are authorized under the Trust Agreement to direct the Trustee to acquire other bonds ('Replacement Bonds') to make up the original corpus of the affected Trust.

The Replacement Bonds must be purchased within 20 days after delivery of the notice of the failed contract and the purchase price (exclusive of accrued interest) may not exceed the purchase price of the Failed Bonds. The Replacement Bonds (i) must be tax-exempt bonds issued by the same state or political subdivision as the Failed Bond, (ii) must have a fixed maturity date of at least 10 years but not exceeding the maturity date of the Failed Bonds, (iii) must bear a fixed interest rate of not less than that of the Failed Bonds and must be purchased at a price that results in a yield to maturity at least equal to that of the Failed Bonds as of the Date of Deposit, (iv) shall not be 'when, as and if' issued bonds, (v) with respect to the Navigator Trusts, must be insured by an Insurance Company and have the benefit of such insurance under terms equivalent to the insurance of the Insurance Company with respect to the Failed Bonds,(vi) with respect to the Navigator Trusts, must not cause the Units of the particular Trust to cease to be rated AAA by Standard & Poor's ,(vii) with respect to the State Trusts, must be rated 'A' or better by Standard & Poor's Corporation or Moody's Investors Service, Inc. Whenever a Replacement Bond has been acquired for a Trust, the Trustee shall, within five days thereafter, notify all Certificateholders of the Trust of the acquisition of the Replacement Bond and shall, on the next monthly Payment Date which is more than 30 days thereafter, make a pro rata distribution of the amount, if any, by which the cost to the Trust of the Failed Bond exceeded the cost of the Replacement Bond plus accrued interest. Once the original corpus of a Trust is acquired, the Trustee will have no power to vary the investment of such Trust, i.e., the Trustee will have no managerial power to take advantage of market variations to improve a Certificateholders' investment.

If the right of limited substitution described in the preceding paragraph shall not be utilized to acquire Replacement Bonds in the event of a failed contract, the Sponsors will refund the sales charge attributable to such Failed Bonds to all Certificateholders of the affected Trust, and distribute the principal and accrued interest attributable to such Failed Bonds on the next monthly Payment Date. In all cases, accrued interest attributable to Failed Bonds will be paid to Certificateholders until such time as Replacement Bonds are acquired. All such interest paid to a Certificateholder which accrued after the expected date of settlement for purchase of his Units will be paid by the Sponsors and accordingly will not be treated as tax-exempt income.

Because certain of the Bonds from time to time may be redeemed or will mature in accordance with their terms or may be sold under certain circumstances, no assurance can be given that the Trusts will retain their present size and composition for any length of time. The proceeds from the sale of a Bond or the exercise of any redemption or call provision will be distributed to Certificateholders except to the extent such proceeds are applied to meet redemptions of Units. (See 'Trustee Redemption'.)

DISCOUNT AND ZERO COUPON BONDS

Some of the aggregate principal amount of the Bonds in the Trusts may be original issue discount bonds. The original issue discount, which is the difference between the initial purchase price of the Bonds and the face value, is deemed to accrue on a daily basis and the accrued portion will be treated as tax-exempt interest income for regular federal income tax purposes. Upon sale or

redemption, any gain realized that is in excess of the earned portion of original issue discount will be taxable as capital gain. See 'Tax Status'. The current value of an original issue discount bond reflects the present value of its face amount at maturity. The market value tends to increase more slowly in early years and in greater increments as the Bonds approach maturity. Of these original issue discount bonds, some of the aggregate principal amount of the Bonds in the Trusts may be Zero Coupon Bonds. (See 'Description of Portfolios' in Part A.) Zero Coupon Bonds do not provide for the payment of any current interest and provide for payment at maturity at face value unless sooner sold or redeemed. The market value of Zero Coupon Bonds is subject to greater fluctuation in response to changes in interest rates. Zero



Coupon Bonds generally are subject to redemption at compound accreted value based on par value at maturity. Because the user is not obligated to make current interest payments, Zero Coupon Bonds may be less likely to be redeemed than coupon bonds issued at a similar interest rate, although certain zero coupon housing bonds may be subject to mandatory call provisions.

Some of the aggregate principal amount of Bonds in the Trusts may have been purchased at a 'market' discount from par value at maturity. The coupon interest rates on the discount bonds at the time they were purchased and deposited in the Trusts were lower than the current market interest rates for newly issued bonds of comparable rating and type. At the time of issuance the discount bonds were for the most part issued at then current coupon interest rates. The current yields (coupon interest income as a percentage of market price) of discount bonds will be lower than the current yields of comparably rated bonds of similar type newly issued at current interest rates because discount bonds tend to increase in market value as they approach maturity and the full principal amount becomes payable. Gain on the disposition of a Bond purchased at a market discount generally will be treated as ordinary income, rather than capital gain, to the extent of accrued market discount. A discount bond held to maturity will have a larger portion of its total return in the form of capital gain and less in the form of tax-exempt interest income than a comparable bond newly issued at current yield and a lower current market value than otherwise comparable bonds with a shorter term of maturity. If interest rates rise, the value of discount bonds will decrease; and if interest rates decline, the value of discount bonds will increase. The discount does not necessarily indicate a lack of market confidence in the issuer.

INSURANCE ON THE BONDS

The Bonds in the Insured Trusts are insured by a municipal bond guaranty insurance policy covering scheduled payment of principal and interest on such Bonds. See 'Insurance' in Part A. This insurance has been obtained either by the issuer, underwriter or prior owner of the Bond ('Pre-Insured Bonds') or by the Sponsors with respect to Bonds which were not insured prior to their deposit in the Trust. The insurance policies are non-cancellable and will continue in force so long as the Bonds are outstanding and the insurers remain in business. The insurance policies guarantee the timely payment of principal and interest on the

Bonds but do not guarantee the market value of the Bonds or the value of Units. No representation is made herein as to any Bond insurer's ability to meet its obligations under a policy of insurance relating to any of the Bonds. An insurance company that is required to pay interest and/or principal in respect of any Bond will succeed and be subrogated to the Trustee's right to collect such interest and/or principal from the issuer and to other related rights of the Trustee with respect to any such Bond.

Sponsor-Insured Bonds. For those Bonds in the Insured Trust which are not covered by an insurance policy obtained by the issuers, underwriters or prior owners of such Bonds, the Sponsors have obtained bond insurance from certain Bond Insurers (as hereinafter described) in an effort to protect Certificateholders against nonpayment of principal and interest in respect of such Bonds ('Sponsor-Insured Bonds'). The bond insurance on the Sponsor-Insured Bonds covers the Sponsor-Insured Bonds deposited in the Trust at the time that they are physically delivered to the Trustee (in the case of bearer bonds) or registered in the name of the Trustee or its nominee or delivered along with an assignment (in the case of registered bonds) or registered in the name of the Trustee or its nominee (in the case of bonds held in book-entry form). Accordingly, although contracts to purchase Sponsor-Insured Bonds are not covered by the bond insurance obtained by the Sponsors, such Bonds will be insured when they are deposited in the Trust. When selecting Bonds for the Trust prior to obtaining insurance thereon, the Sponsors consider the factors listed under 'Portfolio', among others. The insurers of the Sponsor-Insured Bonds apply their own standards in determining whether to insure the Sponsor-Insured Bonds. To the extent that the standards of such insurers are more restrictive than those of the Sponsors, the Sponsors' investment criteria have been limited to the more restrictive standards.

Navigator Sponsor-Insured Bonds. Each of the Bonds in the New York Navigator Trust is insured by a financial guaranty insurance policy obtained by the Sponsors (the 'Navigator Sponsor-Insured Bonds') from MBIA Corp. covering regularly scheduled payments of principal thereof and interest



thereon when such amounts become due for payment but shall not have been paid. Such amounts shall be reduced by any amount received by the holders or the owners of the Bonds from any trustee for the Bond issuers, any other Bond insurers or any other source other than MBIA Corp. MBIA Corp. has issued, on the Date of Deposit, such policy or policies covering each of the Bonds in the New York Navigator Trust and each such policy will remain in force until the payment in full of such Bonds, whether or not such Bonds continue to be held in the New York Navigator Trust. MBIA Corp.'s policies relating to small industrial development bonds and pollution control revenue bonds also guarantee the accelerated payments required to be made by or on behalf of an issuer of Bonds pursuant to the terms of the Bonds if there occurs an event which results in the loss of the tax-exempt status of the interest on such Bonds, including principal, interest or premium payments, if any, as and when required. The insurance will not cover accelerated payments of principal or penalty interest or premiums unrelated to taxability of interest on any of the Bonds, including

pollution control revenue bonds and small industrial development bonds (although the insurance does guarantee the payment of principal and interest in such amounts and at such times as such amounts would have been due absent such acceleration). The insurance relates only to the prompt payment of principal of and interest on the securities in the New York Navigator Portfolio and does not remove market risk nor does it guarantee the market value of Units in the New York Navigator Trust. The MBIA Corp. policy also does not insure against non-payment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the trustee or other paying agent for the Bonds. The policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law. Upon notification from the trustee for any bond issuer or any holder or owner of the Bonds or coupons that such trustee or paying agent has insufficient funds to pay any principal or interest in full when due, MBIA Corp. will be obligated to deposit funds promptly with Citibank, N.A., New York, New York, as fiscal agent for MBIA Corp., sufficient to fully cover the deficit. If notice of nonpayment is received on or after the due date, MBIA Corp. will provide for payment within one business day following receipt of the notice. Upon payment by MBIA Corp. of any Bonds, coupons, or interest payments, MBIA Corp. shall succeed to the rights of the owner of such Bonds, coupons or interest payments with respect thereto. For discussion of the effect of an occurrence of non-payment of principal or interest on any Bonds in the New York Navigator Trust, see 'Portfolio Supervision' in Part B.

No representation is made herein as to any Bond insurer's ability to meet its obligations under a policy of insurance relating to any of the Bonds in the New York Navigator Trust. In addition, investors should be aware that subsequent to the Date of Deposit the rating of the claims-paying ability of MBIA Corp. may be downgraded, which may result in a downgrading of the rating of the Units in the New York Navigator Trust. Some of the Bonds in the New York Navigator Trust may be Pre-Insured Bonds. The insurance policy or policies relating to the Navigator Sponsor-Insured Bonds provides that, to the extent that Bonds are both Pre-Insured Bonds and Navigator Sponsor-Insured Bonds, coverage is effective after a claim has been made upon the insurer of the Pre-Insured Bonds. No representation is made herein as to any insurer's ability to meet its obligations under a policy of insurance relating to any of the Pre-Insured Bonds in the New York Navigator Trust. An insurance company that has paid interest and/or principal in respect of any Bond in the New York Navigator Trust will succeed and be subrogated to the Trustee's right to collect such interest and/or principal from the issuer and to other related rights of the Trustee with respect to such Bond.

Pre-Insured Bonds. The Bonds in the Insured Trusts which are insured under policies obtained by the Bond issuers, underwriters or prior owners are insured by AMBAC Indemnity Corporation ('AMBAC'), Bond Investors Guaranty ('BIG'), Capital Guaranty Insurance Company ('Capital Guaranty'), Connie Lee, Insurance Company, ('Connie Lee'), Financial Guaranty Insurance Company ('Financial Guaranty'), Firemen's Insurance Co. ('Firemen's'), Municipal Bond Insurance Association ('MBIA'), or Municipal Bond Investors Assurance Corporation ('MBIA Corp.') (collectively, the 'Insurance Companies'). The cost of this insurance is borne by the respective issuers, underwriters or prior owners of the Pre-Insured Bonds. The percentage of each Portfolio insured by each Insurance Company, if any, is set forth under 'Insurance' in Part A.



AMBAC Indemnity Corporation ('AMBAC Indemnity') is a Wisconsin-domiciled stock insurance corporation regulated by the Insurance Department of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia and the Commonwealth of Puerto Rico with admitted assets of approximately $1,936,000,000 (unaudited) and statutory capital of approximately $1,096,000,000 (unaudited) as of September 30, 1993. Statutory capital consists of AMBAC Indemnity's policyholders' surplus and statutory contingency reserve. AMBAC is a wholly owned subsidiary of AMBAC Inc., a 100% publicly-held company.

Capital Guaranty is a monoline stock insurance company incorporated in Maryland, and is a wholly owned subsidiary of Capital Guaranty Corporation, a Maryland insurance holding company. Capital Guaranty Corporation is owned by the following investors: Constellation Investments, Inc., an affiliate of Baltimore Gas and Electric; Fleet/Norstar Financial Group, Inc.; Safeco Corporation; Sibag Finance Corporation, an affiliate of Siemens A.G.; and United States Fidelity and Guaranty Company. Other than their capital commitment to Capital Guaranty Corporation, the investors of Capital Guaranty Corporation are not obligated to pay the debts of, or the claims against, Capital Guaranty Insurance Company. As of December 31, 1993, the total statutory policyholders' surplus and contingency reserves of Capital Guaranty Insurance Company was approximately $190,986,527 (unaudited) and total admitted assets were approximately $284,503,855 (unaudited) as reported to the Insurance Department of the State of Maryland.

Connie Lee is a wholly owned subsidiary of College Construction Loan Insurance Association ('CCLIA'), a government-sponsored enterprise established by Congress to provide American academic institutions with greater access to low-cost capital through enhancement. Connie Lee, the operating insurance company, was incorporated in 1987 and began business as a reinsurer of tax-exempt bonds of colleges, universities, and teaching hospitals with a concentration on the hospital sector. During the fourth quarter of 1991 Connie Lee began underwriting primary bond insurance which will focus largely on the college and university sector. CCLIA's founding shareholders are the U.S. Department of Education, which owns 36% of CCLIA, and the Student Loan Marketing Association ('Sallie Mae'), which owns 14%. The other principal owners are: Pennsylvania Public School Employees' Retirement System, Metropolitan Life Insurance Company, Kemper Financial Services, Johnson family funds and trusts, Northwestern University, Rockefeller & Co., Inc. administered trusts and funds, and Stanford University. Connie Lee is domiciled in the state of Wisconsin and has licenses to do business in 47 states and the District of Columbia. As of March 31, 1992, its total admitted assets were approximately $141,000,000 and policyholders' surplus was approximately $102,000,000.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation, a Delaware holding company. FGIC Corporation is a wholly-owned subsidiary of General Electric Capital Corp. ('GECC'). Neither FGIC Corporation nor GECC is obligated to pay the debts of or claims against Financial Guaranty. Financial

Guaranty is authorized to write insurance in 50 states and the District of Columbia. Financial Guaranty is domiciled in the State of New York and is subject to regulation by the State of New York Insurance Department. As of December 31, 1993, its total capital and surplus was approximately $777,000 as reported to the New York State Insurance Department.

Firemen's, which was incorporated in New Jersey in 1855, is a wholly-owned subsidiary of The Continental Corporation and a member of The Continental Insurance Companies, a group of property and casualty insurance companies. It provides unconditional and non-cancellable insurance on industrial development revenue bonds. As of September 30, 1993, the total net admitted assets (unaudited) of Firemen's were $2,226,579,000 and its statutory surplus (unaudited) was $495,752,845.

As of the Evaluation Date, the claims-paying ability of Firemen's has been rated A- by Standard & Poor's. As a result of this rating, the ratings of all bonds insured by Firemen's, except pre-refunded bonds have been downgraded to A-. As a result of this downgrading, the units of the Trust containing Bonds insured by Firemen's are no longer rated.

Financial Security is a monoline insurance company incorporated under the laws of the State of New York and is licensed, along with its two subsidiaries, to engage in the financial guaranty insurance business in 49 states, the District of Columbia and Puerto Rico. Financial Security is an



indirect wholly-owned subsidiary of Financial Security Assurance Holdings Ltd. which is in turn approximately 92.5% owned by U.S. WEST Capital Corporation ('U.S. West'). U.S. West is a subsidiary of U.S. West, Inc. which operates businesses involved in communications, data solutions, marketing services and capital assets.

Pursuant to an intercompany agreement, liabilities on financial guaranty insurance written by Financial Security or either of its two subsidiaries are reinsured among such companies on an agreed upon percentage substantially proportional to their respective capital surplus and reserves, subject to applicable statutory risk limitations. In addition, Financial Security reinsures a portion of its liabilities under certain of its financial guaranty insurance policies with other reinsurers under various quota-share treaties and on a transaction-by-transaction basis. Such reinsurance does not alter or limit Financial Security's obligations under any financial guaranty insurance policy. As of September 30, 1993, total shareholder equity of Financial Security and its two wholly-owned subsidiaries was (unaudited) $585,935,000 and total unearned premium reserves was (unaudited) $216,434,000.

Municipal Bond Investors Assurance Corporation ('MBIA Corp.') is the

principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against the Insurer. MBIA Corp. is a limited liability corporation rather than a several liability association. MBIA Corp. is domiciled, in the State of New York and licensed to do business in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico.

Each insurance company comprising Municipal Bond Insurance Association ('MBIA' also known as the 'Association') will be severally and not jointly obligated under the MBIA policy in the following respective percentages: The Aetna Casualty and Surety Company, 33%; Fireman's Fund Insurance Company, 30%; The Travelers Indemnity Company, 15%; Aetna Insurance Company (now known as Cigna Property and Casualty Company), 12%; and The Continental Insurance Company, 10%. As a several obligor, each such insurance company will be obligated only to the extent of its percentage of any claim under the MBIA policy and will not be obligated to pay any unpaid obligation of any other member of MBIA. Each insurance company's participation is backed by all of its assets. However, each insurance company is a multiline insurer involved in several lines of insurance other than municipal bond insurance, and the assets of each insurance company also secure all of its other insurance policy and surety bond obligations.

The following table sets forth certain financial information with respect to the five insurance companies comprising MBIA. The statistics, which have been furnished by MBIA, are as reported by the insurance companies to the New York State Insurance Department and are determined in accordance with statutory accounting principals. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date thereof. In addition, these numbers are subject to revision by the New York State Insurance Department which, if revised, could either increase or decrease the amounts.

MUNICIPAL BOND INSURANCE ASSOCIATION
FIVE MEMBER COMPANIES ASSETS, LIABILITIES AND POLICYHOLDERS' SURPLUS
AS OF JUNE 30, 1993
(000'S OMITTED)

<TABLE>
<CAPTION>

| <S> | NEW YORK STATUTORY ASSETS <C> | NEW YORK STATUTORY LIABILITIES <C> | NEW YORK POLICYHOLDER'S SURPLUS <C> |
|---|---|---|---|
| The Aetna Casualty & Surety Company | $ 9,670,645 | $ 8,278,113 | $ 1,392,532 |
| Fireman's Fund Insurance Company | 6,571,313 | 4,880,776 | 1,690,537 |
| The Travelers Indemnity Company | 10,194,126 | 8,280,211 | 1,913,915 |
| Cigna Property and Casualty Company (Formerly Aetna Insurance Company) | 6,198,088 | 5,634,331 | 563,757 |
| The Continental Insurance Company | 2,574,504 | 2,223,194 | 351,310 |
| Total | $35,208,676 | $29,296,625 | $ 5,912,051 |

</TABLE>



Some of the members of the 'Association' are among the shareholders of MBIA, Inc., a New York Stock Exchange listed company. MBIA, Inc. is the parent of MBIA Corp. MBIA Corp. commenced municipal bond insurance operations on January 5, 1987. MBIA Corp. is a separate and distinct entity from the Association. MBIA Corp. has no liability to the bondholders for the obligations of the Association under the Policy.

MBIA Corp. is the principal operating subsidiary of MBIA Inc. MBIA Inc. is not obligated to pay the debts of or claims against the Insurer. MBIA Corp. is a limited liability corporation rather than a several liability association. MBIA Corp. is domiciled, in the State of New York and licensed to do business in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico.

As of December 31, 1992, MBIA Corp. had admitted assets of $2.6 billion (unaudited), total liabilities of $1.7 billion (unaudited), and total capital and surplus of $896 million (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 1993, MBIA Corp. had admitted assets of $3.1 billion (audited), total liabilities of $2.1 billion (audited), and total capital and surplus of $978 million (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Effective December 31, 1989, MBIA Inc. acquired Bond Investors Group, Inc. On January 5, 1990, MBIA acquired all of the outstanding stock of Bond Investors Group, Inc., the parent corporation of Bond Investors Guaranty Insurance Co. ('BIG'). Through a Reinsurance Agreement, BIG has ceded all of its net insured risks, as well as its unearned premium and contingency reserves, to MBIA and MBIA has reinsured BIG's net outstanding exposure.

As of the Date of Deposit, Standard & Poor's has rated the claims-paying ability of each of the above Insurance Companies 'AAA' and has rated each of the Bonds in the Portfolio of each Trust AAA because the Insurance Companies have insured the Bonds. The assignment of such AAA ratings is due to Standard & Poor's Corporation's assessment of the creditworthiness of the Insurance Companies and their ability to pay claims on their policies of insurance. Subsequently, the claims-paying ability of the insurer of an underlying Bond may cease to be rated or may be downgraded which may result in a downgrading of the rating of the Units in the Trusts. Moody's Investors Services, Inc. has assigned

a rating of Aaa to all of the Bonds in the New York Navigator Trust, as insured. The Moody's Investors Service rating of the Bonds should be evaluated independently of the Standard & Poor's Corporation rating of the Bonds. The ratings reflect Moody's current assessment of the creditworthiness of MBIA Corp. and its ability to pay the claims on its policies of insurance. The percentage of each Trust Portfolio insured by each Insurance Company, if any, is set forth under 'Insurance' in Part A.

The foregoing information relating to the above Insurance Companies is from published documents and other public sources and/or information provided by such Insurance Companies. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the dates thereof; however the Sponsors are not aware that the information herein is inaccurate or incomplete.

SPECIAL FACTORS CONCERNING THE TRUSTS

These summaries are introduced for the purpose of providing a general description of the credit and financial conditions for the State of New York, the State of New Jersey, and the Commonwealth of Virginia.

NEW YORK NAVIGATOR TRUST

The following summary is introduced for the purpose of providing a general description of the credit and financial conditions for the State of New York.

New York City. New York City (the 'City'), with a population of approximately 7.3 million, is an international center of business and culture. Its non-manufacturing economy is broadly based, with the banking and securities, life insurance, communications, publishing, fashion design, retailing and construction industries accounting for a significant portion of the City's total employment earnings.



Additionally, the City is the nation's leading tourist destination. The City's manufacturing activity is conducted primarily in apparel and publishing.

The national economic recession which began in July 1990 has adversely impacted the City harder than almost any other political jurisdiction in the nation. As a result, the City, with approximately 3 percent of national employment, has lost approximately 20 percent of all U.S. jobs during the recent economic downturn and, consequently, has suffered erosion of its local tax base. In total, the City private sector employment has plummeted by approximately 360,000 jobs since 1987. But, after nearly five years of decline, the City appears to be on the verge of a broad-based recovery which will lift many sectors of the local economy. Most of the nascent local recovery can be attributed to the continued improvement in the U.S. economy, but a great deal of

the strength expected in the City economy will be due to local factors, such as the heavy concentration of the securities and banking industries in the City. The current forecast calls for modest employment growth of about 20,000 a year (0.6 percent) on average through 1998 with some slowing but still positive growth in employment in 1995-96 as U.S. growth slows (local job gains slow from 25,000 to around 10,000 per year).

During the most recent economic downturn, the City has faced recurring extraordinary budget gaps that have been addressed by undertaking one-time, one-shot budgetary initiatives to close then projected budget gaps in order to achieve a balanced budget as required by the laws of the State of New York (the 'State'). For example, in order to achieve a balanced budget for the 1992 fiscal year, the City increased taxes and reduced services during the 1991 fiscal year to close a then projected gap of $3.3 billion in the 1992 fiscal year which resulted from, among other things, lower than expected tax revenue of approximately $1.4 billion, reduced State aid for the City of approximately $564 million and greater than projected increases in legally mandated expenditures of approximately $400 million, including public assistance and Medicare expenditures. The gap closing measures for fiscal year 1992 included receipt of

$605 million from tax increases, approximately $1.5 billion of proposed service reductions and proposed productivity savings of $545 million.

Notwithstanding its recurring projected budget gaps, for fiscal years 1981 through 1993 the City achieved balanced operating results (the City's General Fund revenues and transfers reduced by expenditures transfers), as reported in accordance with Generally Accepted Accounting Principles ('GAAP'), and the City's 1994 fiscal year results are projected to be balanced in accordance with GAAP.

The City's ability to maintain balanced budgets in the future is subject to numerous contingencies; therefore, even though the City has managed to close substantial budget gaps in recent years in order to maintain balanced operating results, there can be no assurance that the City will continue to maintain a balanced budget as required by State law without additional tax or other revenue increases or reduction in City services, which could adversely affect the City's economic base.

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

On November 23, 1993, the City submitted to the Control Board the Financial Plan for the 1994 through 1997 fiscal years, which is a modification to a financial plan submitted to the Control Board on August 30, 1993 and which relates to the City, the Board of Education ('BOE') and the City University of New York ('CUNY'). The 1994-1997 Financial Plan projects revenues and expenditures for the 1994 fiscal year balanced in accordance with GAAP. The 1994-1997 Financial Plan sets forth actions to close a previously projected gap of approximately $2.0 billion in the 1994 fiscal year. The gap-closing actions for the 1994 fiscal year included agency actions aggregating $666 million, including productivity savings and savings from restructuring the delivery of City services; service reductions aggregating



$274 million, the sale of delinquent real property tax receivables for $215 million; discretionary transfers from the 1993 fiscal year of $110 million; reduced debt service costs aggregating $187 million, resulting from refinancings and other actions; $150 million in proposed increased Federal assistance; a continuation of the personal income tax surcharge, resulting in revenues of $143 million; $80 million in proposed increased State aid, which is subject to approval by the Governor; and revenue actions aggregating $173 million.

The Financial Plan also sets forth projections for the 1995 through 1997 fiscal years and outlines a proposed gap-closing program to close projected budget gaps of $1.7 billion, $2.5 billion and $2.7 billion for the 1995 through 1997 fiscal years, respectively. City gap-closing actions total $640 million in the 1995 fiscal year, $814 million in the 1996 fiscal year and $870 million in the 1997 fiscal year. These actions include increased revenues and reduced expenditures from agency actions aggregating $165 million, $439 million and $470 million in the 1995 through 1997 fiscal years, respectively, including productivity savings and savings from restructuring the delivery of City services and service reductions; possible BOE expenditure reductions aggregating $125 million in each of the 1995 through 1997 fiscal years; and reduced other than personal service costs aggregating $50 million in each of the 1995 through 1997 fiscal years.

State actions proposed in the gap-program total $306 million, $616 million and $766 million in each of the 1995, 1996 and 1997 fiscal years, respectively. These actions include savings from various proposed mandate relief measures and the proposed reallocation of State education aid among various localities totaling $175 million, $325 million and $475 million in each of the 1995, 1996 and 1997 fiscal years, respectively. These actions also include $131 million in 1995 and $291 million in each of 1996 and 1997 in anticipated State actions

which could include savings from the proposed State assumption of certain Medicaid costs or various proposed mandate relief measures.

The Federal actions proposed in the gap-closing program are $100 million and $200 million in increased Federal assistance in fiscal years 1996 and 1997, respectively.

Other Actions proposed in the gap-closing program represent Federal, State or City actions to be specified in the future.

Various actions proposed in the Financial Plan, including the proposed continuation of the personal income tax surcharge beyond December 31, 1995 and the proposed increase in State aid, are subject to approval by the Governor and the State Legislature, and the proposed increase in Federal aid is subject to approval by Congress and the President. The State Legislature has in previous legislative sessions failed to approve proposals for the State assumption of certain Medicaid costs, mandate relief and reallocation of State education aid, thereby increasing the uncertainty as to the receipt of the State assistance included in the Financial Plan. If these actions cannot be implemented, the City will be required to take other actions to decrease expenditures or increase revenues to maintain a balanced financial plan. The state Legislature has approved the continuation of the personal income tax surcharge through December 31, 1995, and the Governor is expected to approve this continuation. The Financial Plan has been the subject of extensive public comment and criticism particularly regarding the sale of delinquent property tax receivables, the sale of the New York City Off-Track Betting Corporation ('OTB'), the amount of State and Federal aid included in the Financial Plan and the inclusion of non-recurring actions.

Notwithstanding the proposed city, federal and state actions in the gap-closing programs, the City Comptroller has warned in past published reports that State and local tax increases in an economic downturn or period of slow economic growth can have adverse effects on the local economy and can slow down an economic recovery. The City Comptroller has also previously expressed concerns about the effects on the City's economy and budgets of rapidly increasing water and sewer rates, decreasing rental payments in future years from the Port Authority under leases for LaGuardia and Kennedy airports, the dependence on increased aid from the State and Federal Governments for gap-closing programs, the escalation cost of judgements and claims, federal deficit reduction measures and the increasing percentage of future years' revenues projected to be consumed by debt service, even after reductions in the capital program.



Although the City has maintained balanced budgets in each of its last thirteen fiscal years, and is projected to achieve balanced operating results for the 1993 fiscal year, there can be no assurance that the gap-closing actions proposed in the Financial Plan can be successfully implemented or that the City will maintain a balanced budget in future years without additional State aid, revenue increases or expenditure reductions. Additional tax increases and reductions in essential City services could adversely affect the City's economic base.

In November 1993, Rudolph W. Giuliani was elected mayor of the City, replacing the previous administration on January 1, 1994. Mayor Giuliani's Modification No. 94-2 to the Financial Plan for the City and Covered Organizations for fiscal years 1994-1998 (the 'Modification'), issued February 10, 1994, reports that for 1995 fiscal year, the budget gap is estimated at $2.26 billion, or nearly a 12 percent shortfall of existing tax revenues over baseline expenditures. Absent gap closing initiatives, the Modification reports that the projected budget gap will grow to nearly $3.4 billion by 1998 fiscal year. According to the Modification, the 1995 fiscal year budget gap is the largest that the City has faced since 1981, when the City converted to GAAP. The Modification attributes the projected budget gaps to the lingering national recession, to a sharp growth in expenditures during the boom years of the 1980s and the failure of the City to reduce the City's municipal workforce. The Modification reports that at the same time that City employment has declined as a percentage of U.S. employment, local government employment in the City, which exceeds the state government employment of the five largest states, is on the verge of an historic high. According to the Modification, at the end of December

1993, the City's full-time municipal workforce stood at more than 362,000 employees, and absent reductions, will reach an all-time high at the end of fiscal year 1994.

The Modification states that in order to strengthen the City's long-term fiscal position the City's gap closing initiatives must be accomplished without resorting to one-shot gap-closing measures, such as tax increases; instead, it must balance its budgets by reducing City spending, reducing the size of the City's municipal workforce and reducing certain City taxes to encourage economic growth. Under the Modification, fiscal year 1995 spending declines by $516 million over the current fiscal year, the lowest projected spending rate since 1975. The Modification plans to reduce the City's municipal workforce by 15,000 positions, as compared to the current actual headcount, by the end of fiscal year 1995. The workforce reduction will be achieved through an aggressive severance package, and, if necessary, layoffs. It is anticipated that these workforce reduction initiatives will save $117 million, $144 million, $311 million, $415 million and $539 million in fiscal years 1994 through 1998, respectively, after taking into account an estimated $200 million in costs related to instituting the proposed severance programs which are anticipated to be financed with surplus Municipal Assistance Corporation funds (see below for a discussion of the Municipal Assistance Corporation). The Modification also contemplates the loss of $35 million, $186 million, $534 million and $783 million in tax revenues in 1995 through 1998, respectively, as a result of the reduction in certain City taxes, such as the reduction of the hotel tax from 6 percent to 5 percent, commercial rent tax reductions and the elimination of the 12.5 percent personal income tax surcharge.

The 1994-97 Financial Plan is based on numerous assumptions, including the recovery of the City's and the region's economy early in the calendar year 1993 and the concomitant receipt of economically sensitive tax revenues in the amounts projected. The 1994-97 Financial Plan is subject to various other uncertainties and contingencies relating to, among other factors, the extent, if any, to which wage increases for City employees exceed the annual increases assumed for the 1994 through 1997 fiscal years; continuation of the 9% interest earnings assumptions for pension fund assets affecting the City's required pension fund contributions; the willingness and ability of the State to provide the aid contemplated by the Financial Plan and to take various other actions to assist the City, including the proposed State takeover of certain Medicaid costs and State mandate relief, the ability of the New York City Health and Hospitals Corporation ('HHC'), BOE and other agencies to maintain budget balance; the willingness of the Federal government to provide Federal aid; approval of the proposed continuation of the personal income tax surcharge and the State budgets; adoption of the City's budgets by the City Council; the ability of the City to implement contemplated productivity and service and personnel reduction programs and the success with which the City controls expenditures; additional expenditures that may be incurred due to the requirements of certain legislation requiring



minimum levels of funding for education; the City's ability to market its securities successfully in the public credit markets; the level of funding required to comply with the Americans with Disabilities Act of 1990; and additional expenditures that may be incurred as a result of deterioration in the condition of the City's infrastructure. Certain of these assumptions have been questioned by the City Comptroller and other public officials.

Estimates of the City's revenues and expenditures are based on numerous assumptions and subject to various uncertainties. If expected Federal or State aid is not forthcoming, if unforeseen developments in the economy significantly reduce revenues derived from economically sensitive taxes or necessitate increased expenditures for public assistance, if the City should negotiate wage increases for its employees greater than the amounts provided for in the City's Financial Plan or if other uncertainties materialize that reduce expected revenues or increase projected expenditures, then, to avoid operating deficits, the City may be required to implement additional actions, including increases in taxes and reductions in essential City services. The City might also seek additional assistance from the State.

The City depends on the State for State aid both to enable the City to balance its budget and to meet its cash requirements. For its 1993 fiscal year, the State, before taking any remedial action, reported a potential budget deficit of $4.8 billion (before providing for repayment of the deficit notes as described below). If the State experiences revenue shortfalls or spending increases beyond its projections during its 1993 fiscal year or subsequent years, such developments could result in reductions in projected State aid to the City. In addition, there can be no assurance that State budgets in future fiscal years will be adopted by the April 1 statutory deadline and that there will not be adverse effects on the City's cash flow and additional City expenditures as a result of such delays.

Implementation of the Financial Plan is also dependent upon the City's ability to market its securities successfully in the public credit markets. The City's financing program for fiscal years 1994-1997 contemplates issuance of $11.7 billion of general obligation bonds primarily to reconstruct and rehabilitate the City's infrastructure and physical assets and to make capital investments. A significant portion of such bond financing is used to reimburse the City's general fund for capital expenditures already incurred. In addition, the City issues revenue and tax anticipation notes to finance its seasonal working capital requirements. The success of projected public sales of City bonds and notes will be subject to prevailing market conditions at the time of the sale, and no assurance can be given that such sales will be completed. If the City were unable to sell its general obligation bonds and notes, it would be prevented from meeting its planned operating and capital expenditures.

Substantially all of the City's full-time employees are members of labor unions. The Financial Emergency Act requires that all collective bargaining agreements entered into by the City and the Covered Organizations be consistent with the City's current financial plan, except under certain circumstances, such as awards arrived at through impasse procedures.

On January 11, 1993, the City announced a settlement with a coalition of municipal unions, including Local 237 of the International Brotherhood of Teamsters ('Local 237'), District Council 37 of the American Federation of State, County and Municipal Employees ('District Council 37') and other unions covering approximately 44% of the City's work force. The settlement, which has been ratified by the unions, includes a total net expenditure increase of 8.25% over a 39-month period, ending March 31, 1995 for most of these employees. On April 9, 1993 the City announced an agreement with the Uniformed Fire Officers Association (the 'UFOA') which is consistent with the coalition agreement. The agreement has been ratified. The Financial Plan reflects the costs associated with these settlements and provides for similar increases for all other City-funded employees.

The Financial Plan provides no additional wage increases for City employees after their contracts expire in the 1995 fiscal year. Each 1% wage increase for all employees commencing in the 1995 fiscal year would cost the City an

additional $30 million for the 1995 fiscal year and $135 million for the 1996 fiscal year and $150 million for each year thereafter above the amounts provided for in the Financial Plan.



A substantial portion of the capital improvements in the City are financed by indebtedness issued by the Municipal Assistance Corporation for the City of New York ('MAC'). MAC was organized in 1975 to provide financing assistance for the City and also to exercise certain review functions with respect to the City's finances. MAC bonds are payable out of certain State sales and compensating use taxes imposed within the City, State stock transfer taxes and per capita State aid to the City. Any balance from these sources after meeting MAC debt service and reserve fund requirements and paying MAC's operating expenses is remitted to the City or, in the case of the stock transfer taxes, rebated to the taxpayers. The State is not, however, obligated to continue the imposition of such taxes or to continue appropriation of the revenues therefrom to MAC, nor is the State obligated to continue to appropriate the State per capita aid to the City which would be required to pay the debt service on certain MAC obligations. MAC has no taxing power and MAC bonds do not create an enforceable obligation of either the State or the City. As of September 30, 1993, MAC had outstanding an aggregate of approximately $5.304 billion of its bonds.

Standard & Poor's has rated City Bonds A-. Moody's Investors Service, Inc. ('Moody's') has rated City Bonds Baa1. Such ratings reflect only the views of Standard & Poor's and Moody's from which an explanation of the significance of such ratings may be obtained. There is no assurance that either or both of such ratings will continue for any given period of time or that either or both will not be revised downward or withdrawn entirely. Any such downward revision or withdrawal could have an adverse effect on the market prices of the Bonds.

In 1975, Standard & Poor's suspended its A rating of City Bonds. This suspension remained in effect until March 1981, at which time the City received an investment grade rating of BBB from Standard & Poor's. On July 2, 1985, Standard & Poor's revised its rating of City Bonds upward to BBB+ and on November 19, 1987, to A-. On July 2, 1993, Standard & Poor's reconfirmed its A- rating of City Bonds, continued its negative rating outlook assessment and stated that maintenance of such ratings depended upon the City's making further progress towards reducing budget gaps in the outlying years. Moody's ratings of City bonds were revised in November 1981 from B (in effect since 1977) to Ba1, in November 1983 to Baa, in December 1985 to Baa1, in May 1988 to A and again in February 1991 to Baa1.

New York State and Its Authorities. The national recession which commenced in mid-1990 has had a more adverse impact on the State's economy than on other parts of the nation, owing to a significant retrenchment in the financial services industry, cutbacks in defense spending, and an overbuilt real estate market in the State and City. As a result of the national and regional economic recession, the State's tax revenues for its 1991 and 1992 fiscal years were substantially lower than projected. Consequently, the State took various actions for its 1992 fiscal year, which included increases in certain State taxes and fees, substantial decreases in certain expenditures from previously projected levels, including cuts in State operations and reductions in State aid to localities, and the sale of $531 million of short-term deficit notes prior to the end of the State's 1992 fiscal year. The State's 1992-93 budget was passed on time, closing an estimated $4.8 billion imbalance resulting primarily from the national and regional economic recession. Major budgetary actions included a freeze in the scheduled reduction in the personal income tax and business tax surcharge, adoption of significant Medicaid cost containment or revenue initiatives, and reductions in both agency operations and grants to local governments from previously anticipated levels. The State completed its 1993 fiscal year with a positive margin of $671 million in the General Fund which was deposited into a tax refund reserve account.

The Governor released the recommended Governor's Executive Budget for the 1993-1994 fiscal year on January 19, 1993. The recommended 1993-1994 State Financial Plan projected a balanced General Fund. General Fund receipts and transfers from other funds were projected at $31.6 billion, including $184 million carried over from the state's 1993 fiscal year. Disbursements and transfers from other funds were projected at $31.5 billion, not including a $67 million repayment to the State's Tax Stabilization Reserve Fund. To achieve General Fund budgetary balance in the 1994 State fiscal year,



the Governor recommended various actions. These included proposed spending reductions and other actions that would reduce General Fund spending ($1.6 billion); continuing the freeze on personal income and corporate tax reductions and on hospital assessments ($1.3 billion); retaining moneys in the General Fund that would otherwise have been deposited in dedicated highway and transportation funds ($516 million); a 21-cent increase in the cigarette tax ($180 million); and new revenues from miscellaneous sources ($91 million). The recommended Governor's 1993-94 Executive Budget included reductions in anticipated aid to all levels of local government.

In comparison to the recommended 1993-94 Executive Budget, the 1993-94 State budget, as enacted, reflects increases in both receipts and disbursements in the general Fund of $811 million.

The $811 million increase in projected receipts reflects (i) an increase of $487 million, from $184 million to $671 million, in the positive year-end margin at March 31, 1993, which resulted primarily from improving economic conditions and higher-than-expected tax collections, (ii) an increase of $269 million in projected receipts, $211 million resulting from the improved 1992-93 results and the expectation of an improving economy and the balance from improved auditing and enforcement measures and other miscellaneous items, (iii) additional payments of $200 million from the Federal government to reimburse the State for the cost of providing indigent medical care, and (iv) the payment of an additional $50 million of personal income tax refunds in the 1992-93 fiscal year which would otherwise have been paid in fiscal year 1993-94; offset by (v) $195 million of revenue raising recommendations in the Executive Budget that were not enacted in the budget and thus are not included in the 1993-94 State Financial Plan.

The $811 million increase in projected disbursements reflects (i) an increase of $252 million in projected school-aid payments, after applying estimated receipts from the State Lottery allocated to school aid, (ii) a increase of $194 million in projected payments for Medicaid assistance and other social service programs, (iii) additional spending on the judiciary ($56 million) and criminal justice ($48 million), (iv) a net capital projects, of $162 million, after reflecting certain re-estimates in spending, and (v) the transfer of $100 million to a newly-established contingency reserve.

The 1993-94 State budget, as enacted, included $400 million less in State actions that the City had anticipated. Reform of education aid formulas was achieved which brought an additional $145 million education dollars to New York City. However, the State Legislature failed to enact a takeover of local Medicaid costs, other significant mandate relief items and certain Medicaid cost containment items proposed by the Governor, which would have provided the City with savings. The adopted State budget cut aid for probation services, increased sanctions on social service programs, eliminated the pass-through of a State surcharge on parking tickets, cut reimbursement for CHIPS transportation operating dollars, and required a large contribution in City funds to hold the MTA fare at the current level. In the event of any significant reduction in projected State revenues or increases in projected State expenditures from the amounts currently projected by the State, there could be an adverse impact on the timing and amounts of State aid payments to the City in the future.

On October 29, 1993, the State released a revised financial plan for the State's 1993-94 fiscal year (the 'Revised State Financial Plan') which includes increased taxes and other revenues, deferral of scheduled personal income and corporation tax reductions, reductions from previously projected levels in aid to localities and State operations and other budgetary actions that further limit the growth of General Fund disbursements as compared to the initial financial plan for the State's 1993-94 fiscal year. The Revised State Financial Plan is based on economic projections that the State will perform more poorly than the nation as a whole. The State's economy, as measured by employment, was expected to commence growth late in the 1993 calendar year. Many uncertainties exist in forecasts of both the national and State economies, including consumer attitudes toward spending. There can be no assurance that the State economy will not experience worse-than-predicted results in the 1993-94 fiscal year, with corresponding material and adverse effects on the State's projections of receipts and disbursements.



In certain prior fiscal years, the State has failed to enact a budget prior to the beginning of the State's fiscal year. A delay in the adoption of the State's budget beyond the statutory April 1 deadline and the resultant delay in the State's Spring borrowing has in certain prior years delayed the projected receipt by the City of State aid, and there can be no assurance that State budgets in future fiscal years will be adopted by the April 1 statutory deadline.

The State has noted that its forecasts of tax receipts have been subject to variance in recent fiscal years. As a result of these uncertainties and other factors, actual results could differ materially and adversely from the State's current projections and the State's projections could be materially and adversely changed from time to time.

On January 14, 1992, Standard & Poor's downgraded the State's general obligation bonds from A to A-. Also downgraded was certain of the State's variously rated moral obligation, lease purchase, guaranteed and contractual obligation debt, including debt issued by certain State agencies. On June 6, 1990, Moody's changed its rating of the State's outstanding general obligation bonds from AA- to A. The State's tax and revenue anticipation notes issued in February 1991 were rated MIG-2 by Moody's and SP-1 by Standard & Poor's. On January 6, 1992, Moody's changed its rating of certain appropriations-backed debt of the State from A to Baa1. Moody's also placed the State's general obligation, State guaranteed and New York State Local Government Assistance Corporation bonds under review for possible downgrading in coming months. Any action taken by Standard & Poor's or Moody's to lower the credit rating on outstanding indebtedness and obligations of the State may have an adverse impact on the marketability of the State's notes and bonds.

As of March 31, 1993, the State had approximately $5.132 billion in general obligation bonds excluding refunding bonds and $293 million in bond anticipation notes outstanding. On May 24, 1993 the State issued $850 million in tax and revenue anticipation notes all of which will mature on December 31, 1993. Principal and interest due on general obligation bonds and interest due on bond anticipation notes and on tax and revenue anticipation notes were $890 million and $818.8 million for the 1991-92 and 1992-93 fiscal years, respectively, and are estimated to be $789 million for the State's 1993-94 fiscal year, not including interest on refunding bonds, issued in July 1992, to the extent that such interest is to be paid from escrowed funds.

The fiscal stability of the State is related to the fiscal stability of its authorities, which generally have responsibility for financing, constructing and operating revenue-producing public benefit facilities. The authorities are not subject to the constitutional restrictions on the incurrence of debt which apply to the State itself and may issue bonds and notes within the amounts of, and as otherwise restricted by, their legislative authorization. As of September 30, 1992 there were 18 authorities that had outstanding debt of $100 million or more. The aggregate outstanding debt, including refunding bonds, of these 18 authorities was $62.2 billion as of September 30, 1992, of which approximately $8.2 billion was moral obligation debt and approximately $17.1 billion was financed under lease-purchase or contractual-obligation financing arrangements.

The authorities are generally supported by revenues generated by the projects financed or operated, such as fares, user fees on bridges, highway tolls and rentals for dormitory rooms and housing. In recent years, however, the State has provided financial assistance through appropriations, in some cases of a recurring nature, to certain of the 18 authorities for operating and other expenses and, in fulfillment of its commitments on moral obligation indebtedness or otherwise for debt service. This assistance is expected to continue to be required in future years.

The Metropolitan Transit Authority ('MTA'), a State agency, oversees the operation of the City's subway and bus system (the 'Transit Authority' or 'TA') and commuter rail lines serving the New York metropolitan area. Fare revenues from such operations have been insufficient to meet expenditures, and the MTA depends heavily upon a system of State, local, Triborough Bridge and Tunnel Authority ('TBTA') and, to the extent available, Federal support. Over the past several years, the State has enacted several taxes, including a surcharge on the profits of banks, insurance



corporations and general business corporations doing business in the 12-county region served by the MTA (the 'Metropolitan Transportation Region') and a special one-quarter of 1% regional sales and use tax, that provide additional revenues for mass transit purposes including assistance to the MTA. The surcharge, which expires in November 1995, yielded $507 million in calendar year 1992, of which the MTA was entitled to receive approximately 90 percent, or approximately $456 million.

For 1993, TA has projected a budget gap of about $266 million. The MTA Board approved an increase in TBTA tolls which took effect January 31, 1993. Since the TBTA operating surplus helps subsidize TA operations, the January toll increase on TBTA facilities, and other developments, reduced the projected gap to approximately $241 million. Legislation passed in April 1993 relating to the MTA's 1992-1996 Capital Program reflected a plan for closing this gap without raising fares. A major element of the plan provides that the TA receive a significant share of the petroleum business tax which will be paid directly to MTA for its agencies. The plan also relies on certain City actions that have not yet been taken. The plan also relies on MTA and TA resources projected to be available to help close the gap. If any of the assumptions used in making these projections prove incorrect, the TA's gap could grow, and the TA would be required to seek additional State assistance, raise fares or take other actions.

Two serious accidents in December 1990 and August 1992, which caused fatalities and many injuries, have given rise to substantial claims for damages against both the TA and the City.

The State's experience has been that if an Authority suffers serious financial difficulties, both the ability of the State and the Authorities to obtain financing in the public credit markets and the market price of the

State's outstanding bonds and notes may be adversely affected. The Housing Finance Agency ('HFA') and the Urban Development Corporation ('UDC') have in the past required substantial amounts of assistance from the State to meet debt service costs or to pay operating expenses. Further assistance, possibly in increasing amounts, may be required for these, or other, Authorities in the future. In addition, certain statutory arrangements provide for State local assistance payments otherwise payable to localities to be made under certain circumstances to certain Authorities. The State has no obligation to provide additional assistance to localities whose local assistance payments have been paid to Authorities under these arrangements. However, in the event that such local assistance payments are so diverted, the affected localities could seek additional State funds.

Litigation. A number of court actions have been brought involving State finances. The court actions in which the State is a defendant generally involve state programs and miscellaneous tort, real property, employment discrimination and contract claims and the monetary damages sought are substantial. The outcome of these proceedings could affect the ability of the State to maintain a balanced State Financial Plan in the 1994-97 fiscal year or thereafter.

In particular, for the State's 1993-1994 fiscal year, the State may be required to make payments as a result of the United States Supreme Court decision in the case of State of Delaware v. State of New York, which involved a challenge to the State's possession of certain funds taken pursuant to the State's Abandoned Property Law. Although it is not possible to predict the amounts of the payments that may be required to be made in the State's 1993-94 fiscal year, the amount may be significant. The Division of the Budget expects, however, that the State will have the resources to meet reasonably anticipated payment requirements for the 1993-94 fiscal year resulting from the litigation.

In addition, on November 23, 1993, the New York Court of Appeals, the State's highest court, affirmed the decisions of the State's Supreme Court in several actions challenging the constitutionality of legislation enacted in 1990 which changed the actuarial funding methods for determining contributions by the State and local governments to the State and local retirement systems. As a result of this decision, the State Comptroller has developed a plan to return to the previous actuarial funding method and to restore previous funding levels of the retirement system. The Comptroller expects to achieve this objective in a manner that, consistent with its fiduciary duties, will neither require the



State to make additional contributions in its 1993-1994 fiscal year nor materially and adversely affect the financial condition of the State thereafter.

Among the more significant of these claims still pending against the State at various procedural stages, are those that challenge: (1) the validity of agreements and treaties by which various Indian tribes transferred title to the State of certain land in central New York; (2) certain aspects of the State's Medicaid rates and regulations, including reimbursements to providers of mandatory and optional Medicaid services; (3) contamination in the Love Canal area of Niagara Falls; (4) an action against State and New York City officials alleging that the present level of shelter allowance for public assistance recipients is inadequate under statutory standards to maintain proper housing; (5) challenges to the practice of reimbursing certain Office of Mental Health patient care expenses from the client's Social Security benefits; (6) a challenge to the methods by which the State reimburses localities for the administrative costs of food stamp programs; (7) alleged responsibility of State officials to assist in remedying racial segregation in the City of Yonkers; (8) an action in which the State is a third party defendant, for injunctive or other appropriate relief, concerning liability for the maintenance of stone groins constructed along certain areas of Long Island's shoreline; (9) an action challenging legislation enacted in 1990 which had the effect of deferring certain employer contributions to the State Teachers' Retirement System and reducing State aid to school districts by a like amount; (10) a challenge to the constitutionality of financing programs of the Thruway Authority authorized by Chapters 166 and 410 of the Laws of 1991; (11) a challenge to the constitutionality of financing programs of the Metropolitan Transportation Authority and the Thruway Authority authorized by Chapter 56 of the Law of 1993; (12) challenges to the delay by the State Department of Social Services in making two one-week Medicaid payments to the service providers; (13) challenges to provisions of Section 2807-C of the Public Health Law, which impose a 13% surcharge on inpatient hospital bills paid by commercial insurers and employee welfare benefit plans and portions of Chapter 55 of The Laws of 1992 which require hospitals to impose and remit to the state an 11% surcharge on hospital bills paid by commercial insurers; (14) challenges to the promulgation of the

State's proposed procedure to determine the eligibility for and nature of home care services for Medicaid recipients; (15) a challenge to State implementation of a program which reduces Medicaid benefits to certain home-relief recipients; and (16) challenges to the rationality and retroactive application of State regulations recalibrating nursing home Medicaid rates.

State Economic Trends. Over the long term, the State and the City also face serious potential economic problems. The City accounts for approximately 41% of the State's population and personal income, and the City's financial health affects the State in numerous ways. The State historically has been one of the wealthiest states in the nation. For decades, however, the State has grown more slowly than the nation as a whole, gradually eroding its relative economic affluence. Statewide, urban centers have experienced significant changes involving migration of the more affluent to the suburbs and an influx of generally less affluent residents. Regionally, the older Northeast cities have suffered because of the relative success that the South and the West have had in attracting people and business. The City has also had to face greater competition as other major cities have developed financial and business capabilities which make them less dependent on the specialized services traditionally available almost exclusively in the City. In recent years the State's economic position has improved in a manner consistent with that for the Northeast as a whole.

The State has for many years had a very high State and local tax burden relative to other states. The State and its localities have used these taxes to develop and maintain their transportation networks, public schools and colleges, public health systems, other social services and recreational facilities. Despite these benefits, the burden of State and local taxation, in combination with the many other causes of regional economic dislocation, has contributed to the decisions of some businesses and individuals to relocate outside, or not locate within, the State.



NEW JERSEY NAVIGATOR TRUST

State Finance.  New Jersey is the ninth largest state in population and the fifth smallest in land area. With an average of 1,050 people per square mile, it is the most densely populated of all the states. The State's economic base is diversified, consisting of a variety of manufacturing, construction and service industries, supplemented by rural areas with selective commercial agriculture. Historically, New Jersey's average per capita income has been well above the national average, and in 1992 the State ranked second among the states in per capital personal income ($26,457).

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

The New Jersey Economic Policy Council, a statutory arm of the New Jersey Department of Commerce and Economic Development, has reported in New Jersey Economic Indicators, a monthly publication of the New Jersey Department of Labor, Division of Labor Market and Demographic Research, that in 1988 and 1989 employment in New Jersey's manufacturing sector failed to benefit from the export boom experienced by many Midwest states and the State's service sectors, which had fueled the State's prosperity since 1982, lost momentum. In the meantime, the prolonged fast growth in the State in the mid 1980s resulted in a tight labor market situation, which has led to relatively high wages and housing prices. This means that, while the incomes of New Jersey residents are relatively high, the State's business sector has become more vulnerable to competitive pressures. New Jersey is currently experiencing a recession and, as a result of the factors described above, such recession could last longer than the national recession, although signs of a slow recovery both on the national and state levels have been reported.

The onset of the national recession (which officially began in July 1990 according to the National Bureau of Economic Research) caused an acceleration of New Jersey's job losses in construction and manufacturing. In addition, the national recession caused an employment downturn in such previously growing sectors as wholesale trade, retail trade, finance, utilities and trucking and warehousing. Reflecting the downturn, the rate of unemployment in the State rose from a low of 3.6% during the first quarter of 1989 to an estimated 7.1% in December 1993, which is above the national average of 6.4% in December 1993. Economic recovery is likely to be slow and uneven in New Jersey, with unemployment receding at a correspondingly slow pace, due to the fact that some sectors may lag as a result of continued excess capacity. In addition, employers even in rebounding sectors can be expected to remain cautious about hiring until they become convinced that improved business will be sustained. Also, certain firms will continue to merge or downsize to increase profitability.

DEBT SERVICE

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



NEW JERSEY BUDGET AND APPROPRIATION SYSTEM

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

In order to provide additional revenues to balance future budgets, to redistribute school aid and to contain real property taxes, on June 27, 1990, and July 12, 1990, Governor Florio signed into law legislation which was estimated to raise approximately $2.8 billion in additional taxes (consisting of $1.5 billion in sales and use taxes and $1.3 billion in income taxes), the biggest tax hike in New Jersey history. There can be no assurance that receipts and collections of such taxes will meet such estimates.

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

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

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

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

On June 29, 1993, Governor Florio signed the New Jersey Legislature's $15.9 billion budget for Fiscal Year 1994. The balanced budget does not rely on any new taxes, college tuition increases or any commuter fare increases, while providing a surplus of more than $400 million. Whether the State can achieve a balanced budget depends on its ability to enact the implement expenditure reductions and to collect estimated tax revenues. The Fiscal Year 1994 Appropriations Act forecasts sales and use tax collections of $3.920 billion, a 7.5% increase from receipts estimated in the Revised Revenue Estimates for Fiscal Year 1993. It also forecasts gross income tax collections of $4.748 billion, a 10.6% increase from receipts estimated for Fiscal Year 1993, and corporation business tax collections of 1.1 billion, a 15.4% increase from receipts estimated for Fiscal Year 1993. However, projections and estimates of receipts from taxes have been subject to variance in recent years as a result of several factors, most recently a significant slowdown in the national, regional and State economies, sluggish employment and uncertainties in taxpayer behavior as a result of actual and proposed changes in Federal tax laws.



On November 2, 1993, Governor Florio lost his bid for reelection to Christine Todd Whitman who was sworn into office on January 18, 1994. Governor Whitman, a Republican, enjoys the benefit of having a Republican majority in both the New Jersey Senate and Assembly. On March 7, 1994, Governor Whitman signed a bill into law reducing the New Jersey State Income Tax by 5% retroactive to January 1, 1994.

DEBT RATINGS

For many years, both Moody's Investors Service, Inc., and Standard and Poor's Corporation have rated New Jersey general obligation bonds Aaa and 'AAA', respectively. Currently, Moody's Investors Service, Inc., rates New Jersey general obligation bonds Aa1. On July 3, 1991, however, Standard and Poor's Corporation downgraded New Jersey general obligation bonds to 'AA+.' On June 4, 1992 Standard & Poor's Corporation placed New Jersey general obligation bonds on Credit Watch with negative implications, citing as its principal reason for its caution the unexpected denial by the Federal Government of New Jersey's request for $450 million in retroactive Medicaid payments for psychiatric hospitals. These funds were critical to closing a $1 billion gap in the State's $15 billion budget for fiscal year 1992 which ended on June 30, 1992. Under New Jersey state law, the gap in the current budget must be closed before the new budget year begins on July 1, 1992. Standard and Poor's Corporation suggested the State could close fiscal 1992's budget gap and help fill fiscal 1993's hole by a reversion of $700 million of pension contributions to its general fund under a proposal to change the way the State calculates its pension liability. On July 6, 1992, Standard and Poor's Corporation reaffirmed its 'AA+' rating for New Jersey general obligation bonds and removed the debt from its Credit Watch list, although it stated that New Jersey's long-term financial outlook is negative. Standard and Poor's Corporation was concerned that the State was entering the 1993 fiscal year that began July 1, 1992, with a slim $26 million surplus and remained concerned about whether the sagging State economy will recover quickly enough to meet lawmakers' revenue projections. It also remained concerned about the recent federal ruling leaving in doubt how much the State was due in retroactive Medicaid reimbursements and a ruling by a federal judge, now on appeal, of the State's method for paying for uninsured hospital patients. There can be no assurance that these ratings will continue or that particular bond issues may not be adversely affected by changes in the State or local economic or political conditions.

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

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

CAPITAL CONSTRUCTION

In addition to payment from bond proceeds, capital construction can also be funded by appropriation of current revenues on a pay-as-you go basis. This amount represents 2.2% of the total Fiscal Year 1993 Budget. In Fiscal Year 1993, the amount is $331.0 million and is for transportation projects. This appropriation is being credited to the Transportation Trust Fund Account of the State General Fund.

All appropriations for capital projects and all proposals for State bond authorizations are subject to the review and recommendation of the New Jersey Commission on Capital Budgeting and Planning. This permanent Commission was established in November, 1975, and is charged with the preparation of the State Capital Improvement Plan, which contains proposals for State spending for capital projects.



LEASE FINANCING

The State has entered into a number of leases relating to the financing of certain real property and equipment. The State leases the State Tax Processing Building and the Richard J. Hughes Justice Complex in Trenton, both from the Mercer County Improvement Authority (the 'Authority'). On August 8, 1991 the Authority defeased outstanding bonds originally issued to finance construction of the Richard J. Hughes Justice Complex through the issuance of custody receipts (the 'Custody Receipts') in the aggregate principal amount of $95,760,000. The rental is sufficient to cover the debt service on the Authority's Custody Receipts. Maximum annual rental payments on these leases, including debt service, maintenance and payments in lieu of taxes, will be approximately $11 million. The State's obligation to pay the rentals is subject to appropriations being made by the State Legislature. The Custody Receipts will mature in the years 1992 through 2018.

The State has also entered into a lease agreement, as lessee, with the New Jersey Economic Development Authority, as lessor (the 'EDA') to lease (i) office buildings that are presently under construction and when finished, are expected to house the New Jersey Division of Motor Vehicles, New Jersey Network (the State's public television station), and a branch of the United States Postal Service and (ii) a parking facility that is also under construction, all of which were financed by the EDA's $114,391,434.70 initial aggregate principal amount of Trenton Office Complex Revenue Bonds, 1980 Series dated December 1, 1989. The State has also entered into a lease agreement, as lessee, with the EDA to lease approximately 13 acres of real property and certain infrastructure improvements thereon located in the City of Newark. This property is in a geographical area generally bounded by McCarter Highway, Mulberry Street and Saybrook Place and its purchase was financed by $21,510,000 aggregate principal amount of New Jersey Economic Development Authority Revenue Bonds, New Jersey Performing Arts Center Site Acquisition Project, 1991 Series, issued on August 20, 1991. The rental payments required to be made by the State under such lease agreements are sufficient to cover debt service on such bonds and other amounts payable to the EDA, including certain administrative expenses of the EDA, and such rental payments are subject to annual appropriation by the State Legislature. Maximum annual debt service on such bonds is approximately $12,200,000. All of such bonds are still outstanding and mature in the years 1992 through 2012.

The State has also entered into a sublease with the EDA to lease two parking lots, certain infrastructure improvements and related elements located at Liberty State Park in the City of Jersey City. These parking lots and improvements have been financed by $13,683,767.50 aggregate principal amount of New Jersey Economic Development Authority Lease Rental Bonds, 1992 Series (Liberty State Park Project) dated March 15, 1992. The rental payments that will be required to be made by the State under such sublease agreement will be sufficient to cover debt service on such bonds and other amounts payable to the EDA, and such rental payments will be subject to appropriation by the State Legislature.

In 1981, the Governor signed into law a bill creating the New Jersey Building Authority (the 'Building Authority') having the power to construct facilities for leasing to the State (P.L. 1981, c. 120). The law provides for leasing to the State on a basis similar to that described above. The Building Authority is authorized to have not more than $250 million of its notes and bonds outstanding exclusive of refunded bonds and notes, provided that if the Building Authority issues bonds or notes to finance the total cost of a project based on estimates prepared by an independent consultant and the consultant determines later that the costs of the project as initially approved have increased, the Building Authority may issue additional bonds or notes to finance the increased cost notwithstanding the $250 million limitation. In 1985 the Building Authority issued $129,635,000 of 1985 Series Bonds for five office building projects in the Trenton area. During April 1987 the Building Authority issued $103,760,000 of 1987 Series Bonds to refund the outstanding term bonds of the 1985 issue. On April 6, 1989 the Building Authority issued $49,752,390.30 of 1989 Series Bonds for the renovation and historical restoration of portions of the State Capitol Complex in Trenton. On October 9, 1991 the Building Authority issued $74,999,815.75 of State Building Revenue Bonds, 1991 Series (Garden State



Savings Bonds, 1991A), as capital appreciation bonds, under the Garden State Savings Act of 1991, for the continued renovation and historical restoration of portions of the State Capitol Complex in Trenton and for the construction of a structured parking facility. As of December 31, 1991 the total amount of Building Authority Bonds outstanding was $238,687,206.05. Outstanding Building Authority bonds are secured by annual rentals from the State which are subject to annual appropriations by the State Legislature. The State's combined annual rental payment for all leases with the Building Authority will be (i) approximately $17.5 million per year for the years ending June 15, 1992 through 1998, 2012 and 2013 and (ii) approximately $31.0 million per year for the years ending June 15, 1999 through 2011.

Beginning in April 1984, the State, acting through the Director of the Division of Purchase and Property, entered into a series of lease purchase agreements which provide for the acquisition of equipment and real property to be used by various departments and agencies of the State. To date, the State has completed nine lease purchase agreements which have resulted in the issuance of Certificates of Participation totaling $541,085,000. A Certificate of Participation evidences a proportionate interest of the owner thereof in the lease payments to be made by the State under the terms of the agreement. As of December 31, 1991, $305,400,000 Certificates of Participation remain outstanding. The agreements relating to these transactions provide for semiannual rental payments. The State's obligation to pay rentals due under these leases is subject to annual appropriations being made by the State Legislature. The final maturity of the outstanding Certificates of Participation is December 15, 2013. The majority of proceeds from these transactions have been or will be used to acquire equipment for the State and its agencies. The rentals payable by the State will be made from monies appropriated by the State Legislature. The State intends to continue to use this financing technique for a substantial portion of its future equipment requirements.

'MORAL OBLIGATION' FINANCING

Aside from its general obligation bonds, the State's 'moral obligation' backs certain obligations issued by the New Jersey Housing and Mortgage Finance Agency, the South Jersey Port Corporation and the Higher Education Assistance Authority.

NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY

Neither the New Jersey Housing and Mortgage Finance Agency nor its predecessors, the New Jersey Housing Finance Agency and the New Jersey Mortgage Finance Agency, have had a deficiency in a debt service reserve fund which required the State to appropriate funds to meet its 'moral obligation'. It is anticipated that this agency's revenues will continue to be sufficient to cover debt service on its bonds.

SOUTH JERSEY PORT CORPORATION

The State provides the South Jersey Port Corporation (the 'Corporation') with funds to cover all debt service and property tax requirements, when earned revenues are anticipated to be insufficient to cover these obligations.

HIGHER EDUCATION ASSISTANCE AUTHORITY

The Higher Education Assistance Authority has issued $24,996,064 aggregate principal amount of revenue bonds, the interest on which has been capitalized to but not including January 1, 1993. After the period of capitalized interest has ended, it is anticipated that the authority's revenues will be sufficient to cover debt service on its bonds.



Below are listed State appropriations made since 1986 which covered deficiencies in revenues of the Corporation, for debt service and property tax payments.

<TABLE>
<CAPTION>

| CALENDAR YEAR | APPROPRIATION FOR DEBT SERVICE | APPROPRIATION FOR PROPERTY TAX |
|---|---|---|
| <S> | <C> | <C> |
| 1986........................................................ | $ 0 | $ 1,647,216.00 |
| 1987........................................................ | 0 | 1,647,216.00 |
| 1988........................................................ | 0 | 1,647,216.00 |
| 1989........................................................ | 1,281,793.58 | 1,745,917.00 |
| 1990........................................................ | 2,362,850.67 | 1,850,000.00 |
| 1991........................................................ | 2,770,851.00 | 1,850,000.00 |

</TABLE>

On April 2, 1987, the Corporation issued $31,580,000 aggregate principal amount of Revenue Bonds, 1987 Series C (the 'Series C Bonds'), a portion of the proceeds of which will be used (i) on January 1, 1995, to refund all of the Corporation's Marine Terminal Revenue Bonds, 1985 Refunding Series and (ii) to pay interest on the Series C Bonds until January 1, 1995. Because of the funded escrow, it is expected that there will not be any need for the State to provide funds to pay debt service on the Series C Bonds through January 1, 1995. Also, in addition to the bonded indebtedness of the Corporation set forth above, on April 2, 1987, the Corporation issued $10,295,000 Marine Terminal Revenue Bonds, 1987 Series D to provide funds for financing a portion of the costs of various capital improvements. On February 10, 1989, the Corporation issued $4,085,000 Marine Terminal Revenue Bonds, 1989 Series E to provide funds for financing a portion of the costs of various capital improvements and additions to the Corporation's marine terminal facilities. On November 21, 1989, the Corporation issued $3,655,000 Marine Terminal Revenue Bonds, 1989 Series F, to provide for the costs of acquiring land in the City of Camden, for the purpose of expanding the Corporation's marine terminal facilities.



MUNICIPAL FINANCE

New Jersey's local finance system is regulated by various statutes designed to assure that all local governments and their issuing authorities remain on a sound financial basis. Regulatory and remedial statutes are enforced by the Division of Local Government Services (the 'Division') in the State Department of Community Affairs.

The Local Budget Law (N.J.S.A. 40A: 4-1 et seq.) imposes specific budgetary procedures upon counties and municipalities ('local units'). Every local unit must adopt an operating budget which is balanced on a cash basis and items of revenue and appropriation must be examined by the Director of the Division (the 'Director'). The accounts of each local unit must be independently audited by a registered municipal accountant. State law provides that budgets must be submitted in a form promulgated by the Division and further provides for limitations on estimates of tax collection and for reserves in the event of any shortfalls in collections by the local unit. The Division reviews all municipal and county annual budgets prior to adoption for compliance with the Local Budget Law. The Director is empowered to require changes for compliance with law as a condition of approval; to disapprove budgets not in accordance with law; and to prepare the budget of a local unit, within the limits of the adopted budget of the previous year with suitable adjustment for legal compliance, if the local unit is unwilling to prepare a budget in accordance with law. This process insures that every municipality and county annually adopts a budget balanced on a cash basis, within limitations on appropriations or tax levies, respectively, and making adequate provision for principal of and interest on indebtedness falling due in the fiscal year, deferred charges and other statutory expenditure requirements. The Director also oversees changes to local budgets after adoption as permitted by law, and enforces regulations pertaining to execution of adopted budgets and financial administration. In addition to the exercise of regulatory and oversight functions, the Division offers expert technical assistance to local units in all aspects of financial administration, including revenue collection and cash management procedures, contracting procedures, debt management and administrative analysis.

The local Government Cap Law (N.J.S.A. 40A:4-45.1 et seq.) (the 'Cap Law') generally limits the year-to-year increase of the total appropriations of any municipality and the tax levy of any county to either 5 percent or an index rate determined annually by the Director, whichever is less. However, where the index percentage rate exceeds 5 percent, the Cap Law permits the governing body of any municipality or county to approve the use of a higher percentage rate up to the index rate. Further, where the index percentage rate is less than 5 percent, the Cap Law also permits the governing body of any municipality or county to approve the use of a higher percentage rate up to 5 percent. Regardless of the rate utilized, certain exceptions exist to the Cap Law's limitation on increases in appropriations. The principal exceptions to these limitations are municipal and county appropriations to pay debt service requirements; to comply with certain other State or federal mandates; amounts approved by referendum; and, in the case of municipalities only, to fund the preceding year's cash deficit or to reserve for shortfalls in tax collections. The Cap Law, scheduled to expire on December 31, 1990, was re-enacted with amendments and made a permanent part of the Municipal Finance System.

State law also regulates the issuance of debt by local units. The Local Budget Law limits the amount of tax anticipation notes that may be issued by local units and requires the repayment of such notes within three months of the end of the fiscal year (six months in the case of the counties) in which issued. The local Bond Law (N.J.S.A. 40A:2-1 et seq.) governs the issuance of bonds and notes by the local units. No local unit is permitted to issue bonds for the payment of current expenses (other than Fiscal Year Adjustment Bonds described more fully below). Local units may not issue bonds to pay outstanding bonds, except for refunding purposes, and then only with the approval of the Local Finance Board. Local units may issue bond anticipation notes for temporary periods not exceeding in the aggregate approximately ten years from the date of first issue. The debt that any local unit may authorize is limited to a percentage of its equalized valuation basis, which is the average of the equalized value of all taxable real property and improvements within the geographic boundaries of the local unit, as annually determined by the Director of the Division of Taxation, for each of the three most recent years. In the calculation of debt capacity, the local Bond Law and certain other statutes



permit the deduction of certain classes of debt ('statutory deductions') from all authorized debt of the local unit ('gross capital debt') in computing whether a local unit has exceeded its statutory debt limit. Statutory deductions from gross capital debt consist of bonds or notes (i) authorized for school purposes by a regional school district or by a municipality or a school district with boundaries coextensive with such municipality to the extent permitted under certain percentage limitations set forth in the School Bond Law (as hereinafter defined); (ii) authorized for purposes which are self-liquidating, but only to the extent permitted by the local Bond Law; (iii) authorized by a public body other than local unit the principal of and interest on which is guaranteed by the local unit, but only to the extent permitted by law; (iv) that are bond anticipation notes; (v) for which provision for payment has been made or (vi) authorized for any other purpose for which a deduction is permitted by law. Authorized net capital debt (gross capital debt minus statutory deductions) is limited to 3.5 percent of the equalized valuation basis in the case of municipalities and 2 percent of the equalized valuation basis in the case of counties. The debt limit of a county or municipality, with certain exceptions, may be exceeded only with the approval of the local Finance Board.

Chapter 75 of the Pamphlet Laws of 1991 signed into law on March 28, 1991 requires certain municipalities and permits all other municipalties to adopt the State fiscal year in place of the existing calendar fiscal year. Municipalities that change fiscal years must adopt a six month transition budget for January to June. Since expenditures would be expected to exceed revenues primarily because state aid for the calendar year would not be received by the municipality until after the end of the transition year budget, the act authorizes the issuance of Fiscal Year Adjustment Bonds to fund the one time deficit for the six month transition budget. The act provides that the deficit in the six month transition budget may be funded initially with bond anticipation notes based on the estimated deficit in the six month transition budget. Notes issued in anticipation of Fiscal Year Adjustment Bonds, including renewals, can only be issued for up to one year unless the Local Finance Board permits the municipality to renew them for a further period of time. The Local Finance Board must confirm the actual deficit experienced by the municipality. The municipality then may issue Fiscal Year Adjustment Bonds to finance the deficit on a permanent basis. The purpose of the Act is to assist municipalities that are heavily dependent on state aid and that have had to issue tax anticipation notes to fund operating cash flow deficits each year. While the act does not authorize counties to change their fiscal years, it does provide that counties with cash flow deficits may issue Fiscal Year Adjustment Bonds as well.

State law authorizes State officials to supervise fiscal administration in any municipality which is in default on its obligations; which experiences severe tax collection problems for two successive years; which has a deficit greater than 4 percent of its tax levy for two successive years; which has failed to make payments due and owing to the State, county, school district or special district for two consecutive years; which has an appropriation in its annual budget for the liquidation of debt which exceeds 25 percent of its total operating appropriations (except dedicated revenue appropriations) for the previous year budget year; or which has been subject to a judicial determination of gross failure to comply with the Local Bond Law, the Local Budget Law or the Local Fiscal Affairs Law which substantially jeopardizes its fiscal integrity. State officials are authorized to continue such supervision for as long as any of the conditions exist and until the municipality operates for a fiscal year without incurring a cash deficit.

There are 567 municipalities and 21 counties in New Jersey. During 1987, 1988, and 1989 no county exceeded its statutory debt limitations or incurred a cash deficit in excess of 4 percent of its tax levy. The number of municipalities which have a cash deficit greater than 4 percent of their tax levies was five for 1987, zero for 1988, and six for 1989. The number of municipalities which exceeded statutory debt limits was six, five, and one as of December 31, 1987, 1988, and 1989, respectively. No New Jersey municipality or county has defaulted on the payment of interest or principal on any outstanding debt obligation since the 1930's.



SCHOOL DISTRICTS

All New Jersey school districts are coterminous with the boundaries of one or more municipalities. They are characterized by the manner in which the board of education, the governing body of the school district, takes office. Type I school districts, most commonly found in cities, have a board of education appointed by the mayor or the chief executive officer of the municipality constituting the school district. In a Type II school district, the board of education is elected by the voters of the district. Nearly all regional and consolidated school districts are Type II school districts.

SCHOOL BUDGETS

In every school district having a board of school estimate, the board of school estimate examines the budget request and fixes the appropriation amounts for the next year's operating budget after a public hearing at which the taxpayers and other interested persons shall have an opportunity to raise objections and to be heard with respect to the budget. This board, whose composition is fixed by statute, certifies the budget to the municipal governing bodies and to the local board of education. If either disagrees, they must appeal to the State Commissioner of Education (the 'Commissioner') to request changes.

The Quality Education Act of 1990 (N.J.S.A. 18A:7D-1 et seq.) limits the annual increase of a school district's net current expense budget. The Commissioner certifies the allowable amount of increase for each school district but may grant a higher level of increase in certain limited instances. A school district may also submit a proposal to the voters to raise amounts above the allowable amount of increase. If defeated, such a proposal is subject to further review or appeal only if the Commissioner determines that additional funds are required to provide a thorough and efficient education.

In Type I or Type II school districts which have failed monitoring over a period of time by the State because of continued educational deficiencies, and are implementing an approved corrective action plan, the Commissioner is required to determine the cost to the school district of the implementation of those portions of the corrective action plan which are directly responsive to the district's deficiencies as identified in the monitoring process. Where appropriate, the Commissioner is required to reallocate funds within the district's budget to support the corrective action plan. The Commissioner is also required to determine the amount of additional revenue needed to implement the corrective action plan, and to recertify the budget for the district.

In State operated school districts the State District Superintendent has the responsibility for the development of the budget subject to appeal by the governing body of the municipality to the Commissioner and the Director of the Division of Local Government Services in the State Department of Community Affairs. Based upon his review, the Director is required to certify the amount of revenues which can be raised locally to support the budget of the State operated district. Any difference between the amount which the Director certifies, and the total amount of local revenues required by the budget approved by the Commissioner, is to be paid by the State in the fiscal year in which the expenditures are made subject to the availability of appropriations.

SCHOOL DISTRICT BONDS

School district bonds and temporary notes are issued in conformity with N.J.S.A. 18A:24-1 et seq. (the 'School Bond Law'), which closely parallels the local Bond Law. Although school districts are exempted from the 5 percent downpayment provisions generally applied to bonds issued by municipalities and counties, they are subject to debt limits (which vary depending on the type of school system provided) and to State regulation of their borrowing. The debt limitation on school district bonds depends upon the classification of the school district but may be as high as 4 percent of the average equalized valuation basis of the constituent municipality. In certain cases involving school districts in cities with populations exceeding 100,000, the debt limit is 8 percent of the average equalized valuation basis of the constituent municipality, and in cities with population in excess of 80,000 the debt limit is 6 percent of the aforesaid average equalized valuation.

School bonds are authorized by (i) an ordinance by the governing body of a municipality within a Type I school district; (ii) adoption of a proposal by resolution by the board of education of a Type II



school district having a board of school estimate; or (iii) adoption of a proposal by resolution by the board of education and approval of the proposal by the legal voters of any other Type II school district. If school bonds will exceed the school district borrowing capacity, a school district (other than a regional school district) may use the balance of the municipal borrowing capacity. If the total amount of debt exceeds the school district's borrowing capacity and any available remaining municipal borrowing capacity, the Commissioner and the Local Finance Board must approve the proposed authorization before it is submitted to the voters. All authorizations of debt in a Type II school district without a board of school estimate require an approving referendum, except where, after hearing, the Commissioner and the State Board of Education determine that the issuance of such debt is necessary to meet the constitutional obligation to provide a thorough and efficient system of public schools. When such obligations are issued, they are issued by, and in the name of, the school district.

In Type I and II school districts with a board of school estimate, that board examines the capital proposal of the board of education and certifies the amount of bonds to be authorized. When it is necessary to exceed the borrowing capacity of the municipality, the approval of a majority of the legally qualified voters of the municipality is required, together with the approval of the Commissioner and the local Finance Board. When such bonds are issued for a Type I school district, they are issued by the municipality and identified as school bonds. When bonds are issued by a Type II school district having a board of school estimate, they are issued by, and in the name of, the school district.

All authorizations of debt must be reported to the Division of local Government Services by a supplemental debt statement prior to final approval.

SCHOOL DISTRICT LEASE PURCHASE FINANCINGS

In 1982, school districts were given an alternative to the traditional method of bond financing capital improvements pursuant to N.J.S.A. 18A:20-4.2(f) (the 'Lease Purchase Law'). The Lease Purchase Law permits school districts to acquire a site and school building through a lease purchase agreement with a private lessor corporation. For Type II school districts, the lease purchase agreement does not require voter approval. The rent payments attributable to the lease purchase agreement are subject to annual appropriation by the school district and are required, pursuant to N.J.A.C. 6:22A-1.2(h), to be included in the annual current expense budget of the school district. Furthermore, the rent payments attributable to the lease purchase agreement do not constitute debt of the school district and therefore do not impact on the school district's debt limitation. Lease purchase agreements in excess of five years require the approval of the Commissioner and the local Finance Board.

QUALIFIED BONDS

In 1976, legislation was enacted (P.L. 1976, c. 38 and c. 39) which provides for the issuance by municipalities and school districts of 'qualified bonds.' Whenever a local board of education or the governing body of a municipality determines to issue bonds, it may file an application with the Local Finance Board, and, in the case of a local board of education, the Commissioner, to qualify bonds pursuant to P.L. 1976, c. 38 or c. 39. Upon approval of such an application and after receipt of a certificate stating the name and address of the paying agent for such bonds, the maturity schedules, interest rates and payment dates, the State Treasurer shall, in the case of qualified bonds for school districts, withhold from the school aid payable to such municipality or school district and in the case of qualified bonds for municipalities, withhold from the amount of business personal property tax replacement revenues, gross receipts tax revenues, municipal purpose tax assistance fund distributions, State urban aid, State revenue sharing, and any other funds appropriated as State aid and not otherwise dedicated to specific municipal programs, payable to such municipalities, an amount sufficient to cover debt service on such bonds. These 'qualified bonds' are not direct, guaranteed or moral obligations of the State, and debt service on such bonds will be provided by the State only if the above mentioned appropriations are made by the State. Total outstanding indebtedness for 'qualified bonds' consisted of $103,720,500 by various school districts as of June 30, 1992 and $830,037,105 by various municipalities as of June 30, 1992.



NEW JERSEY SCHOOL BOND RESERVE ACT

The New Jersey School Bond Reserve Act (N.J.S.A. 18A:56-17 et seq.) establishes a school bond reserve within the constitutionally dedicated Fund for the Support of Free Public Schools. Under this law the reserve is maintained at an amount equal to 1.5 percent of the aggregate outstanding bonded indebtedness of counties, municipalities or school districts for school purposes (exclusive of bonds whose debt service is provided by State appropriations), but not in excess of monies available in such Fund. If a municipality, county or school district is unable to meet payment of the principal of or interest on any of its school bonds, the trustee of the school bond reserve will purchase such bonds at the face amount thereof or pay the holders thereof the interest due or to become due. At June 30, 1991, the book value of the Fund's assets aggregated $59,352,429 and the reserve, computed as of June 30, 1991, amounted to $19,668,349. There has never been an occasion to call upon this Fund.

LOCAL FINANCING AUTHORITIES

The Local Authorities Fiscal Control Law (N.J.S.A. 40A:5A-1 et seq.) provides for State supervision of the fiscal operations and debt issuance practices of independent local authorities and special taxing districts by the State Department of Community Affairs. The Local Authorities Fiscal Control Law applies to all autonomous public bodies created by counties or municipalities, which are empowered to issue bonds, to impose facility or service charges, or to levy taxes in their districts. This encompasses most autonomous local authorities (sewerage, municipal utilities, parking, pollution control, improvement, etc.) and special taxing districts (fire, water, etc.). Authorities which are subject to differing State or federal financial restrictions are exempted, but only to the extent of that difference.

Financial control responsibilities over local authorities and special districts are assigned to the Local Finance Board and the Director of the Division of Local Government Services. The Local Finance Board exercises approval power over the creation of new authorities and special districts as well as their dissolution. The Local Finance Board also reviews, conducts public hearings and issues findings and recommendations on any proposed project financing of an authority or district, and on any proposed financing agreement between a municipality or county and an authority or special district. The Local Finance Board prescribes minimum audit requirements to be followed by authorities and special districts in the conduct of their annual audits. The Director reviews and approves annual budgets of authorities and special districts.

LITIGATION

The following are cases presently pending or threatened in which the State has the potential for either a significant loss of revenue or a significant unanticipated expenditure.

Abbott v. Burke. This case concerned a challenge to the constitutionality of the Public Education Act of 1975 (N.J.S.A. 18A:7A-1 et seq.) (the 'Act'). On June 5, 1990, the State Supreme Court rendered its decision in this case and held that the Act is unconstitutional as applied to 28 'poorer urban school districts' described in the decision. The Court ruled that a funding mechanism that is not dependent upon budgeting and tax decisions of the local school boards must be in place for the 1991-1992 school year either through an amendment to the Act or new legislation. The Quality Education Act of 1990 ('QEA') was enacted into law on July 3, 1990 and establishes a new system for distributing state aid to school districts. On June 12, 1991, the plaintiffs filed a motion with the State Supreme Court to assure implementation of its decree in Abbott. They have maintained that the QEA is invalid, arguing that it does not comply with the Court's mandates in Abbott, and have requested that the Legislature be ordered to enact a constitutional funding system or be required to implement a court ordered plan. On September 23, 1991 the Court remanded the matter to the Superior Court, for consideration of plaintiffs' claims.

In September 1993, the Superior Court ruled that the funding formula in the QEA as amended violated the N.J. constitution 'because it fails to comply with the directives of [Abbott] requiring substantial timely parity of regular education and adequate timely provision for the special educational needs for pupils.' It is probable that this decision will again be appealed to the New Jersey Supreme Court.

COUNTY/STATE DISPUTES CONCERNING SOCIAL SECURITY RECOVERIES

There are presently several cases pending in the State courts challenging the methods by which the State Department of Human Services shares with county governments the maintenance recoveries and costs for residents in State psychiatric hospitals and residential facilities for the developmentally disabled. In County of Essex v. Waldman, et al., Essex County challenged the State's policy of sharing federal Social Security recoveries on a 50%-50% basis with the County. Essex County maintains that State law has, since 1980, required that 100% of the recoveries be paid to the County. On December 6, 1990, the Appellate Division upheld the trial court's ruling allowing the County to receive 100% of recoveries, but refused to allow recovery retroactive to 1980, instead fixing January 25, 1989 as the effective date of the ruling as to Essex County. A petition for certification by the County of Essex, and a cross-petition by the State, were denied by the New Jersey Supreme Court on May 28, 1991. The Counties of Morris, Passaic, Middlesex, Hudson, Bergen, Union, Cumberland, Monmouth, Mercer, Hunterdon and Camden all filed similar actions which were stayed (except in the cases of Hudson and Camden) pending the outcome in the County of Essex case, and all actions (except in the case of Mercer) are now on appeal. Retroactive recoveries in those cases may also be limited, as in the County of Essex matter. By administrative order dated July 22, 1991, the Commissioner determined that State liability to all counties (with the exception of Essex County) would run as of December 6, 1990. The Counties of Bergen, Burlington, Camden, Cumberland, Hunterdon, Hudson, Middlesex, Monmouth, Morris, Passaic and Union have appealed that administrative order in the Superior Court, Appellate Division.

County of Essex v. Commissioner, Department of Human Services, et al. In this case, Essex County has sought the return of moneys it has paid since 1980 for maintenance of Medicaid or Medicare eligible residents of institutions and facilities for the developmentally disabled, arguing that State law relieved the County of maintenance responsibility for those persons. The trial court ruled in Essex County's favor, but made its ruling effective as of March 30, 1989. The Appellate Division affirmed that decision on June 14, 1991. Petitions for certification by both parties were denied by the New Jersey Supreme Court on November 12, 1991. Hunterdon, Mercer, Passaic, Middlesex, Hudson, Bergen, Union, Cumberland, Camden and Monmouth Counties filed similar actions, which were stayed (except in the cases of Hudson and Camden) pending a decision in the Essex County case, and all actions (except in the case of Mercer) are now on appeal. By administrative order, dated July 22, 1991, the Commissioner determined that, subject to action by the New Jersey Supreme Court, the State's liability to all counties (with the exception of Essex County) will run as of June 14, 1991. The Counties of Bergen, Burlington, Camden, Cumberland, Hunterdon, Hudson, Middlesex, Monmouth, Morris, Passaic and Union have appealed the administrative order to the Superior Court, Appellate Division.

New Jersey Association of Health Care Facilities, Inc. et al. v. Gibbs, et al. In this case, which was filed in the United States District Court for the District of New Jersey on May 8, 1990, plaintiffs allege that the Department of Human Services, Division of Medical Assistance and Health Services, has implemented unreasonably low Medicaid payment rates for long-term care facilities in New Jersey. Plaintiffs claim that the rates are not sufficient to cover their actual costs of providing services to Medicaid patients and that this has had an adverse impact on the quality of services they are able to provide to Medicaid patients. Plaintiffs are attempting to have their lawsuit certified as a class action on behalf of all New Jersey long-term care facilities, which provide services to Medicaid patients. They seek a declaration that the Department of Human Services has violated federal law in the setting and paying of Fiscal Year 1990 long-term care facility Medicaid payment rates and an injunction against the department requiring it to comply with federal law in the setting of such rates. Plaintiffs also seek costs and attorneys' fees. A final decision in favor of the plaintiffs could require the State to make substantial expenditures. Plaintiffs have filed a motion for a preliminary injunction. The hearing on plaintiffs' motion has been held, and briefs have been filed by all parties. The matter is presently pending before the Third Circuit Court of Appeals.



SPILL COMPENSATION FUND CASES

In Exxon v. Hunt, a number of taxpayers are seeking refunds of taxes paid to the Spill Compensation Fund pursuant to N.J.S.A. 58:10-23.11. On March 10, 1986, the Supreme Court of the United States decided that several uses of the Spill Compensation Fund were preempted by federal law. Several issues in the case, including the issue of the refund of what has been collected in taxes to date, were remanded to the State courts for decision. On December 2, 1987, the Supreme Court of New Jersey held that preemption began when a site was listed in the National Contingency Plan or was placed on the National Priorities List and ended when Congress amended the 'Superfund' legislation to eliminate the preemption language. The Court further held that the plaintiffs would receive refunds only in the event that the State Legislation refused to reimburse the Spill Compensation Fund for expenditures for preempted purposes, and remanded the matter to the Tax Court for an accounting. The plaintiffs filed with the Supreme Court of the United States a petition for a writ of mandamus alleging that the Supreme Court of New Jersey misinterpreted the decision of the United States Supreme Court. That petition was denied without comment on March 28, 1988. Remand proceedings have resumed in the Tax Court. $87 million was collected in taxes for the Spill Compensation Fund from December 1980 through April 1987. The Tax Court recently rejected Exxon's argument that it was

entitled to refunds on the grounds of due process, which decision has not been appealed by Exxon. In addition, the Tax Court ruled that pre-empted expenditures totaled approximately eight million dollars. However, although the appeal is still pending, the New Jersey Supreme Court has advised that the six-month period within which the Legislature may determine whether to reimburse the Spill Compensation Fund in lieu of tax refund has begun to run, and will expire on or about December 3, 1992. If the Legislature fails to make reimbursement by that date, the Spill Compensation Fund will be liable for refunds to all taxpayers who filed timely claims. This includes the claims of taxpayers whose complaints were placed on the inactive list pending resolution of the Exxon matter. On December 1, 1992, the Legislature's Joint Budget Oversight Committee approved DEPE's request to transfer $8,142,094 from the hazardous Site Cleanup Fund to the New Jersey Spill Compensation Fund to fulfill the obligation set out by the Supreme Court in Exxon v. Hunt.

FAIR AUTOMOBILE INSURANCE REFORM ACT LITIGATION

On March 12, 1990, the Fair Automobile Insurance Reform Act of 1990 ('FAIR Act') was enacted into law. The FAIR Act substantially alters New Jersey's statutory scheme governing private passenger automobile insurance. The New Jersey Automobile Full Insurance Underwriting Association ('JUA'), an unincorporated non-profit association created in 1983 to provide automobile insurance to those unable to secure such coverage in the voluntary market, was precluded from issuing or renewing automobile insurance policies after October 1, 1990. The FAIR Act includes provisions governing the transition of drivers insured by the JUA to the voluntary market and, to the extent such coverage is not available, to an Assigned Risk Plan. The FAIR Act also provides for the imposition of taxes and assessments to meet the financial obligations of the JUA, which are not debts, liabilities or obligations of the State. The FAIR Act's revenue raising measures include a premium tax surcharge imposed upon insurers doing business in New Jersey that is intended to yield a total of $300 million dollars over a three year period commencing in 1990. The fiscal year 1993 budget does not reflect the anticipated revenues from the premium tax surcharge because the revenues are to be applied by statute to the JUA financial obligations. The FAIR Act also provides for the making of assessments by the New Jersey Property Liability Insurance Guaranty Association upon property and casualty liability insurers in order to raise $160 million dollars per year for the period 1990 to 1997.

Litigation challenging various portions of the FAIR Act remains pending. On May 16, 1991, the Supreme Court of New Jersey decided State Farm Mutual Automobile Insurance Company v. Fortunato upholding the facial constitutionality of the surtax and assessment provisions of the FAIR Act. In the Matter of American Reliance, the Appellate Division held that insurers who did not write private passenger automobile insurance could be assessed pursuant to the FAIR Act. Although successful in that case, certain 'as applied' challenges have been brought. Recently, litigation was filed in the Mercer County Superior

Court-Chancery Division, by Allstate and State Farm alleging that their



constitutional rights have been violated and that they are entitled to refunds of FAIR Act surtaxes and assessments.

An additional provision of the FAIR Act, N.J.S.A. 17:33B-10, provides funding for the State's costs, including attorney's fees, in maintaining any action against the servicing carriers of the New Jersey Automobile Full Insurance Underwriting Association ('JUA') from the JUA or the New Jersey Automobile Insurance Guaranty Fund ('Automobile Fund'). Currently, the administrative restitution action, Jackson v. Aetna, et al., seeks restitution from the JUA's servicing carriers for losses incurred by the JUA due to the carriers' alleged mishandling of underwriting and claims adjustment on behalf of the JUA. The State's funding for this action and the supplemental financial, claim, underwriting and operational examinations of the servicing carriers which are needed are currently being paid by the JUA through funds supplied in whole or in part by the Automobile Fund. The servicing carriers have challenged this funding mechanism on appeals pending before the Appellate Division In the Matter of The Commissioner of Insurance's Certification of Amendment to the New Jersey Automobile Full Insurance Underwriting Association Plan of Operation, A-5514-89T1. This challenge was rejected by the Court and there has been no subsequent litigation on this issue.

TORT, CONTRACT AND OTHER CLAIMS

At any given time, there are various numbers of claims and cases pending against the State, State agencies and employees, seeking recovery of monetary damages that are primarily paid out of the fund created pursuant to the New Jersey Tort Claims Act (N.J.S.A. 59:1-1, et seq.). The State does not formally estimate its reserve representing potential exposure for these claims and cases. The State is unable to estimate its exposure for those claims and cases. An independent study estimated an aggregate potential exposure of $50 million for tort claims pending as of January 1, 1982. It is estimated that were a similar study made of claims currently pending, the amount of such estimated exposure would be somewhat higher. In addition, at any given time, there are various numbers of contract and other claims against the State and State agencies, seeking recovery of monetary damages or other relief which, if granted, would require the expenditure of funds. The State is unable to estimate its exposure for these claims.

Parlavecchio v. Florio. In this case, which was filed in Superior Court on June 17, 1991, Essex County seeks to invalidate the State's method of funding the judicial system. Under the current funding procedures most costs associated

with the judicial system are borne by the counties, and are allocated on a county-by-county basis. The complaint alleges that this funding system discriminates against urban counties and violates the provision in the State Constitution establishing a 'unified' court system. Plaintiffs also raise equal protection, substantive due process and takings claims, and seek to require the State to assume sole responsibility for funding the judicial system. The trial court has granted the State summary judgment, and the matter is now on appeal.

United Wire, Metal and Machine Health and Welfare Fund, et al. v. Morristown Memorial Hospital, et. al. Several Union welfare benefit plans brought this action in Federal District Court challenging some provisions of New Jersey's hospital rate-setting system. The Plaintiffs claimed that the provisions in the State rate scheme for a hospital bill uncompensated care add-on, a Medicare cost shift, payer discounts and payer appeals violated their federal and State constitutional and statutory rights. The Plaintiffs also asked the Court to order restitution for any illegal payments made under protest. On May 27, 1992, the District Court ruled that the four challenged provisions of the rate-setting system were preempted by the federal Employee Retirement Income Security Act ('ERISA') and, therefore, are unenforceable against participants in ERISA benefit plans. However, the Court dismissed the Plaintiffs' constitutional attacks on the rate scheme and declined for jurisdictional reasons to rule on restitution claim on the ground it should be heard, if at all, by a State court. State officials responsible for administering the rate system and the New Jersey Hospital Association appealed to the federal Third Circuit Court of Appeals from the ERISA-based aspects of the decision and obtained a stay of the District Court's ruling pending the outcome of the appeal. The Plaintiffs filed cross-appeals from the dismissal of their federal constitutional claimed that the rate scheme constitutes a taking of property without just compensation and the claim for restitution. The appeals remain pending. A decision from the Third Circuit on the appeals that upholds the District Court's ERISA preemption decision would



raise serious doubts about the continued viability of New Jersey's rate-setting system. The District Court's decision, if upheld, may result in reduced payments to disproportionate share hospitals and thus, potentially, the loss of matching federal funds. The Third Circuit Court of Appeals rendered its decision and a petition for certiorari is presently pending before the United States Supreme Court. The New Jersey Hospital Association has also filed a related action in State court that seeks to enjoin certain Plaintiffs, plan participants and other payors from paying less than the charges mandated by the challenged rate system.

Communication Workers of America, AFL-CIO ('CSA'), et al. v. Jim Florio, et

al. This case is pending in the Supreme Court of New Jersey. The Fiscal Year 1993 Appropriations Act includes provisions relating to certain reductions in personnel by various State agencies. Subsequent to its enactment, the Attorney General advised the Governor that these provisions were to be read so as to permit the exercise of certain discretion by the State agencies in making such personnel decisions. CWA has filed suit, alleging, among other things, that the Appropriations Act provisions in questions were intended by the Legislature as mandatory and that they require that the reductions be accomplished through cuts in unclassified personnel earning in excess of $50,000 per year. CWA alleges further that proposed agency reductions in personnel fail to comply with this requirement, and makes certain other claims, including an alleged failure by the agencies to notify the Joint Budget Oversight Committee of the reductions. CWA seeks relief enjoining defendants from actions which it alleges are in violation of the Appropriations Act and directing the rescission of all layoff notices allegedly served in violation of the Act. The CWA case was consolidated with two similar cases brought by several State legislators and the plaintiffs sought a stay of the layoffs scheduled to take effect on October 2, 1992. The Appellate Division denied the stay, but a single Justice of the Supreme Court granted a stay of the layoffs pending all Court action on October 5. On October 5, 1992, the Supreme Court entered an order denying the stay and the layoffs took effect as of 5:00 p.m. on October 5. The appeals were argued on their merits before the Supreme Court and in January 1993, the Supreme Court upheld the Governor's position.

Adverse judgments in these and other matters could have the potential for either a significant loss of revenue or a significant unanticipated expenditure by the State.

At any given time, there are various numbers of claims and cases pending against the State, State agencies and employees seeking recovery of monetary damages that are primarily paid out of the fund created pursuant to the New Jersey Tort Claims Act. In addition, at any given time, there are various numbers of contract claims against the State and State agencies seeking recovery of monetary damages. The State is unable to estimate its exposure for these claims.

VIRGINIA TRUST

Investors should be aware of certain factors that might affect the financial condition of issuers of Virginia municipal securities.

Bonds in the Virginia Trust may include primarily debt obligations of the subdivisions of the Commonwealth of Virginia issued to obtain funds for various public purposes, including the construction of a wide range of public facilities such as airports, bridges, highways, schools, streets and water and sewer works. Other purposes for which bonds may be issued include the obtaining of funds to lend to public or private institutions for the construction of facilities such

as educational, hospital, housing, and solid waste disposal facilities. The latter are generally payable from private sources which, in varying degrees, may depend on local economic conditions, but are not necessarily affected by the ability of the Commonwealth of Virginia and its political subdivisions to pay their debts. Therefore, the general risk factors as to the credit of the State or its politicial subdivision discussed herein may not be relevant to the Virginia Trust.

The Constitution of Virginia limits the ability of the Commonwealth to create debt. The Constitution requires a balanced budget. The Commonwealth has maintained a high level of fiscal stability for many years due in large part to conservative financial operations and diverse sources of revenue. The economy of the Commonwealth of Virginia is based primarily on manufacturing, the government sector (including defense), agriculture, mining and tourism. The Federal Base Closing

Commission has ordered that a number of military facilities in Virginia be closed or reduced. As a result of recessionary conditions, the Commonwealth has experienced for the past several years severe revenue shortfalls, which have necessitated cutbacks of expenditures in the budgets for the 1992-1994 biennia. In the 1994 General Assembly session, the 1992-1994 budget was amended to reflect $96,000,000 in additional revenues.

In Davis v. Michigan (decided March 28, 1989), the United States Supreme Court ruled unconstitutional Michigan's statute exempting from state income tax the retirement benefits paid by the state or local governments and not exempting retirement benefits paid by the federal government. In Harper v. Virginia Department of Taxation (decided June 18, 1993), the United States Supreme Court held, in a suit involving claims for refunds by Federal retirees living in Virginia that Virginia State income tax Statutes violated the principles of Davis v. Michigan, but remanded for further relief so long as the relief was consistent with Federal due process. If the courts ultimately rule that the Commonwealth must make full refunds of taxes imposed prior to Davis v. Michigan, the State has estimated that the potential financial impact on the Commonwealth based on its review of claims for refunds by federal pensioners (including interest payable calculated as of December 31, 1993) is approximately $700 million.

The Commonwealth currently has a Standard & Poor's rating of AAA and a Moody's rating of Aaa on its general obligation bonds. There can be no assurance that the economic conditions on which these ratings are based will continue or that particular bond issues may not be adversely affected by changes in economic or political conditions. Further, the credit of the Commonwealth is not material to the ability of political subdivisions and private entities to make payments on the obligations described below.

General obligations of cities, towns or counties in Virginia are payable

from the general revenues of the entity, including ad valorem tax revenues on property within the jurisdiction. The obligation to levy taxes could be enforced by mandamus, but such a remedy may be impracticable and difficult to enforce. Under section 15.1-227.61 of the Code of Virginia of 1950, as amended, a holder of any general obligation bond in default may file an affidavit setting forth such default with the Governor. If, after investigating, the Governor determines that such default exists, he is directed to order the State Comptroller to withhold State funds appropriated and payable to the entity and apply the amount so withheld to unpaid principal and interest. The Commonwealth, however, has no obligation to provide any additional funds necessary to pay such principal and interest.

Revenue bonds issued by Virginia political subdivisions include (1) revenue bonds payable exclusively from revenue producing governmental enterprises and (2) industrial revenue bonds, college and hospital revenue bonds and other 'private activity bonds' which are essentially non-governmental debt issues and which are payable exclusively by private entities such as non-profit organizations and business concerns of all sizes. State and local governments have no obligation to provide for payment of such private activity bonds and in many cases would be legally prohibited from doing so. The value of such private activity bonds may be affected by a wide variety of factors relevant to particular localities or industries, including economic developments outside of Virginia.

Virginia municipal securities that are lease obligations are customarily subject to 'non-appropriation' clauses which allow the municipality to terminate its lease obligations if moneys to make the lease payments are not appropriated for that purpose. See 'Objectives'. Legal principles may restrict the enforcement of provisions in lease financing limiting the municipal issuer's ability to utilize property similar to that leased in the event that debt service is not appropriated.

No Virginia law expressly authorizes Virginia political subdivisions to file under Chapter 9 of the United States Bankruptcy Code, but recent case law suggests that the granting of general powers to such subdivisions may be sufficient to permit them to file voluntary petitions under Chapter 9. Bonds payable exclusively by private entities may be subject to the provisions of the United States Bankruptcy Code other than Chapter 9.

Virginia municipal issuers are generally not required to provide ongoing information about their finances and operations to holders of their debt obligations, although a number of cities, counties and other issuers prepare annual reports.



Although revenue obligations of the Commonwealth or its political subdivisions may be payable from a specific project or source, including lease rentals, there can be no assurance that future economic difficulties and the resulting impact on Commonwealth and local government finances will not adversely affect the market value of the portfolio of the Fund or the ability of the the respective obligors to make timely payments of principal and interest on

such obligations.

The Sponsors believe the information summarized above describes some of the more significant events relating to the Virginia Trust. Sources of such information are the official statements of the issuers located in the Commonwealth of Virginia, as well as other publicly available documents and information. While the Sponsors have not independently verified such information, they have no reason to believe it is not correct in all material respects.

The Sponsors believe that the information summarized above describes some of the more significant aspects relating to the Trusts. The sources of such information are the official statements of issuers located in New York, New Jersey and Virginia as well as other publicly available documents. While the Sponsors have not independently verified this information, they have no reason to believe that such information is not correct in all material respects.

## PUBLIC OFFERING

### OFFERING PRICE

The Public Offering Price per Unit of each Trust is computed by adding to the aggregate offering price of the Bonds in the Trust divided by the number of Units outstanding an amount equal to (i) for the Insured Trusts and the State Trust: 5.152% of the aggregate offering price of the Bonds per Unit which is equal to 4.9% of the Public Offering Price or (ii) for the Municipal Trust: 4.058% of the aggregate offering price of the Bonds per Unit which is equal to 3.9% of the Public Offering Price. A proportionate share of accrued interest on the Bonds from the First Settlement Date to the expected date of settlement for the Units is added to the Public Offering Price. Accrued interest is the accumulated and unpaid interest on a Bond from the last day on which interest was paid and is accounted for daily by the Trust at the initial daily rate set forth under 'Summary of Essential Information' in Part A. The Public Offering Price can vary on a daily basis from the amount stated on the cover of this Prospectus in accordance with fluctuations in the prices of the Bonds and the price to be paid by each investor will be computed as of the date the Units are purchased.

The aggregate offering side evaluation of the Bonds is determined by the Evaluator (a) on the basis of current offering prices of the Bonds, (b) if an offering price is not available for any particular Bond, on the basis of current offering prices for comparable bonds, (c) by determining the value of the Bonds on the offer side of the market by appraisal, or (d) by any combination of the above. Insurance does not guarantee the market value of the Bonds or the Units in the Insured Trusts, and while Bond insurance represents an element of market value in regard to insured Bonds, its exact effect, if any, on market value cannot be predicted. This evaluation is made each business day during the initial public offering as of 4 P.M. New York Time, effective for all orders received during the preceding 24-hour period. With respect to the initial evaluation of the offering prices of certain Bonds which at the Date of Deposit

were subject to syndicate offering period pricing restrictions, it is the practice of the Evaluator to determine such evaluation on the basis of the syndicate offering price, unless other factors cause the Evaluator to conclude that such syndicate offering price does not then accurately reflect the free market value of such Bonds, in which case the Evaluator will also take into account the other criteria described above for the purpose of making its determination.

The Evaluator may obtain current bid or offering prices for the Bonds from investment dealers or brokers (including the Sponsors) that customarily deal in tax-exempt obligations or from any other reporting service or source of information which the Evaluator deems appropriate.



### ACCRUED INTEREST

Accrued interest is the accumulation of unpaid interest on a bond from the last day on which interest thereon was paid. Interest on Bonds in each Trust is actually paid semi-annually to the Trust. However, interest on the Bonds in each Trust is accounted for daily on an accrual basis. Because of this, each Trust always has an amount of interest earned but not yet collected by the Trustee because of non-collected coupons. For this reason, the Public Offering Price of Units will have added to it the proportionate share of accrued and undistributed interest to date of settlement.

In an effort to reduce the amount of accrued interest which would otherwise have to be paid in addition to the Public Offering Price on the sale of Units to the public, the Trustee will advance the amount of accrued interest as of the First Settlement Date as set forth in the 'Summary of Essential Information' in Part A and the same will be distributed to the Sponsors as the Certificateholder of record as of the First Settlement Date. (See 'Summary of Essential Information' in Part A.) Consequently, the amount of accrued interest to be added to the Public Offering Price of Units will include only accrued interest from the First Settlement Date to date of settlement, less any distributions from the Interest Account subsequent to the First Settlement Date. Thus, since the First Settlement Date is the date of settlement for anyone ordering Units on the Date of Deposit, no accrued interest will be added to the Public Offering Price of Units ordered on the Date of Deposit.

Except through an advancement of its own funds, the Trustee will have no cash for distribution to Certificateholders until it receives interest payments on the Bonds in each Trust. The Interest Account during the initial months of each Trust will include some cash representing interest which has been collected but will predominantly consist of uncollected accrued interest which is not available for distribution. Since the Trusts normally receive the interest on Bonds twice a year and the interest on the Bonds in the Trusts is accrued on a daily basis, the Trusts will have an amount of interest accrued but not actually received. However, due to advances by the Trustee, the Trustee will provide a first distribution between approximately 30 and 60 days after the Date of Deposit.

VOLUME AND OTHER DISCOUNTS

Units of the Trusts are available at a volume discount from the Public Offering Price during the initial public offering. This volume discount will result in a reduction of the sales charge applicable to such purchases. The amount of the volume discount and the approximate sales charge applicable to such purchases are as follows:

<TABLE>
<CAPTION>

| | | APPROXIMATE REDUCED SALES CHARGE | |
|---|---|---|---|
| NUMBER OF UNITS | DISCOUNT FROM PUBLIC OFFERING PRICE PER UNIT | INSURED, NAVIGATOR & VIRGINIA TRUSTS | MUNICIPAL TRUST |
| <S> | <C> | <C> | <C> |
| 100--249 | $ 2.50 | 4.66% | 3.66% |
| 250--499 | 5.00 | 4.42% | 3.42% |
| 500--749 | 7.50 | 4.18% | 3.18% |
| 750--999 | 10.00 | 3.94% | 2.94% |
| 1,000 and over | 15.00 | 3.45% | 2.46% |

</TABLE>

These discounts will apply to all purchases of Units by the same purchaser during the initial public offering period. Units purchased by the same purchasers in separate transactions during the initial public offering period will be aggregated for purposes of determining if such purchaser is entitled to a discount provided that such purchaser must own at least the required number of Units at the time such determination is made. Units held in the name of the spouse of the purchaser or in the name of a child of the purchaser under 21 years of age are deemed for the purposes hereof to be registered in the name of the purchaser. The discount is also applicable to a trustee or other fiduciary purchasing securities for a single trust estate or single fiduciary account.

Employees (and their immediate families) of Bear, Stearns & Co. Inc., Gruntal & Co., Incorporated, and of any underwriter of either Trust may, pursuant to employee benefit arrangements, purchase Units of such Trust at a price equal to the offering side evaluation of the underlying securities in such Trust during the initial offering period and at the bid side thereafter, divided by the number of Units outstanding plus a reduced charge of $10.00 per Unit. Such arrangements result in less selling effort and selling expenses than sales to employee groups of other companies. Resales or transfers of Units



purchased under the employee benefit arrangements may only be made through the Sponsors' secondary market, so long as it is being maintained.

DISTRIBUTION OF UNITS

During the initial offering period Units will be distributed by the

Sponsors, the Underwriters and dealers at the Public Offering Price plus accrued interest. (See 'Underwriting Syndicate' in Part A.) The initial offering period is thirty days and, unless all Units are sold prior thereto, the Sponsors may extend the offering period up to four additional successive thirty day periods.

The Sponsors intend to qualify the Units of the Navigator Trusts for sale in a limited number of States through the Underwriters and through dealers who are members of the National Association of Securities Dealers, Inc. Units may be sold to dealers at prices which represent a concession of up to $33 per Unit, subject to the Sponsors' right to change the dealers' concession from time to time. Such Units may then be distributed to the public by the dealers at the Public Offering Price then in effect. The Sponsors reserve the right to reject, in whole or in part, any order for the purchase of Units.

Underwriters and broker-dealers of the Trusts, banks and/or others are eligible to participate in a program in which such firms receive from the Sponsors a nominal award for each of their registered representatives who have sold a minimum number of units of unit investment trusts created by the Sponsors during a specified time period. In addition, at various times the Sponsors may implement other programs under which the sales forces of underwriters, brokers, dealers, banks and/or others may be eligible to win other nominal awards for certain sales efforts, or under which the Sponsors will reallow to any such underwriters, brokers, dealers, banks and/or others that sponsor sales contests or recognition programs conforming to criteria established by the Sponsors, or participate in sales programs sponsored by the Sponsors, an amount not exceeding the total applicable sales charges on the sales generated by such person at the public offering price during such programs. Also, the Sponsors in their discretion may from time to time pursuant to objective criteria established by the Sponsors pay fees to qualifying underwriters, brokers, dealers, banks and/or others for certain services or activities which are primarily intended to result in sales of Units of the Trust. Such payments are made by the Sponsors out of their own assets and not out of the assets of the Trusts. These programs will not change the price Unitholders pay for their Units or the amount that the Trusts will receive from the Units sold.

FREQUENT BUYER PROGRAM

Any dealer, underwriter, or firm whose total combined purchases of the Trust and other unit investment trusts sponsored by Bear, Stearns & Co. Inc. ('MST/EST Units') from Bear, Stearns & Co. Inc. in a single calendar month fall in any of the levels listed below, will be paid an additional concession.

<TABLE>
<CAPTION>

| AGGREGATE MONTHLY AMOUNT OF MST/EST UNITS SOLD AT PUBLIC OFFERING PRICE | ADDITIONAL CONCESSION (PER 1,000.00) SOLD |
|---|---|
| <S> | <C> |
| 1,000,000 but less than 2,000,000 | $ 0.50 |
| 2,000,000 but less than 4,500,000 | $ 1.00 |
| 4,500,000 but less than 7,000,000 | $ 1.50 |
| 7,000,000 or more | $ 2.00 |

</TABLE>

SPONSORS' AND UNDERWRITERS' PROFITS

The Sponsors and the Underwriters will receive a gross underwriting commission equal to (i) for the Insured Trusts and the State Trust: 4.9% of the Public Offering Price per Unit (equivalent to 5.152% of the net amount invested in the Bonds) or (ii) for the Municipal Trust: 3.9% of the Public Offering Price per Unit (equivalent to 4.058% of the net amount invested in the Bonds). Additionally, the Sponsors may realize a profit on the deposit of the Bonds in the Trusts representing the difference between the cost of the Bonds to the Sponsors and the cost of the Bonds to the Trusts (See 'Portfolios'). An element of such profit is the increased market value of the Bonds which resulted



from the difference between the market value of the uninsured Bonds purchased by the Sponsors and the market value of such Bonds after the Sponsors obtained insurance thereon. The Sponsors' profit was reduced by the cost of the Insurance Premiums on the Sponsor-Insured and Navigator Sponsor-Insured Bonds. (See 'Portfolio'.) The Sponsors or any Underwriter may realize profits or sustain losses with respect to Bonds deposited in the Trusts which were acquired from underwriting syndicates of which they were a member.

The Sponsors may have participated as a sole underwriter or manager, co-manager or member of underwriting syndicates from which some of the aggregate principal amount of the Bonds were acquired for the Trusts in the amounts set forth in Part A.

During the initial offering period the underwriting syndicate may also realize profits or sustain losses as a result of fluctuations after the Date of

Deposit in the offering prices of the Bonds and hence in the Public Offering Price received by the Sponsors and the Underwriters for the Units. Cash, if any, made available to the Sponsors prior to settlement date for the purchase of Units may be used in the Sponsors' business subject to the limitations of 17 CFR 240.15c3-3 under the Securities Exchange Act of 1934, and may be of benefit to the Sponsors.

In maintaining a market for the Units (see 'Sponsors Repurchase') the Sponsors will realize profits or sustain losses in the amount of any difference between the price at which they buy Units and the price at which they resell such Units.

Participants in the Total Reinvestment Plan can designate a broker as the recipient of a dealer concession (see 'Total Reinvestment Plan').

COMPARISON OF PUBLIC OFFERING PRICE, SPONSORS' REPURCHASE PRICE AND REDEMPTION PRICE

Although the Public Offering Price of Units of each Trust will be determined on the basis of the current offering prices of the Bonds in such Trust, the value at which Units may be redeemed or sold in the secondary market will be determined on the basis of the current bid prices of such Bonds. On the Date of Deposit, the Public Offering Price and the Sponsors' Initial Repurchase Price per Unit of the Trusts (each based on the offering side evaluation of the Bonds in the Trust) each exceeded the Redemption Price and the Sponsors' secondary market Repurchase Price per Unit (based upon the current bid side evaluation of the Bonds in the Trust) by the amounts shown under 'Summary of Essential Information'. In the past, the bid prices of similar Bonds have been lower than the offering prices by as much as 3% or more of principal amount in the case of inactively traded Bonds or as little as 1/2 of 1% in the case of actively traded Bonds, but the difference between such offering and bid prices has averaged about 1 1/2% to 2% of principal amount. On the Date of Deposit, the bid side evaluation for each Trust was lower than the offering side evaluation for that Trust by the amount set forth in Part A. For this reason, among others (including fluctuations in the market prices of such Bonds and the fact that the Public Offering Price includes the applicable sales charge), the amount realized by a Certificateholder upon any redemption or Sponsor repurchase of Units may be less than the price paid for such Units. See 'Sponsors Repurchase.'

ESTIMATED LONG TERM RETURN AND ESTIMATED CURRENT RETURN

Units of each Trust are offered to investors on a 'dollar price' basis (using the computation method previously described under 'Public Offering Price') as distinguished from a 'yield price' basis often used in offerings of tax exempt bonds (involving the lesser of the yield as computed to maturity of bonds or to an earlier redemption date). Since they are offered on a dollar price basis, the rate of return on an investment in Units of each Trust is measured in terms of 'Estimated Current Return' and 'Estimated Long Term Return'.

Estimated Long Term Return is calculated by: (1) computing the yield to maturity or to an earlier call date (whichever results in a lower yield) for each Bond in a Trust's portfolio in accordance with accepted bond practices, which practices take into account not only the interest payable on the Bond but also the amortization of premiums or accretion of discounts, if any; (2) calculating the average of the yields for the Bonds in each Trust's portfolio by weighing each Bond's yield by the market value of



the Bond and by the amount of time remaining to the date to which the Bond is priced (thus creating an average yield for the portfolio of each Trust); and (3) reducing the average yield for the portfolio of each Trust in order to reflect estimated fees and expenses of that Trust and the maximum sales charge paid by Unitholders. The resulting Estimated Long Term Return represents a measure of the return to Unitholders earned over the estimated life of each Trust. The Estimated Long Term Return as of the day prior to the Date of Deposit is stated for each Trust under 'Summary of Essential Information' in Part A.

Estimated Current Return is computed by dividing the Estimated Net Annual Interest Income per Unit by the Public Offering Price per Unit. In contrast to the Estimated Long Term Return, the Estimated Current Return does not take into account the amortization of premium or accretion of discount, if any, on the Bonds in the portfolios of each Trust. Moreover, because interest rates on Bonds purchased at a premium are generally higher than current interest rates on newly issued bonds of a similar type with comparable rating, the Estimated Current Return per Unit may be affected adversely if such Bonds are redeemed prior to their maturity. On the day prior to the Date of Deposit, the Estimated Net Annual Interest Income per Unit divided by the Public Offering Price resulted in the Estimated Current Return stated for each Trust under 'Summary of Essential Information' in Part A.

The Estimated Net Annual Interest Income per Unit of each Trust will vary with changes in the fees and expenses of the Trustee and the Evaluator applicable to each Trust and with the redemption, maturity, sale or other disposition of the Bonds in each Trust. The Public Offering Price will vary with changes in the offering prices (bid prices in the case of the secondary market) of the Bonds. Therefore, there is no assurance that the present Estimated Current Return or Estimated Long Term Return will be realized in the future.

A schedule of cash flow projections is available from the Sponsors upon request.

RIGHTS OF CERTIFICATEHOLDERS

CERTIFICATES

Ownership of Units of each Trust is evidenced by registered Certificates executed by the Trustee and the Sponsors. Certificates may be issued in denominations of one or more Units and will bear appropriate notations on their faces indicating which plan of distribution has been selected by the Certificateholder. Certificates are transferable by presentation and surrender to the Trustee properly endorsed and/or accompanied by a written instrument or instruments of transfer. Although no such charge is presently made or contemplated, the Trustee may require a Certificateholder to pay $2.00 for each Certificate reissued or transferred and any governmental charge that may be imposed in connection with each such transfer or interchange. Mutilated, destroyed, stolen or lost Certificates will be replaced upon delivery of satisfactory indemnity and payment of expenses incurred.

INTEREST AND PRINCIPAL DISTRIBUTIONS

Interest received by each Trust is credited by the Trustee to an Interest Account for such Trust and a deduction is made to reimburse the Trustee without interest for any amounts previously advanced. Proceeds representing principal received from the maturity, redemption, sale or other disposition of the Bonds are credited to a Principal Account of such Trust.

Distributions to each Certificateholder from the Interest Account are computed as of the close of business on each Record Date for the following Payment Date and consist of an amount substantially equal to one-twelfth, one-half or all of such Certificateholder's pro rata share of the Estimated Net Annual Interest Income in the Interest Account, depending upon the applicable plan of distribution. Distributions from the Principal Account of each Trust (other than amounts representing failed contracts, as previously discussed) will be computed as of each semi-annual Record Date, and will be made to the Certificateholders of such Trust on or shortly after the next semi-annual Payment Date. Proceeds representing principal received from the disposition of any of the Bonds between a Record Date and a Payment Date which are not used for redemptions of Units will be held in the Principal Account and not distributed

until the second succeeding semi-annual Payment Date. No distributions



will be made to Certificateholders electing to participate in the Total Reinvestment Plan. Persons who purchase Units between a Record Date and a Payment Date will receive their first distribution on the second Payment Date after such purchase.

Because interest payments are not received by the Trusts at a constant rate throughout the year, interest distributions may be more or less than the amount credited to the Interest Account as of a given Record Date. For the purpose of minimizing fluctuations in the distributions from the Interest Account, the Trustee will advance sufficient funds, without interest, as may be necessary to provide interest distributions of approximately equal amounts. The Trustee's fee takes into account the costs attributable to the outlay of capital needed to make such advances. All funds in respect of the Bonds received and held by the Trustee prior to distribution to Certificateholders may be of benefit to the Trustee and do not bear interest to Certificateholders.

In order to acquire the 'when issued' Bonds contracted for by the Trusts, if any, it may be necessary to pay on the settlement dates for delivery of such Bonds amounts covering accrued interest on such Bonds which exceed (1) the amounts paid by Certificateholders and (2) the amount which will be made available under the letter of credit furnished by the Sponsors on the Date of Deposit for the purchase of such Bonds. The Trustee has agreed to pay for any amounts necessary to cover any such excess and will be reimbursed therefor, without interest, when funds become available from interest payments on the particular Bonds with respect to which such payments may have been made. Also, since interest on the Bonds in the portfolio of such Trust does not accrue to the benefit of Certificateholders until their respective dates of delivery, the Trustee will, in order to provide income to the Certificateholders for this period of non-accrual, reduce its fee applicable to each Trust in an amount equal to the amount of interest that would have so accrued on such Bonds in such Trust between the date of settlement for the Units and such dates of delivery. To the extent such non-accrual is in excess of the reduction in the Trustee's fee, the amount of such excess will be distributed to Certificateholders as a return of capital.

As of the first day of each month, the Trustee will deduct from the Interest Account of each Trust, and, to the extent funds are not sufficient therein, from the Principal Account of such Trust, amounts necessary to pay the expenses of such Trust (as determined on the basis set forth under 'Trust Expenses and Charges'). The Trustee also may withdraw from said accounts such amounts, if any, as it deems necessary to establish a reserve for any applicable taxes or other governmental charges that may be payable out of such Trust. Amounts so withdrawn shall not be considered a part of such Trust's assets until such time as the Trustee shall return all or any part of such amounts to the appropriate accounts. In addition, the Trustee may withdraw from the Interest and Principal Accounts such amounts as may be necessary to cover purchases of Replacement Bonds and redemptions of Units by the Trustee.

The estimated monthly or semi-annual interest distribution per Unit will initially be in the amount shown under 'Summary of Essential Information' in Part A and will change and may be reduced as Bonds mature or are redeemed, exchanged or sold, or as expenses of each Trust fluctuate. No distribution need be made from the Principal Account until the balance therein is an amount sufficient to distribute $1.00 per Unit.

DISTRIBUTION ELECTIONS

At the time of purchase, during the initial offering period, investors may choose either a monthly, semi-annual or annual interest distribution plan. When placing an order for Units an individual must indicate the distribution plan desired or his order will not be accepted. All Certificateholders purchasing Units during the initial public offering period and prior to the first Record Date will receive the first interest distribution regardless of the distribution plan chosen. Thereafter, Record Dates for monthly interest distributions will be the first day of each month and the first day of June and December for semi-annual distributions. Payment Dates will be the fifteenth day of each month following the respective Record Dates.

Certificateholders purchasing Units in the secondary market will initially receive distributions in accordance with the elections of the prior owner. After the initial public offering, every October each



Certificateholder may change his distribution election by notifying the Trustee in writing of such change between October 1 and November 1 of each year. (Certificateholders deciding to change their election should contact the Trustee by calling 1-800-428-8890 for information regarding the procedures that must be followed in connection with this written notification of the change of election.) Failure to notify the Trustee on or before November 1 of each year will result in a continuation of the plan for the following 12 months.

RECORDS

The Trustee shall furnish Certificateholders in connection with each distribution a statement of the amount of interest, if any, and the amount of other receipts, if any, which are being distributed, expressed in each case as a dollar amount per Unit. Within a reasonable time after the end of each calendar year the Trustee will furnish to each person who at any time during the calendar year was a Certificateholder of record, a statement showing (a) as to the Interest Account: interest received (including any earned original issue discount and amounts representing interest received upon any disposition of Bonds), amounts paid for purchases of Replacement Bonds and redemptions of Units, if any, deductions for applicable taxes and fees and expenses of such Trust, and the balance remaining after such distributions and deductions, expressed both as a total dollar amount and as a dollar amount representing the pro rata share of each Unit outstanding on the last business day of such calendar year; (b) as to the Principal Account: the dates of disposition of any

Bonds and the net proceeds received therefrom (including any unearned original issue discount but excluding any portion representing accrued interest), deductions for payments of applicable taxes and fees and expenses of such Trust, amounts paid for purchases of Replacement Bonds and redemptions of Units, if any, and the balance remaining after such distributions and deductions, expressed both as a total dollar amount and as a dollar amount representing the pro rata share of each Unit outstanding on the last business day of such calendar year; (c) a list of the Bonds held and the number of Units outstanding on the last business day of such calendar year; (d) the Redemption Price per Unit based upon the last computation thereof made during such calendar year; and (e) amounts actually distributed to Certificateholders during such calendar year from the Interest and Principal Accounts, separately stated, of such Trust, expressed both as total dollar amounts and as dollar amounts representing the pro rata share of each Unit outstanding on the last business day of such calendar year.

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

## TAX STATUS

All Bonds to be acquired by each Trust pursuant to the contracts of purchase were accompanied by copies of opinions of bond counsel to the issuing governmental authorities given at the time of original delivery of the Bonds to the effect that the interest thereon is currently exempt from regular federal income tax, but such interest may be subject to the federal corporate and/or individual alternative minimum tax except as provided below. The Bonds to be acquired by the Navigator Trusts and the State Trusts pursuant to contracts to purchase were accompanied by opinions of counsel to the issuing governmental authorities given at the time of original delivery of the Bonds to the effect that interest derived from the Bonds is exempt from state and local income tax when received by persons subject to state and local income taxation in a state in which the issuers of the Bonds are located. Neither the Sponsors nor the Trustee nor their respective counsel have made any review of the proceedings relating to the issuance of the Bonds or the bases for such opinions and express no opinion as to these matters, and neither the Trustee nor the Sponsors nor their respective counsel have made an independent examination or verification that the federal, state or local income tax status of the Bonds has not been altered since the time of the original delivery of those opinions.

The Revenue Reconciliation Act of 1993 ('P.L. 103-66') was recently enacted. P.L. 103-66 increases maximum marginal income tax rates for individuals and corporations (generally effective for taxable



years beginning after December 31, 1992), extends the authority to issue certain categories of tax-exempt bonds (qualified small issue bonds and qualified mortgage bonds), limits the availability of capital gain treatment for tax-exempt bonds purchased at a market discount, increases the amount of Social Security benefits subject to tax (effective for taxable years beginning after December 31, 1993) and makes a variety of other changes. Prospective investors are urged to consult their own tax advisors as to the effect of P.L. 103-66 on an investment in Units.

In rendering the opinion set forth below, counsel has examined the Agreement, the final form of Prospectus that includes this opinion (the 'Prospectus') and the documents referred to therein, among others, and has relied on the validity of said documents and the accuracy and completeness of the facts set forth therein.

In the opinion of Battle Fowler, counsel for the Sponsors, under existing law:

> The Trusts are not associations taxable as corporations for federal income tax purposes under the Code, and income received by the Trusts that consists of interest excludable from gross income under the Code will be excludable from the regular federal gross income of the Certificateholders of such Trusts.
>
> Each Certificateholder will be considered the owner of a pro rata portion of a Trust under Section 676(a) of the Code. Thus, each Certificateholder will be considered to have received his pro rata share of Bond interest when it is received by that Trust, and the net income distributable to Certificateholders that is exempt from regular federal income tax when received by that Trust will constitute tax-exempt income for regular federal income tax purposes when received by the Certificateholders.
>
> Gain (other than any earned original issue discount) realized on a sale or redemption of the Bonds or on a sale of a Unit is, however, includable in gross income for regular federal income tax purposes, generally as capital gain, although gain on the disposition of a Bond or a Unit purchased at a market discount generally will be treated as ordinary income, rather than capital gain, to the extent of accrued market discount. (It should be noted in this connection that such gain does not include any amounts received in respect of accrued interest.) Such gain may be long or short-term gain depending on the holding period of the Bonds. Capital assets acquired must be held for more than one year to qualify for long-term capital gain treatment. Long-term capital gains are generally taxed at the same rates applicable to ordinary income, although individuals who realize long-term capital gains will be subject to a maximum tax rate of 28% on such gain, rather than the 'regular' maximum rate of 39.6%. Capital losses are deductible to the extent of capital gains; in addition, up to $3,000 of capital losses of non-corporate Certificateholders may be deducted against ordinary income.
>
> Each Certificateholder of a Trust will realize taxable income or loss

when such Trust disposes of a Bond (whether by sale, exchange, redemption or payment at maturity), as if the Certificateholder had directly disposed of his pro rata share of such Bond. The gain or loss is measured by the difference between (i) the tax cost of such pro rata share and (ii) the amount received therefor. The Certificateholder's tax cost for each Bond is determined by allocating the total tax cost of each Unit among all the Bonds held in that Trust (in accordance with the portion of such Trust

allocable to each Bond). In order to determine the amount of taxable gain or loss, the Certificateholder's amount received is similarly allocated at that time. The Certificateholder may exclude from the amount received any amounts that represent accrued interest or the earned portion of any original issue discount but may not exclude amounts attributable to market discount. Thus, when a Bond is disposed of by a Trust at a gain, taxable gain will equal the difference between (i) the amount received and (ii) the amount paid plus any original issue discount (limited, in the case of Bonds issued after June 8, 1980, to the portion earned from the date of acquisition to the date of disposition). Gain on the disposition of a Bond purchased at a market discount generally will be treated as ordinary income, rather than capital gain, to the extent of accrued market discount. No deduction is allowed for the amortization of bond premium on tax-exempt bonds such as the Bonds in computing regular federal income tax.



Original issue discount generally accrues based on the principle of compounding of accrued interest, not on a straight-line or ratable method, with the result that the amount of earned original issue discount is less in the earlier years and more in the later years of a bond term. The tax basis of a discount bond is increased by the amount of accrued, tax-exempt original issue discount thus determined. This method of calculation will produce higher capital gains (or lower losses) to a Certificateholder, as compared to the results produced by the straight-line method of accounting for original issue discount, upon an early disposition of a Bond by a particular Trust or of a Unit by a Certificateholder.

A Certificateholder may also realize taxable income or loss when a Unit is sold or redeemed. The amount received is allocated among all the Bonds in a particular Trust in the same manner as when that Trust disposes of Bonds and the Certificateholder may exclude accrued interest and the earned portion of any original issue discount (but not amounts attributable to market discount).

A portion of social security benefits is includable in gross income for taxpayers whose 'modified adjusted gross income' combined with a portion of their benefits exceeds a base amount. The base amount is $25,000 for an individual, $32,000 for a married couple filing a joint return and zero for married persons filing separate returns. Interest on tax-exempt bonds is to be added to adjusted gross income for purposes of computing the amount of benefits that are includable in gross income and determining whether an individual's income exceeds the base amount above which a portion of the benefits would be subject to tax. For taxable years beginning after December 31, 1993, the amount of Social Security benefits subject to tax will be increased.

A Certificateholder is required to include as an item of tax preference for purposes of the federal individual and corporate alternative minimum taxes all tax-exempt interest on 'private activity' bonds (other than Section 501(c)(3) bonds) issued after August 7, 1986. Corporate Certificateholders are required to include as an item of tax preference for purposes of the federal corporate alternative minimum tax 75 percent of the amount by which the adjusted current earnings (which will include all

tax-exempt interest) of the corporation exceeds the alternative minimum taxable income (determined without this tax preference item). Further, interest on the Bonds is includable in a 0.12% additional corporate minimum tax imposed by the Superfund Amendments and Reauthorization Act of 1986 for taxable years beginning before January 1, 1996. In addition, in certain cases, Subchapter S corporations with accumulated earnings and profits from Subchapter C years will be subject to a minimum tax on excess 'passive investment income' which includes tax-exempt interest. Corporate Certificateholders are urged to consult their own tax advisers regarding an investment in the Trust.

Under federal law, interest on Trust-held Bonds issued by authority of the Government of Puerto Rico is exempt from regular federal income tax, and state and local income tax in the United States and Puerto Rico.

The Trusts are not subject to the New York State Franchise Tax on Business Corporations or the New York City General Corporation Tax.

Under the personal income tax laws of the State and City of New York, the income of the New York Navigator Trust will be treated as the income of the Certificateholders. Interest on the Bonds of the New York Navigator Trust that is exempt from tax under the laws of the State and City of New York when received by the New York Navigator Trust will retain its status as tax-exempt interest to its Certificateholders. In addition, non-residents of New York City will not be subject to the New York City personal income tax on gains derived with respect to their Units of the New York Navigator Trust. Non-residents of New York State will not be subject to New York State personal income tax on such gains unless the Units are employed in a business, trade or occupation carried on in New York State.

Any proceeds received pursuant to the terms of the insurance on the Bonds that represent maturing interest on defaulted obligations will be excludable from federal gross income if, and to the same extent that, such interest would have been so excludable if paid by the issuers of such defaulted obligations.



In the opinion of Freeman, Zeller & Bryant, special counsel to the Sponsors on New Jersey tax matters, which opinion is made in reliance upon certain information and based on certain assumptions respecting the New Jersey Navigator Trust, under existing New Jersey law applicable to individuals who are New Jersey residents and New Jersey estates and trusts:

The New Jersey Navigator Trust will be recognized as a trust and not as an association taxable as a corporation. The New Jersey Navigator Trust will not be subject to the New Jersey Corporation Business Tax or the New Jersey Corporation Income Tax.

The income of the New Jersey Navigator Trust will be treated as income of the Certificateholders who are individuals, estates or trusts under the New Jersey Gross Income Tax Act, N.J.S.A. 54A:1-1 et seq. (the 'Act'). Interest on the Bonds that is exempt from tax under the Act when received by the New Jersey Navigator Trust will retain its status as tax-exempt

interest under the Act when distributed to Certificateholders who are individuals, estates or trusts.

Certificateholders who are individuals, estates or trusts will not be subject to the Act on any gain realized when the New Jersey Navigator Trust disposes of a Bond (whether by sale, exchange, redemption, or payment at maturity). Any loss realized on such disposition may not be utilized to offset gains realized by such Certificateholder on the disposition of assets the gain on which is subject to the New Jersey Gross Income Tax.

The sale, exchange or redemption of a Unit by a Certificateholder shall be treated as a sale or exchange of a Certificateholder's pro rata interest in the assets in the New Jersey Navigator Trust at the time of the transaction and any gain will be exempt from tax under the Act to the extent that the price received by the selling Certificateholder who is an individual, estate or trust does not exceed the Redemption Price. To the extent that the amount received by the Certificateholder exceeds the Redemption Price, any such gain will not be exempt from tax under the Act.

All proceeds representing interest on defaulted obligations derived by Certificateholders who are individuals, estates or trusts from an insurance policy, either paid directly to the Certificateholders or through the New Jersey Navigator Trust, are exempt from tax under the Act.

The Units of the New Jersey Navigator Trust may be taxable, in the estates of New Jersey residents under the New Jersey Transfer Inheritance Tax Law or the New Jersey Estate Tax Law.

In the opinion of Hunton & Williams, special counsel to the Sponsors for Virginia tax matters, under existing Virginia law applicable to individuals who are Virginia residents and assuming that the Virginia Trust is a grantor trust under the grantor trust rules of Sections 671-679 of the Code:

The Virginia Trust will be taxable as a grantor trust for Virginia income tax purposes with the result that income of the Virginia Trust will be treated as income of the Certificateholders of the Virginia Trust. Consequently, the Virginia Trust will not be subject to any income or corporate franchise tax imposed by the Commonwealth of Virginia, or its subdivisions, agencies or instrumentalities.

Interest on the Bonds in the Virginia Trust that is exempt from Virginia income tax when received by the Virginia Trust will retain its tax exempt status in the hands of the Certificateholders of the Virginia Trust.

A Certificateholder of the Virginia Trust will realize a taxable event when the Virginia Trust disposes of a Bond (whether by sale, exchange, redemption or payment at maturity) or when the Certificateholder redeems or sells his Units, and taxable gain for Federal income tax purposes may result in taxable gain for Virginia income tax purposes. Certain Bonds, however, may have been issued under Acts of the Virginia General Assembly which provide that all income from such Bond, including any profit from the sale thereof, shall be free from all taxation by the Commonwealth of

Virginia. To the extent that any such profit is exempt from Virginia income tax, any such profit received by the Virginia Trust will retain its tax exempt status in the hands of the Certificateholders of the Virginia Trust.

The exemption of interest on municipal obligations for federal income tax purposes does not necessarily result in exemption under the income tax laws of any state or political subdivision. In general, municipal bond interest exempt from federal income tax is taxable income to residents of the



several States under the tax laws of those jurisdictions unless the bonds are issued by the issuers located in that State or one of its political subdivisions. Earned original issue discount will be reportable for state and local tax purposes without a corresponding cash distribution. The laws of the several states and local taxing authorities vary with respect to the taxation of such obligations and each Certificateholder is advised to consult his own tax advisor as to the tax consequences of his Certificates under state and local tax laws.

In the case of Bonds that are IRBs or certain types of private activity bonds, the opinions of bond counsel to the respective issuing authorities indicate that interest on such Bonds is exempt from regular federal income tax. However, interest on such Bonds will not be exempt from regular federal income tax for any period during which such Bonds are held by a 'substantial user' of the facilities financed by the proceeds of such Bonds or by a 'related person' thereof within the meaning of the Code. Therefore, interest on any such Bonds allocable to a Certificateholder who is such a 'substantial user' or 'related person' thereof will not be tax-exempt. Furthermore, in the case of Bonds that qualify for the 'small issue' exemption, the 'small issue' exemption will not be available or will be lost if, at any time during the three-year period beginning on the later of the date the facilities are placed in service or the date of issue, all outstanding tax-exempt IRBs, together with a proportionate share of any present issue, of an owner or principal user (or related person) of the facilities was determined to have exceeded $40,000,000 on the date of issue. In the case of Bonds issued under the $10,000,000 'small issue' exemption, interest on such Bonds will become taxable if the face amount of the Bonds plus certain capital expenditures exceeds $10,000,000 within 3 years of the date of issue of such Bonds.

In addition, a Bond can lose its tax-exempt status as a result of other subsequent but unforeseeable events such as prohibited 'arbitrage' activities by the issuer of the Bond or the failure of the Bond to continue to satisfy the conditions required for the exemption of interest thereon from regular federal income tax. No investigation has been made as to the current or future owners or users of the facilities financed by the Bonds, the amount of such persons' outstanding tax-exempt IRBs, or the facilities themselves, and no assurance can be given that future events will not affect the tax-exempt status of the Bonds. Investors should consult their tax advisors for advice with respect to the effect of these provisions on their particular tax situation.

Interest on indebtedness incurred or continued to purchase or carry the Units is not deductible for regular federal income tax purposes. In addition, under rules used by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or carrying particular assets, the purchase of Units may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of Units. Similar rules are applicable for New York State and New York City tax purposes. Also, in the case of certain financial institutions that acquire Units, in general no deduction is allowed for interest expense allocable to the Units.

From time to time proposals have been introduced before Congress to restrict or eliminate the federal income tax exemption for interest on debt obligations similar to the Bonds in the Trusts, and it can be expected that similar proposals may be introduced in the future. The Sponsors cannot predict what additional legislation, if any, in respect of the tax status of interest on such debt obligations may be proposed by the federal executive branch or by members of Congress, nor can it predict which proposals, if any, might be enacted or whether any legislation, if enacted, would apply to the Bonds in the Trust.

In South Carolina v. Baker, the U.S. Supreme Court held that the federal government may constitutionally require states to register bonds they issue and subject the interest on such bonds to federal income tax if not registered, and that there is no constitutional prohibition against the federal government's taxing the interest earned on state or other municipal bonds. The Supreme Court decision affirms the authority of the federal government to regulate and control bonds such as the Bonds in the Trusts and to tax interest on such bonds in the future. The decision does not, however, affect the current exemption from taxation of the interest earned on the Bonds in the Trusts in accordance with Section 103 of the Code.

The opinions of counsel to the issuing governmental authorities to the effect that interest on the Bonds is exempt from regular federal income tax may be limited to law existing at the time the Bonds were issued, and may not apply to the extent that future changes in law, regulations or interpretations affect such Bonds. Investors are advised to consult their own tax advisors for advice with respect to the effect of any legislative changes.

## LIQUIDITY

### SPONSORS REPURCHASE

The Sponsors, although not obligated to do so, intend to maintain a secondary market for the Units and continuously to offer to repurchase the Units. The Sponsors' secondary market repurchase price after the initial public offering is completed will be based on the aggregate bid price of the Bonds in each Trust portfolio and will be the same as the redemption price. The aggregate bid price will be determined by the Evaluator on a daily basis after the initial public offering is completed and computed on the basis set forth under 'Trustee Redemption'. During the initial offering period, the Sponsors' repurchase price will be based on the aggregate offering price of the Bonds in each Trust. Certificateholders who wish to dispose of their Units should inquire of the Sponsors as to current market prices prior to making a tender for redemption. The Sponsors may discontinue repurchase of Units if the supply of Units exceeds demand, or for other business reasons. The date of repurchase is deemed to be

the date on which Certificates representing Units are physically received in proper form by Bear, Stearns & Co. Inc., 245 Park Avenue, New York, New York 10167, on behalf of the Sponsors. Units received after 4 P.M., New York time, will be deemed to have been repurchased on the next business day. In the event a market is not maintained for the Units, a Certificateholder may be able to dispose of Units only by tendering them to the Trustee for redemption.

Prospectuses relating to certain other bond trusts indicate an intention by the respective sponsors of those trusts, subject to change, to repurchase units on the basis of a price higher than the bid prices of the bonds in the trusts. Consequently, depending on the prices actually paid, the secondary market repurchase price of other trusts may be computed on a somewhat more favorable basis than the repurchase price offered by the Sponsors for Units of these Trusts, although in all bond trusts, the purchase price of a unit depends primarily on the value of the bonds in the trust portfolio.

Units purchased by the Sponsors in the secondary market may be reoffered for sale by the Sponsors at a price based on the aggregate bid price of the Bonds in that Trust plus (i) for the Insured Trusts and the State Trust; a 4.9% sales charge (5.152% of the net amount invested) plus net accrued interest or (ii) for the Municipal Trust: a 3.9% sales charge (4.058% of the net amount invested) plus net accrued interest. Any Units that are purchased by the Sponsors in the secondary market also may be redeemed by the Sponsors if it determines such redemption to be in its best interest.

The Sponsors may, under certain circumstances, as a service to Certificateholders, elect to purchase any Units tendered to the Trustee for redemption (see 'Trustee Redemption'). Factors which the Sponsors will consider in making a determination will include the number of Units of all Trusts which it has in inventory, its estimate of the salability and the time required to sell such Units and general market conditions. For example, if in order to meet redemptions of Units the Trustee must dispose of Bonds, and if such disposition cannot be made by the redemption date (seven calendar days after tender), the Sponsors may elect to purchase such Units. Such purchase shall be made by payment to the Certificateholder not later than the close of business on the redemption date of an amount equal to the Redemption Price on the date of tender.

### TRUSTEE REDEMPTION

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



Certificates representing Units to be redeemed must be delivered to the Trustee and must be properly endorsed or accompanied by proper instruments of transfer with signature guaranteed (or by providing satisfactory indemnity, as

in the case of lost, stolen or mutilated Certificates). Thus, redemptions of Units cannot be effected until Certificates representing such Units have been delivered by the person seeking redemption. (See 'Certificates'.) Certificateholders must sign exactly as their names appear on the faces of their Certificates. In certain instances the Trustee may require additional documents such as, but not limited to, trust instruments, certificates of death, appointments as executor or administrator or certificates of corporate authority.

Within seven calendar days following a tender for redemption, or, if such seventh day is not a business day, on the first business day prior thereto, the Certificateholder will be entitled to receive in cash an amount for each Unit tendered equal to the Redemption Price per Unit computed as of the Evaluation Time set forth under 'Summary of Essential Information' in Part A on the date of tender. The 'date of tender' is deemed to be the date on which Units are received by the Trustee, except that with respect to Units received after the close of trading on the New York Stock Exchange, the date of tender is the next day on which such Exchange is open for trading, and such Units will be deemed to have been tendered to the Trustee on such day for redemption at the Redemption Price computed on that day.

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

The Redemption Price per Unit is the pro rata share of each Unit in a Trust determined by the Trustee on the basis of (i) the cash on hand in the Trust or moneys in the process of being collected, (ii) the value of the Bonds in the Trust based on the bid prices of such Bonds and (iii) interest accrued thereon, less (a) amounts representing taxes or other governmental charges payable out of the Trust, (b) the accrued expenses of the Trust and (c) cash allocated for the distribution to Certificateholders of record as of the business day prior to the evaluation being made. The Evaluator may determine the value of the Bonds in the Trust (1) on the basis of current bid prices of the Bonds obtained from dealers or brokers who customarily deal in bonds comparable to those held by the Trust, (2) on the basis of bid prices for bonds comparable to any Bonds for which bid prices are not available, (3) by determining the value of the Bonds by appraisal, or (4) by any combination of the above. The Evaluator will determine the aggregate current bid price evaluation of the Bonds in the Trust, taking into account the market value of the Bonds insured under the Bond Insurance Policy, in the manner described as set forth under 'Public Offering--Offering Price.'

The Trustee is irrevocably authorized in its discretion, if the Sponsors do not elect to purchase a Unit tendered for redemption or if the Sponsors tender a Unit for redemption, in lieu of redeeming such Unit, to sell such Unit in the over-the-counter market for the account of the tendering Certificateholder at prices which will return to the Certificateholder an amount in cash, net after deducting brokerage commissions, transfer taxes and other charges, equal to or in excess of the Redemption Price for such Unit. The Trustee will pay the net proceeds of any such sale to the Certificateholder on the day he would otherwise be entitled to receive payment of the Redemption Price.

The Trustee reserves the right to suspend the right of redemption and to postpone the date of payment of the Redemption Price per Unit for any period during which the New York Stock Exchange is closed, other than customary weekend and holiday closings, or trading on that Exchange is restricted or during which (as determined by the Securities and Exchange Commission) an emergency exists as a result of which disposal or evaluation of the Bonds is not reasonably practicable, or for such other periods as the Securities and Exchange Commission may by order permit. The Trustee and the Sponsors are not liable to any person or in any way for any loss or damage which may result from any such suspension or postponement.



A Certificateholder who wishes to dispose of his Units should inquire of his bank or broker in order to determine if there is a current secondary market price in excess of the Redemption Price.

## TOTAL REINVESTMENT PLAN

Under the Total Reinvestment Plan (the 'Plan'), semi-annual Certificateholders of the Trusts (except Texas residents* ) may elect to have all interest and principal distributions, if any, with respect to their Units reinvested either in units of various series of 'Insured Municipal Securities Trust' or 'Municipal Securities Trust' which will have been created shortly before each semi-annual or annual Payment Date (a 'Primary Series') or, if units of a Primary Series are not available, in units of a previously formed series of a Trust which have been repurchased by the Sponsors in the secondary market or which constitute a portion of the Units of a Trust not sold by the Sponsors prior to such Payment Date (a 'Secondary Series') (Primary Series and Secondary Series are hereafter collectively referred to as 'Available Series'). Series of 'Municipal Securities Trust' do not have insurance. The first interest distribution to Certificateholders cannot be reinvested unless such distribution is scheduled for June 15 or December 15 in the case of semi-annual Certificateholders (each such date being referred to herein as the 'Plan

Reinvestment Date').

Under the Plan (subject to compliance with applicable blue sky laws), fractional units ('Plan Units') will be purchased from the Sponsors at a price equal to the aggregate offering price per Unit of the bonds in the Available Series portfolio during the initial offering of the Available Series or at the aggregate bid price per Unit of the Available Series if its initial offering has been completed, plus a sales charge equal to 3.627% of the net amount invested in such bonds or 3 1/2% of the Reinvestment Price per Plan Unit, plus accrued interest, divided by one hundred (the 'Reinvestment Price per Plan Unit'). All Plan Units will be sold at this reduced sales charge of 3 1/2% in comparison to the regular sales charge on primary and secondary market sales of Units in any series of 'Municipal Securities Trust'. Participants in the Plan will have the opportunity to designate, in the Authorization Form for the Plan, the name of a broker to whom the Sponsors will allocate a sales commission of 1 1/2% of the Reinvestment Price per Plan Unit, payable out of the 3 1/2% sales charge. If no such designation is made, the Sponsors will retain the sales commission.

Under the Plan, the entire amount of a participant's income and principal distributions will be reinvested. For example, a Certificateholder who is entitled to receive $130.50 interest income from a Trust would acquire 13.05 Plan Units assuming that the Reinvestment Price per Plan Unit, plus accrued interest, approximated $10 (Ten Dollars).

A semi-annual Certificateholder may join the Plan at the time he invests in Units of a Trust or any time thereafter by delivering to the Trustee an Authorization Form which is available from brokers, any Underwriter of the Units or the Sponsors. In order that distributions may be reinvested on a particular Plan Reinvestment Date, the Authorization Form must be received by the Trustee not later than the 15th day of the month preceding such Date. Authorization Forms not received in time for a particular Plan Reinvestment Date will be valid only for the second succeeding Plan Reinvestment Date. Similarly, a participant may withdraw from the program at any time by notifying the Trustee (see below). However, if written confirmation of withdrawal is not given to the Trustee prior to a particular distribution, the participant will be deemed to have elected to participate in the Plan with respect to that particular distribution and his withdrawal would become effective for the next succeeding distribution.

Once delivered to the Trustee, an Authorization Form will constitute a valid election to participate in the Plan with respect to Units purchased in the particular Trust (and with respect to Plan Units purchased with the distributions from the Units purchased in the Trust) for each subsequent distribution so long as the Certificateholder continues to participate in the Plan. However, if in the opinion of the Sponsors, an Available Series should materially differ from the particular Trust, the authorization will be voided and participants will be provided with both a notice of the material

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* Texas residents may elect to participate in the 'Total Reinvestment Plan for Texas Residents' hereinafter described.



change and a new Authorization Form which would have to be returned to the Trustee before the Certificateholder would again be able to participate in the Plan. The Sponsors anticipate that a material difference which would result in a voided authorization would include such facts as the inclusion of bonds in the Available Series portfolio the interest income on which was not exempt from all Federal income tax, or the inclusion of bonds which were not rated 'A' or better by Standard & Poor's Corporation or Moody's Investors Service, Inc. on the date such bonds were initially deposited in the Available Series portfolio.

The Sponsors have the option at any time to use units of a Secondary Series to fulfill the requirements of the Plan in the event units of a Primary Series are not available either because a Primary Series is not then in existence or because the registration statement relating thereto is not declared effective in sufficient time to distribute final prospectuses to Plan participants (see below). It should be noted that there is no assurance that the quality and diversification of the Bonds in any Available Series or the estimated current return thereon will be similar to that of these Trusts.

It is the Sponsors' intention that Plan Units will be offered on or about each semi-annual Record Date for determining who is eligible to receive distributions on the related Payment Date. Such Record Dates are June 1 and December 1 of each year for semi-annual Certificateholders. On each Record Date the Sponsors will send a current Prospectus relating to the Available Series being offered for the next Plan Reinvestment Date along with a letter which reminds each participant that Plan Units are being purchased for him as part of the Plan unless he notifies the Trustee in writing by that Plan Reinvestment Date that he no longer wishes to participate in the Plan. In the event a Primary Series has not been declared effective in sufficient time to distribute a final

Prospectus relating thereto and there is no Secondary Series as to which a registration statement is currently effective, it is the Sponsors' intention to suspend the Plan and distribute to each participant his regular semi-annual distribution. If the Plan is so suspended, it will resume in effect with the next Plan Reinvestment Date assuming units of an Available Series are then being offered.

To aid a participant who might desire to withdraw either from the Plan or from a particular distribution, the Trustee has established a toll free number (see below) for participants to use for notification of withdrawal, which must be confirmed in writing prior to the Plan Reinvestment Date. Should the Trustee be so notified, it will make the appropriate cash disbursement. Unless the withdrawing participant specifically indicates in his written confirmation that (a) he wishes to withdraw from the Plan for that particular distribution only, or (b) he wishes to withdraw from the Plan for less than all units of each series of 'Insured Municipal Securities Trust' which he might then own (and specifically identifies which series are to continue in the Plan), he will be deemed to have withdrawn completely from the Plan in all respects. Once a participant withdraws completely, he will only be allowed to again participate in the Plan by submitting a new Authorization Form. A sale or redemption of a portion of a participant's Plan Units will not constitute a withdrawal from the Plan with respect to the remaining Plan Units owned by such participant.

Unless a Certificateholder notifies the Trustee in writing to the contrary, each semi-annual Certificateholder who has acquired Plan Units will be deemed to have elected the semi-annual plan of distribution and to participate in the Plan with respect to distributions made in connection with such Plan Units. A participant who subsequently desires to have distributions made with respect to Plan Units delivered to him in cash may withdraw from the Plan with respect to such Plan Units and remain in the Plan with respect to units acquired other than through the Plan. Assuming a participant has his distributions made with respect to Plan Units reinvested, all such distributions will be accumulated with distributions generated from the Units of the particular Trust used to purchase such additional Plan Units. However, distributions related to units in other series of 'Municipal Securities Trust' will not be accumulated with the foregoing distributions for Plan purchases. Thus, if a person owns units in more than one series of 'Municipal Securities Trust' (which are not the result of purchases under the Plan), distributions with respect thereto will not be

aggregated for purchases under the Plan.

Although not obligated to do so, the Sponsors intend to maintain a market for the Plan Units and continuously to offer to purchase Plan Units at prices based upon the aggregate offering price of the



Bonds in the Available Series portfolio during the initial offering of the Available Series, or at the aggregate bid price of the Bonds of the Available Series after its initial offering has been completed. The Sponsors may discontinue such purchases at any time. The aggregate bid price of the underlying Bonds may be expected to be less than the aggregate offering price. In the event that a market is not maintained for Plan Units, a participant desiring to dispose of his Plan Units may be able to do so only by tendering such Plan Units to the Trustee for redemption at the Redemption Price of the full units in the Available Series corresponding to such Plan Units, which is based upon the aggregate bid price of the underlying bonds as described in the 'Municipal Securities Trust' Prospectus for the Available Series in question. If a participant wishes to dispose of his Plan Units, he should inquire of the Sponsors as to current market prices prior to making a tender for redemption to the Trustee.

Any participant may tender his Plan Units for redemption to the Available Series Trust. Participants may redeem Plan Units by making a written request to the Trustee, 770 Broadway, New York, New York 10003, on the Redemption Form supplied by the Trustee. The redemption price per Plan Unit will be determined as set forth in the Prospectus of the Available Series from which such Plan Unit was purchased following receipt of the request and adjusted to reflect the fact that it relates to a Plan Unit. There is no charge for the redemption of Plan Units.

The Trust Agreement requires that the Trustee notify the Sponsors of any tender of Plan Units for redemption. So long as the Sponsors are maintaining a bid in the secondary market, the Sponsors will purchase any Plan Units tendered to the Trustee for redemption by making payment therefor to the Certificateholder in an amount not less than the redemption price for such Plan Units on the date of tender not later than the day on which such Plan Units otherwise would have been redeemed by the Trustee.

Participants in the Plan will not receive individual certificates for their Plan Units unless the amount of Plan Units accumulated represents $1,000 principal amount of bonds underlying such Units and, in such case, a written request for certificates is made to the Trustee. All Plan Units will be accounted for by the Trustee on a book entry system. Each time Plan Units are purchased under the Plan, a participant will receive a confirmation stating his cost, number of Units purchased and estimated current return. Questions regarding a participant's statements should be directed to the Trustee by calling (800) 428-8890.

All expenses relating to the operation of the Plan will be borne by the Sponsors. Both the Sponsors and the Trustee reserve the right to suspend, modify or terminate the Plan at any time for any reason, including the right to suspend the Plan if the Sponsors are unable or unwilling to establish a Primary Series or is unable to provide Secondary Series Units. All participants will receive notice of any such suspension, modification or termination.

TOTAL REINVESTMENT PLAN FOR TEXAS RESIDENTS

Except as specifically provided under this section, and unless the context otherwise requires, all provisions and definitions contained under the heading 'Total Reinvestment Plan' shall be applicable to the Total Reinvestment Plan for Texas Residents ('Texas Plan').

Semi-annual Certificateholders of the Trusts who are residents of Texas have the option prior to any semi-annual distribution to affirmatively elect to reinvest that distribution, including both interest and principal, if any, in an Available Series.

A resident of Texas who is a semi-annual Certificateholder may join the Texas Plan for any particular semi-annual distribution by delivering to the Trustee an Authorization Form For Texas Residents ('Texas Authorization Form') specifically mentioning the date of the particular semi-annual distribution he wishes to reinvest. On or about each semi-annual Record Date, Texas Authorization Forms shall be sent by the Trustee to every Certificateholder who, according to the Trustee's records, is a resident of Texas. In the event that the Sponsors suspend the Plan or the Texas Plan no Texas Authorization Forms shall be sent. In order that distributions may be reinvested on a particular Plan Reinvestment Date, the Texas Authorization Form must be received by the Trustee on or before such Date. Texas Authorization Forms not received in time for the Plan Reinvestment Date will be deemed void. A participant who delivers a Texas Authorization Form to the Trustee may thereafter withdraw



said authorization by notifying the Trustee at its toll free telephone number prior to a Plan Reinvestment Date. Such notification of withdrawal must be confirmed in writing prior to the Plan Reinvestment Date. Under no circumstances shall a Texas Authorization Form be provided or accepted by the Trustee which provides for the reinvestment of distributions for more than one Plan Reinvestment Date.

On or about each semi-annual Record Date, the Sponsors will send a current Prospectus relating to the Available Series being offered on the next Plan Reinvestment Date along with a letter incorporating a Texas Authorization Form which specifies the funds available for reinvestment, reminds each participant that no Plan Units will be purchased for him unless the Texas Authorization Form is received by the Trustee on or before that particular Plan Reinvestment Date, and states that the Texas Authorization Form is valid only for that particular semi-annual distribution. If the Available Series should materially differ from the particular Trust, the participant will be provided with a notice of the material change and a new Texas Authorization Form which would have to be returned to the Trustee before the Certificateholder would again be able to participate in the Plan.

Each semi-annual Certificateholder who has acquired Plan Units will be deemed to have elected the semi-annual plan of distribution, respectively, with respect to such Units, but such Certificateholder will not be deemed to participate in the Plan for any particular distribution unless and until he delivers to the Trustee a Texas Authorization Form pertaining to those Plan Units.

## TRUST ADMINISTRATION

PORTFOLIO SUPERVISION

Except for the purchase of Replacement Bonds or as discussed herein, the acquisition of any Bonds for a Trust other than Bonds initially deposited by the Sponsors is prohibited. Although it is the Sponsors' and Trustee's intention not to dispose of Bonds insured pursuant to the Bond Insurance in the event of default, nevertheless, the Sponsors may direct the Trustee to dispose of Bonds upon (i) default in payment of principal or interest on such Bonds, (ii) institution of certain legal proceedings with respect to the issuers of such Bonds, (iii) default under other documents adversely affecting debt service on such Bonds, (iv) default in payment of principal or interest on other obligations of the same issuer or guarantor, (v) with respect to revenue Bonds, decline in revenues and income of any facility or project below the estimated levels calculated by proper officials charged with the construction or operation of such facility or project or (vi) decline in price or the occurrence of other market or credit factors that in the opinion of the Sponsors would make the retention of such Bonds in a Trust detrimental to the interests of the Certificateholders. If a default in the payment of principal or interest on any of the Bonds occurs and if the Sponsors fail to instruct the Trustee to sell or hold such Bonds, the Trust Agreement provides that the Trustee may sell such Bonds. The Trustee shall not be liable for any depreciation or loss by reason of any sale of Bonds or by reason of the failure of the Sponsors to give directions to the Trustee.

The Sponsors are authorized by the Trust Agreement to direct the Trustee to accept or reject certain plans for the refunding or refinancing of any of the Bonds. Any bonds received in exchange or substitution will be held by the Trustee subject to the terms and conditions of the Agreement to the same extent as the Bonds originally deposited. Within five days after such deposit, notice of such exchange and deposit shall be given by the Trustee to each Certificateholder registered on the books of the Trustee, including an identification of the Bonds eliminated and the Bonds substituted therefor.

TRUST AGREEMENT, AMENDMENT AND TERMINATION

The Trust Agreement may be amended by the Trustee, the Sponsors and the Evaluator without the consent of any of the Certificateholders: (1) to cure any ambiguity or to correct or supplement any provision which may be defective or inconsistent; (2) to change any provision thereof as may be required by the Securities and Exchange Commission or any successor governmental agency; or (3) to make such other provisions in regard to matters arising thereunder as shall

not adversely affect the interests of the Certificateholders.



The Trust Agreement may also be amended in any respect, or performance of any of the provisions thereof may be waived, with the consent of the holders of Certificates evidencing 66 2/3% of the Units then outstanding for the purpose of modifying the rights of Certificateholders; provided that no such amendment or waiver shall reduce any Certificateholder's interest in a Trust without his consent or reduce the percentage of Units required to consent to any such amendment or waiver without the consent of the holders of all Certificates. The Trust Agreement may not be amended, without the consent of the holders of all Certificates in a Trust then outstanding, to increase the number of Units issuable or to permit the acquisition of any bonds in addition to or in substitution for those initially deposited in such Trust, except in accordance with the provisions of the Trust Agreement. The Trustee shall promptly notify Certificateholders, in writing, of the substance of any such amendment.

The Trust Agreement provides that each Trust shall terminate upon the maturity, redemption or other disposition, as the case may be, of the last of the Bonds held in such Trust but in no event is it to continue beyond the end of the calendar year preceding the fiftieth anniversary of the execution of the Trust Agreement. If the value of a Trust shall be less than the minimum amount set forth under 'Summary of Essential Information' in Part A, the Trustee may, in its discretion, and shall when so directed by the Sponsors, terminate such Trust. Each Trust may also be terminated at any time with the consent of the holders of Certificates representing 100% of the Units then outstanding. In the event of termination, written notice thereof will be sent by the Trustee to all Certificateholders. Within a reasonable period after termination, the Trustee must sell any Bonds remaining in the terminated Trust, and, after paying all expenses and charges incurred by the Trust, distribute to each Certificateholder, upon surrender for cancellation of his Certificate for Units, his pro rata share of the Interest and Principal Accounts.

THE SPONSORS

The Sponsors, Bear, Stearns & Co. Inc. and Gruntal & Co., Incorporated, have entered into an Agreement Among Co-Sponsors pursuant to which both parties have agreed to act as Co-Sponsors for the Trusts as set forth in the 'Summary of Essential Information' in Part A. Bear, Stearns & Co. Inc. has been appointed by Gruntal & Co., Incorporated as agent for purposes of taking any action required or permitted to be taken by the Sponsors under the Trust Agreement. If the Sponsors are unable to agree with respect to action to be taken jointly by them under the Trust Agreement and they cannot agree as to which Sponsor shall act as sole Sponsor, then Bear, Stearns & Co. Inc. shall act as sole Sponsor. If one of the Sponsors fails to perform its duties under the Trust Agreement or becomes incapable of acting or becomes bankrupt or its affairs are taken over by public authorities, that Sponsor may be discharged under the Trust Agreement and a new Sponsor may be appointed or the remaining Sponsors may continue to act as Sponsors.

Bear, Stearns & Co. Inc., a Delaware corporation, is engaged in the underwriting, investment banking and brokerage business and is a member of the National Association of Securities Dealers, Inc. and all principal securities and commodities exchanges, including the New York Stock Exchange, the American Stock Exchange, the Midwest Stock Exchange and the Pacific Stock Exchange. Bear Stearns maintains its principal business offices at 245 Park Avenue, New York, New York 10167 and, since its reorganization from a partnership to a corporation in October, 1985, has been a wholly-owned subsidiary of The Bear Stearns Companies Inc. Bear Stearns, through its predecessor entities, has been engaged in the investment banking and brokerage business since 1923. Bear Stearns is the sponsor for numerous series of unit investment trusts, including, A Corporate Trust, Series 1 (and Subsequent Series); Equity Securities Trust, Series 1 (and Subsequent Series); Mortgage Securities Trust, Series 1 (and Subsequent Series); New York Municipal Trust, Series 1 (and Subsequent Series), New York Discount and Zero Coupon Fund, 1st Series (and Subsequent Series); Municipal Securities Trust, Series 1 (and Subsequent Series), 1st Discount Series (and Subsequent Series), Multi-State Series 1 (and Subsequent Series), High Income Series 1 (and Subsequent Series), Short-Intermediate Term Series 1 (and Subsequent Series) and Insured Municipal Securities Trust, Series 1-4 (and Subsequent Series); Series 1 (Multiplier Portfolio) (and Subsequent Series) and 5th Discount Series (and Subsequent Series).



Gruntal & Co., Incorporated, a Delaware corporation, operates a securities broker/dealer from its main office in New York City and branch offices in ten states and the District of Columbia. The firm is active in the marketing of investment companies and has signed dealer agreements with many major mutual fund groups. Further, through its Syndicate Department, Gruntal & Co., Incorporated has underwritten a large number of Closed-End Funds and has been Co-Manager on the following offerings: Cigna High Income Shares; Dreyfus New York Municipal Income, Inc.; Franklin Principal Maturity Trust and Van Kampen Merritt Limited Term High Income Trust.

The information included herein is only for the purpose of informing investors as to the financial responsibility of the Sponsors and their ability to carry out their contractual obligations.

The Sponsors are jointly and severally liable for the performance of their obligations arising from their responsibilities under the Trust Agreement, but will be under no liability to Certificateholders for taking any action, or refraining from taking any action, in good faith pursuant to the Trust Agreement, or for errors in judgment except in cases of their own willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations and duties.

The Sponsors may resign at any time by delivering to the Trustee an instrument of resignation executed by the Sponsors.

If at any time either of the Sponsors shall resign or fail to perform any of its duties under the Trust Agreement or becomes incapable of acting or becomes bankrupt or its affairs are taken over by public authorities, then the Trustee may either (a) appoint a successor Sponsor; (b) terminate the Trust Agreement and liquidate the Trusts; or (c) continue to act as Trustee without terminating the Trust Agreement. Any successor Sponsor appointed by the Trustee shall be satisfactory to the Trustee and, at the time of appointment, shall have a net worth of at least $1,000,000.

THE TRUSTEE

The Trustee is United States Trust Company of New York, with its principal place of business at 770 Broadway, New York, New York 10003. United States Trust Company of New York has, since its establishment in 1853, engaged primarily in the management of trust and agency accounts for individuals and corporations. The Trustee is a member of the New York Clearing House Association and is subject to supervision and examination by the Superintendent of Banks of the State of New York, the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System.

The Trustee shall not be liable or responsible in any way for taking any action, or for refraining from taking any action, in good faith pursuant to the Trust Agreement, or for errors in judgment; or for any disposition of any moneys, Bonds or Certificates in accordance with the Trust Agreement, except in cases of its own willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations and duties; provided, however, that the Trustee shall not in any event be liable or responsible for any evaluation made by the Evaluator. In addition, the Trustee shall not be liable for any taxes or other governmental charges imposed upon or in respect of the Bonds or the Trusts which it may be required to pay under current or future law of the United States or any other taxing authority having jurisdiction. The Trustee shall not be liable for depreciation or loss incurred by reason of the sale by the Trustee of any of the Bonds pursuant to the Trust Agreement.

For further information relating to the responsibilities of the Trustee under the Trust Agreement, reference is made to the material set forth under 'Rights of Certificateholders'.

The Trustee may resign by executing an instrument in writing and filing the same with the Sponsors, and mailing a copy of a notice of resignation to all Certificateholders. In such an event the Sponsors are obligated to appoint a successor Trustee as soon as possible. In addition, if the Trustee becomes incapable of acting or becomes bankrupt or its affairs are taken over by public authorities, the Sponsors may remove the Trustee and appoint a successor as provided in the Trust Agreement. Notice of such removal and appointment shall be mailed to each Certificateholder by the Sponsors. If upon resignation of the Trustee no successor has been appointed and has accepted the appointment within thirty days after notification, the retiring Trustee may apply to a court of competent jurisdiction for the appointment of a successor. The resignation or removal of the Trustee becomes effective only when the



successor Trustee accepts its appointment as such or when a court of competent jurisdiction appoints a successor Trustee. Upon execution of a written acceptance of such appointment by such successor Trustee, all the rights, powers, duties and obligations of the original Trustee shall vest in the successor.

Any corporation into which the Trustee may be merged or with which it may

be consolidated, or any corporation resulting from any merger or consolidation to which the Trustee shall be a party, shall be the successor Trustee. The Trustee must always be a banking corporation organized under the laws of the United States or any State and have at all times an aggregate capital, surplus and undivided profits of not less than $2,500,000.

THE EVALUATOR

The Evaluator is Kenny S&P Evaluation Services, a division of Kenny Information Systems, Inc. with main offices located at 65 Broadway, New York, New York 10006. The Evaluator is a wholly-owned subsidiary of McGraw-Hill, Inc. The Evaluator is a registered investment advisor and also provides financial information services.

The Trustee, the Sponsors and the Certificateholders may rely on any evaluation furnished by the Evaluator and shall have no responsibility for the accuracy thereof. Determinations by the Evaluator under the Trust Agreement shall be made in good faith upon the basis of the best information available to it, provided, however, that the Evaluator shall be under no liability to the Trustee, the Sponsors or Certificateholders for errors in judgment, except in cases of its own willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations and duties.

The Evaluator may resign or may be removed by the Sponsors and Trustee, and the Sponsors and the Trustee are to use their best efforts to appoint a satisfactory successor. Such resignation or removal shall become effective upon the acceptance of appointment by the successor Evaluator. If upon resignation of the Evaluator no successor has accepted appointment within thirty days after notice of resignation, the Evaluator may apply to a court of competent jurisdiction for the appointment of a successor.



TRUST EXPENSES AND CHARGES

At no cost to the Trusts, the Sponsors have borne all the expenses of creating and establishing the Trusts, including the cost of initial preparation and execution of the Trust Agreement, registration of the Trusts and the Units under the Investment Company Act of 1940 and the Securities Act of 1933, the premiums on the Navigator Sponsor-Insured Bonds, the initial preparation and printing of the Certificates, the fees of the Evaluator during the initial public offering, legal expenses, advertising and selling expenses, expenses of the Trustee including, but not limited to, an amount equal to interest accrued on certain 'when issued' bonds since the date of settlement for the Units, initial fees and other out-of-pocket expenses.

The Sponsors will not charge the Trusts a fee for its services as such. (See 'Sponsors' and Underwriters' Profits'.)

The Sponsors will receive for portfolio supervisory services to the Trusts an Annual Fee in the amount set forth under 'Summary of Essential Information' in Part A. The Sponsors' fee may exceed the actual cost of providing portfolio supervisory services for these Trusts, but at no time will the total amount received for portfolio supervisory services rendered to all series of the

Municipal Securities Trust in any calendar year exceed the aggregate cost to the Sponsors of supplying such services in such year. (See 'Portfolio Supervision'). Pursuant to the Agreement Among Co-Sponsors, Bear Stearns shall receive the entire Sponsors' fee set forth in the 'Summary of Essential Information' in Part

A.

The Trustee will receive for its ordinary recurring services to the Trusts an annual fee in the amount set forth under 'Summary of Essential Information' in Part A. For a discussion of the services performed by the Trustee pursuant to its obligations under the Trust Agreement, see 'Trust Administration' and 'Rights of Certificateholders'.

The Evaluator will receive, for each daily evaluation of the Bonds in the Trusts after the initial public offering is completed, a fee in the amount set forth under 'Summary of Essential Information' in Part A.

The Trustee's and Evaluator's fees applicable to a Trust are payable monthly as of the Record Date from the Interest Account of such Trust to the extent funds are available and then from the Principal Account. Both fees may be increased without approval of the Certificateholders by amounts not exceeding proportionate increases in consumer prices for services as measured by the United States Department of Labor's Consumer Price Index entitled 'All Services Less Rent'. In addition, the Trustee's fee may be periodically adjusted in response to fluctuations in short-term interest rates (reflecting the cost to the Trustee of advancing funds to a Trust to meet scheduled distributions).

The following additional charges are or may be incurred by the Trusts: all expenses (including counsel fees) of the Trustee incurred and advances made in connection with its activities under the Trust Agreement, including the expenses and costs of any action undertaken by the Trustee to protect the Trusts and the rights and interests of the Certificateholders; fees of the Trustee for any extraordinary services performed under the Trust Agreement; indemnification of the Trustee for any loss or liability accruing to it without gross negligence, bad faith or willful misconduct on its part, arising out of or in connection with its acceptance or administration of the Trusts; indemnification of the Sponsors for any losses, liabilities and expenses incurred in acting as sponsors of the Trusts without gross negligence, bad faith or willful misconduct on its part; and all taxes and other governmental charges imposed upon the Bonds or any part of the Trusts (no such taxes or charges are being levied, made or, to the knowledge of the Sponsors, contemplated). The above expenses, including the Trustee's fees, when paid by or owing to the Trustee are secured by a first lien on the Trust to which such expenses are charged. In addition, the Trustee is empowered to sell Bonds in order to make funds available to pay all expenses.

The accounts of the Trusts shall be audited not less than annually by independent public accountants selected by the Sponsors. The expenses of the audit shall be an expense of each Trust. So long as the Sponsors maintain a secondary market, the Sponsors will bear any audit expense which exceeds 50 cents per Unit. Certificateholders covered by the audit during the year may receive a copy of the audited financials upon request.



# EXCHANGE PRIVILEGE AND CONVERSION OFFER

## EXCHANGE PRIVILEGE

Certificateholders may elect to exchange any or all of their Units of these Trusts for Units of one or more of any available series of Insured Municipal Securities Trust, Municipal Securities Trust, New York Municipal Trust, Mortgage Securities Trust, A Corporate Trust or Equity Securities Trust (upon receipt by Equity Securities Trust of an appropriate exemptive order from the Securities and Exchange Commission) (the 'Exchange Trusts') at a reduced sales charge as set forth below. Under the Exchange Privilege, the Sponsors' repurchase price during the initial offering period of the Units being surrendered will be based on the aggregate offer price of the Bonds in the particular Trust portfolio; and, after the initial offering period has been completed, will be based on the aggregate bid price of the Bonds in the particular Trust portfolio. Units in an Exchange Trust then will be sold to the Certificateholder at a price based on the aggregate offer price of the Bonds in the Exchange Trust portfolio during the initial public offering period of the Exchange Trust; or based on the aggregate bid price of the Bonds in the Exchange Trust Portfolio if its initial offering has been completed plus accrued interest and a reduced sales charge as set forth below. If the participant elects to purchase units of the Equity Securities Trust under the Exchange Privilege, the purchase price of the Units will be based, at all times, on the market value of the underlying securities in the Equity Trust portfolio plus a sales charge.

Except for unitholders who wish to exercise the Exchange Privilege within the first five months of their purchase of Units of the Trust, the sales charge applicable to the purchase of units of an Exchange Trust shall be $15 per unit (or per 1,000 Units for the Mortgage Securities Trust or per 100 Units for the Equity Securities Trust) (approximately 1.5% of the price of each Exchange Trust unit (or 1,000 Units for the Mortgage Securities Trust or 100 Units for the Equity Securities Trust)). For unitholders who wish to exercise the Exchange Privilege within the first five months of their purchase of Units of the Trust, the sales charge applicable to the purchase of units of an Exchange Trust shall be the greater of (i) $15 per unit (or per 1,000 Units for the Mortgage Securities Trust or 100 Units for the Equity Securities Trust), or (ii) an amount which when coupled with the sales charge paid by the unitholder upon his original purchase of Units of the Trust at least equals the sales charge applicable in the direct purchase of units of an Exchange Trust. The Exchange Privilege is subject to the following conditions:

1. The Sponsors must be maintaining a secondary market in both the Units of the Trust held by the Certificateholder and the Units of the available Exchange Trust. While the Sponsors have indicated their intention to maintain a market in the Units of all Trusts sponsored by it, the Sponsors are under no obligation to continue to maintain a secondary market and therefore there is no assurance that the Exchange Privilege will be available to a Certificateholder at any specific time in the future. At the time of the Certificateholder's election to participate in the Exchange Privilege, there also must be Units of the Exchange Trust available for sale, either under the initial primary distribution or in the Sponsor's secondary market.

2. Exchanges will be effected in whole units only. Any excess proceeds from the Units surrendered for exchange will be remitted and the selling Certificateholder will not be permitted to advance any new funds in order to complete an exchange. Units of the Mortgage Securities Trust may only be acquired in blocks of 1,000 Units. Units of the Equity Securities Trust may only be acquired in blocks of 100 Units.

3. The Sponsors reserve the right to suspend, modify or terminate the Exchange Privilege. The Sponsors will provide unitholders of the Trust with 60 days prior written notice of any termination or material amendment to the Exchange Privilege, provided that, no notice need be given if (i) the only material effect of an amendment is to reduce or eliminate the sales charge payable at the time of the exchange, to add one or more series of the Trust eligible for the Exchange Privilege or to delete a series which has been terminated from eligibility for the Exchange Privilege, (ii) there is a suspension of the redemption of units of an Exchange Trust under Section 22(e) of the Investment Company Act of 1940, or (iii) an Exchange Trust temporarily delays or ceases the sale of its units because it is unable to invest amounts effectively in



accordance with its investment objectives, policies and restrictions. During the 60 day notice period prior to the termination or material amendment of the Exchange Privilege described above, the Sponsors will continue to maintain a secondary market in the units of all Exchange Trusts that could be acquired by the affected unitholders. Unitholders may, during this 60 day period, exercise the Exchange Privilege in accordance with its terms then in effect. In the event the Exchange Privilege is not available to a Certificateholder at the time he wishes to exercise it, the Certificateholder will immediately be notified and no action will be taken with respect to his Units without further instructions from the Certificateholder.

To exercise the Exchange Privilege, a Certificateholder should notify the Sponsors of his desire to exercise his Exchange Privilege. If Units of a designated, outstanding series of an Exchange Trust are at the time available for sale and such Units may lawfully be sold in the state in which the Certificateholder is a resident, the Certificateholder will be provided with a current prospectus or prospectuses relating to each Exchange Trust in which he indicates an interest. He may then select the Trust or Trusts into which he desires to invest the proceeds from his sale of Units. The exchange transaction will operate in a manner essentially identical to a secondary market transaction except that units may be purchased at a reduced sales charge.

EXAMPLE: Assume that after the initial public offering has been completed, a Certificateholder has five units of a Trust with a current value of $700 per unit which he has held for more than 5 months and the Certificateholder wishes to exchange the proceeds for units of a secondary market Exchange Trust with a current price of $725 per unit. The proceeds from the Certificateholder's original units will aggregate $3,500. Since only whole units of an Exchange Trust may be purchased under the Exchange Privilege, the Certificateholder would be able to acquire four units (or 4,000 Units of the Mortgage Securities Trust or 400 Units of the Equity Securities Trust) for a total cost of $2,960 ($2,900 for units and $60 for the sales charge). The remaining $540 would be remitted to the Certificateholder in cash. If the Certificateholder acquired the same number of units at the same time in a regular secondary market transaction, the price would have been $3,068.80 ($2,900 for units and $168.80 for the sales charge, assuming a 5 1/2% sales charge times the public offering price).

THE CONVERSION OFFER

Unit owners of any registered unit investment trust for which there is no active secondary market in the units of such trust (a 'Redemption Trust') may elect to redeem such units and apply the proceeds of the redemption to the purchase of available Units of one or more series of A Corporate Trust, Municipal Securities Trust, Insured Municipal Securities Trust, Mortgage Securities Trust, New York Municipal Trust or Equity Securities Trust (upon receipt by Equity Securities Trust of an appropriate exemptive order from the Securities and Exchange Commission) sponsored by Bear, Stearns & Co. Inc. or the Sponsors (the 'Conversion Trusts') at the Public Offering Price for units of the Conversion Trust based on a reduced sales charge as set forth below. Under the Conversion Offer, units of the Redemption Trust must be tendered to the trustee of such trust for redemption at the redemption price, which is based upon the aggregate bid side evaluation of the underlying bonds in such trust and is generally about 1 1/2% to 2% lower than the offering price for such bonds. The purchase price of the units will be based on the aggregate offer price of the underlying bonds in the Conversion Trust portfolio during its initial offering period; or, at a price based on the aggregate bid price of the underlying bonds if the initial public offering of the Conversion Trust has been completed, plus accrued interest and a sales charge as set forth below. If the participant elects to purchase units of the Equity Securities Trust under the conversion offer, the purchase price of the Units will be based at all times, on the market value of the underlying securities in the Equity Trust portfolio plus a sales charge.

Except for unitholders who wish to exercise the Conversion Offer within the first five months of their purchase of units of a Redemption Trust, the sales charge applicable to the purchase of Units of the Conversion Trust shall be $15 per Unit (or per 1,000 Units for the Mortgage Securities Trust or per 100 Units for the Equity Securities Trust). For unitholders who wish to exercise the Conversion Offer within the first five months of their purchase of units of a Redemption Trust, the sales charge applicable to the purchase of Units of a Conversion Trust shall be the greater of (i) $15 per Unit (or per



1,000 Units for the Mortgage Securities Trust or per 100 Units for the Equity Securities Trust) or (ii) an amount which when coupled with the sales charge paid by the unitholder upon his original purchase of units of the Redemption Trust at least equals the sales charge applicable in the direct purchase of Units of a Conversion Trust. The Conversion Offer is subject to the following limitations:

1. The Conversion Offer is limited only to unit owners of any Redemption Trust, defined as a unit investment trust for which there is no active secondary market at the time the Certificateholder elects to participate in the Conversion Offer. At the time of the unit owner's election to participate in the Conversion Offer, there also must be available units of a Conversion Trust, either under a primary distribution or in the Sponsors' secondary market.

2. Exchanges under the Conversion Offer will be effected in whole units only. Unit owners will not be permitted to advance any new funds in order to complete an exchange under the Conversion Offer. Any excess proceeds from units being redeemed will be returned to the unit owner. Units of the Mortgage Securities Trust may only be acquired in blocks of 1,000 units. Units of the Equity Securities Trust may only be acquired in blocks of 100 Units.

3. The Sponsors reserve the right to modify, suspend or terminate the Conversion Offer at any time without notice to unit owners of Redemption Trusts. In the event the Conversion Offer is not available to a unit owner at the time he wishes to exercise it, the unit owner will be notified immediately and no action will be taken with respect to his units without further instruction from the unit owner. The Sponsors also reserve the right to raise the sales charge based on actual increases in the Sponsors' costs and expenses in connection with administering the program, up to a maximum sales charge of $20 per unit (or per 1,000 units for the Mortgage Securities Trust or per 100 Units for the Equity Securities Trust).

To exercise the Conversion Offer, a unit owner of a Redemption Trust should notify his retail broker of his desire to redeem his Redemption Trust Units and use the proceeds from the redemption to purchase Units of one or more of the Conversion Trusts. If Units of a designated, outstanding series of a Conversion Trust are at that time available for sale and if such Units may lawfully be sold in the state in which the unit owner is a resident, the unit owner will be provided with a current prospectus or prospectuses relating to each Conversion Trust in which he indicates an interest. He then may select the Trust or Trusts into which he decides to invest the proceeds from the sale of his Units. The transaction will be handled entirely through the unit owner's retail broker. The retail broker must tender the units to the trustee of the Redemption Trust for redemption and then apply the proceeds to the redemption toward the purchase of units of a Conversion Trust at a price based on the aggregate offer or bid side evaluation per Unit of the Conversion Trust, depending on which price is applicable, plus accrued interest and the applicable sales charge. The certificates must be surrendered to the broker at the time the redemption order is placed and the broker must specify to the Sponsors that the purchase of Conversion Trust Units is being made pursuant to the Conversion Offer. The unit owner's broker will be entitled to retain $5 of the applicable sales charge.

EXAMPLE: Assume a unit owner has five units of a Redemption Trust which has held for more than 5 months with a current redemption price of $675 per unit based on the aggregate bid price of the underlying bonds and the unit owner wishes to participate in the Conversion Offer and exchange the proceeds for units of a secondary market Conversion Trust with a current price of $750 per Unit. The proceeds for the unit owner's redemption of units will aggregate $3,375. Since only whole units of a Redemption Trust may be purchased under the Conversion Offer, the unit owner will be able to acquire four units of the Conversion Trust (or 4,000 units of the Mortgage Securities Trust or 400 Units of the Equity Securities Trust) for a total cost of $2,860 ($2,800 for units and $60 for the sales charge). The remaining $515 would be remitted to the unit owner in cash. If the unit owner acquired the same number of Conversion Trust units at the same time in a regular secondary market transaction, the price would have been $2,962.96 ($2,800 for units and $162.96 sales charge, assuming a 5 1/2% sales charge times the public offering price).



DESCRIPTION OF THE EXCHANGE
TRUSTS AND THE CONVERSION TRUSTS

A Corporate Trust may be an appropriate investment vehicle for an investor who is more interested in a higher current return on his investment (although taxable) than a tax-exempt return (resulting from the fact that the current return from taxable fixed income securities is normally higher than that available from tax-exempt fixed income securities). Municipal Securities Trust and New York Municipal Trust may be appropriate investment vehicles for an investor who is more interested in tax-exempt income. The interest income from New York Municipal Trust is, in general, also exempt from all New York State and local New York income taxes, while the interest income from Municipal Securities Trust is subject to applicable New York State and local New York taxes, except for that portion of the income which is attributable to New York obligations in the Trust portfolio, if any. The interest income from each State Trust of the Municipal Securities Trust, Multi-State Series is, in general, exempt from state and local taxes when held by residents of the state where the issuers of bonds in such State Trusts are located. The Insured Municipal Securities Trust combines the advantages of providing interest income free from regular federal income tax under existing law with the added safety of irrevocable insurance. Insured Navigator Series further combines the advantages of providing interest income free from regular federal income tax and state and local taxes when held by residents of the state where issuers of the bonds in such state trusts are located with the added safety of irrevocable insurance. Mortgage Securities Trust offers an investment vehicle for investors who are interested in obtaining safety of capital and a high level of current distribution of interest income through investment in a fixed portfolio of collaterized mortgage obligations. Equity Securities Trust offers investors an opportunity to achieve capital appreciation together with a high level of current income.

TAX CONSEQUENCES OF THE EXCHANGE
PRIVILEGE AND THE CONVERSION OFFER

A surrender of units pursuant to the Exchange Privilege or the Conversion Offer will constitute a 'taxable event' to the Certificateholder under the Internal Revenue Code. The Certificateholder will realize a tax gain or loss that will be of a long-or short-term capital or ordinary income nature depending on the length of time the units have been held and other factors. (See 'Tax Status'.) A Certificateholder's tax basis in the Units acquired pursuant to the Exchange Privilege or Conversion Offer will be equal to the purchase price of such Units. Investors should consult their own tax advisors as to the tax consequences to them of exchanging or redeeming units and participating in the Exchange Privilege or Conversion Offer.

OTHER MATTERS

LEGAL OPINIONS

The legality of the Units offered hereby and certain matters relating to federal tax law have been passed upon by Messrs. Battle Fowler, 280 Park Avenue, New York, New York 10017 as counsel for the Sponsors. Messrs. Freeman, Zeller & Bryant have acted as special New Jersey counsel for the Sponsors. Messrs. Hunton & Williams have acted as special Virginia counsel for the Sponsors. Messrs. Carter, Ledyard & Milburn, Two Wall Street, New York, New York 10005 have acted as counsel for the Trustee.

INDEPENDENT AUDITORS

The Statement of Condition and Portfolio(s) are included herein in reliance upon the report of KPMG Peat Marwick, independent auditors, and upon the authority of said firm as experts in accounting and auditing.

DESCRIPTION OF BOND RATINGS*

STANDARD & POOR'S CORPORATION

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

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

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

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.

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

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

II. Nature of and provisions of the obligation.

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

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

AA--Bonds rated AA also qualify as high-quality debt obligations. Capacity to pay principal and interest is very strong, and they differ from AAA issues only in small degrees.

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

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

Plus (+) or Minus (-): To provide more detailed indications of credit quality, the ratings from 'AA' to 'BB' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

MOODY'S INVESTORS SERVICE, INC.

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

Aaa--Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as 'gilt edge'. Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa--Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. 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.

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* As described by the rating agencies.



A--Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment sometime in the future.

Baa--Bonds which are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well. The market value of the Baa-rated bonds is more sensitive to changes in economic circumstances. Aside from occasional speculative factors and the aforementioned economic circumstances

applying to some bonds of this Class, Baa market valuations move in parallel with Aaa, Aa and A obligations during periods of economic normalcy, except in instances of oversupply.

Those bonds in the A and Baa group which Moody's believes possess the strongest investment attributes are designated by the symbol A 1 and Baa 1. Other A bonds comprise the balance of the group. These rankings (1) designate the bonds which offer the maximum in security within their quality group, (2) designate bonds which can be bought for possible upgrading in quality and (3) additionally afford the investor an opportunity to gauge more precisely the relative attractiveness of offerings in the market place.

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

DESCRIPTION OF RATING*

A Standard & Poor's Corporation's rating on the units of an investment trust (hereinafter referred to collectively as 'units' and 'fund') is a current assessment of creditworthiness with respect to the investments held by such fund. This assessment takes into consideration the financial capacity of the issuers and of any guarantors, insurers, lessees, or mortgagors with respect to such investments. The assessment, however, does not take into account the extent to which fund expenses or portfolio asset sales for less than the fund's purchase price will reduce payment to the unit holder of the interest and principal required to be paid on the portfolio assets. In addition, the rating is not a recommendation to purchase, sell, or hold units, inasmuch as the rating does not comment as to market price of the units or suitability for a particular investor.

Funds rated 'AAA' are composed exclusively of assets that are rated 'AAA' by Standard & Poor's or, have, in the opinion of Standard & Poor's, credit characteristics comparable to assets that are rated 'AAA', or certain short-term investments. Standard & Poor's defines its AAA rating for such assets as the highest rating assigned by Standard & Poor's to a debt obligation. Capacity to pay interest and repay principal is very strong.

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* As described by Standard & Poor's Corporation.



AUTHORIZATION FOR INVESTMENT IN INSURED MUNICIPAL SECURITIES TRUST AND MUNICIPAL SECURITIES TRUST

TRP PLAN -- TOTAL REINVESTMENT PLAN

I hereby elect to participate in the TRP Plan and am the owner of Insured Fund and/or ______ units of New York Navigator Insured Series ______ and/or ______ units of New Jersey Navigator Insured Series ______ and/or ______ units of Municipal Trust and/or ______ units of Virginia Trust.

I hereby authorize the United States Trust Company of New York, Trustee to pay all semi-annual distributions of interest and principal (if any) with respect to such units to the United States Trust Company of New York, as TRP Plan Agent, who shall immediately invest the distributions in units of the available series of Insured Municipal Securities Trust, or Municipal Securities Trust.

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| The foregoing authorization is subject in all respects to the terms and conditions of participation set forth in the prospectus relating to such available series. | Date __________________ 19______ |
| ______________________________________________________ Registered Holder (Print) | ______________________________________________________ Registered Holder (Print) |
| ______________________________________________________ Registered Holder Signature | ______________________________________________________ Registered Holder Signature |

(Two signatures if joint tenancy)

</TABLE>

My Brokerage Firm's Name ________________________________________________

Street Address __________________________________________________________

City, State and Zip Code_________________________________________________

Salesman's Name _____________________ Salesman's No. ____________________

UNIT HOLDERS NEED ONLY DATE AND SIGN THIS FORM

MAIL TO YOUR BROKER

OR

UNITED STATES TRUST COMPANY OF NEW YORK
ATTN: THE UIT INVESTMENT DEPARTMENT UNIT A
770 BROADWAY

NEW YORK, NEW YORK 10003

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NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED IN PARTS A AND B OF THIS PROSPECTUS; AND ANY INFORMATION OR REPRESENTATION NOT CONTAINED HEREIN MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE TRUSTS, THE TRUSTEE, THE EVALUATOR, OR THE SPONSORS. THE TRUSTS ARE REGISTERED AS UNIT INVESTMENT TRUSTS UNDER THE INVESTMENT COMPANY ACT OF 1940. SUCH REGISTRATION DOES NOT IMPLY THAT THE TRUSTS OR ANY OF THEIR UNITS HAVE BEEN GUARANTEED, SPONSORED, RECOMMENDED OR APPROVED BY THE UNITED STATES OR ANY STATE OR ANY AGENCY OR OFFICER THEREOF.

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

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<CAPTION>



</TABLE>

PARTS A AND B OF THIS PROSPECTUS DO NOT CONTAIN ALL OF THE INFORMATION SET FORTH IN THE REGISTRATION STATEMENT AND EXHIBITS RELATING THERETO, FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D.C., UNDER THE SECURITIES ACT OF 1933, AND THE INVESTMENT COMPANY ACT OF 1940, AND TO WHICH REFERENCE IS

MADE.

SERIES 32,
NEW YORK NAVIGATOR INSURED SERIES 16,
NEW JERSEY NAVIGATOR INSURED SERIES 12

AND

SERIES 55 INTERMEDIATE
MULTI-STATE SERIES 45

(UNIT INVESTMENT TRUSTS)

PROSPECTUS

DATED: APRIL 14, 1994

SPONSORS:

BEAR, STEARNS & CO. INC.
245 PARK AVENUE
NEW YORK, NY 10167
212-272-2500

GRUNTAL & CO., INCORPORATED
14 WALL STREET
NEW YORK, NY 10005
212-267-8800

TRUSTEE:

UNITED STATES TRUST COMPANY
OF NEW YORK
770 BROADWAY
NEW YORK, NY 10003

EVALUATOR:

KENNY S&P EVALUATION SERVICES
65 BROADWAY
NEW YORK, NY 10006