

APEX MUNICIPAL FUND INC  
 Form N-30D  
 August 20, 2002

[LOGO] Merrill Lynch Investment Managers

Annual Report  
 June 30, 2002

Apex  
 Municipal Fund,  
 Inc.

www.mlim.ml.com

APEX MUNICIPAL FUND, INC.

Managed Dividend Policy

The Fund's dividend policy is to distribute all or a portion of its net investment income to its shareholders on a monthly basis. In order to provide shareholders with a more consistent yield to the current trading price of shares of Common Stock of the Fund, the Fund may at times pay out less than the entire amount of net investment income earned in any particular month and may at times in any particular month pay out such accumulated but undistributed income in addition to net investment income earned in that month. As a result, the dividends paid by the Fund for any particular month may be more or less than the amount of net investment income earned by the Fund during such month. The Fund's current accumulated but undistributed net investment income, if any, is disclosed in the Statement of Assets, Liabilities and Capital, which comprises part of the financial information included in this report.

Proxy Results

During the six-month period ended June 30, 2002, Apex Municipal Fund, Inc.'s shareholders voted on the following proposal. The proposal was approved at a shareholders' meeting on April 8, 2002. A description of the proposal and number of shares voted are as follows:

	Shares Voted For	Sha F
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1. To elect the Fund's Board of Directors as follows:		
Class I:		
Terry K. Glenn	17,553,638	
Roberta Cooper Ramo	17,516,061	
Class II:		
James H. Bodurtha	17,509,631	
Herbert I. London	17,503,519	
Stephen B. Swensrud	17,501,424	
Class III:		
Andre F. Perold	17,505,259	
Melvin R. Seiden	17,499,296	
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Apex Municipal Fund, Inc., June 30, 2002

DEAR SHAREHOLDER

For the year ended June 30, 2002, Apex Municipal Fund, Inc. earned \$0.562 per share income dividends, which included earned and unpaid dividends of \$0.044. This represents a net annualized yield of 6.08%, based on a year-end net asset value of \$9.24 per share. Over the same period, the Fund's total investment return was +4.31%, based on a change in per share net asset value from \$9.45 to \$9.24 and assuming reinvestment of \$0.567 per share income dividends. For the six-month period ended June 30, 2002, the Fund's total investment return was +4.56%, based on a change in per share net asset value from \$9.13 to \$9.24, and assuming reinvestment of \$0.280 per share income dividends.

### The Municipal Market Environment

During the six months ended June 30, 2002, the direction of long-term fixed income interest rates was driven as much by volatile U.S. equity markets and continued worldwide political tensions as by economic fundamentals. In early 2002, economic indicators were mixed, signaling some strength in consumer spending and housing-related industries but with continued declines in manufacturing employment. Interest rates remained in a narrow but volatile range as weak U.S. equity markets generally supported fixed income products. By the end of January 2002, the Federal Reserve Board ended its series of short-term interest rate reductions by maintaining its overnight rate target at 1.75%, a 40-year low. The Federal Reserve Board noted that while U.S. economic activity was beginning to strengthen, earlier weakness could easily resume should consumer spending falter. In recent months, however, the index of leading economic indicators has generally risen, suggesting that economic activity is likely to expand later this year. In its final revision, fourth quarter U.S. gross domestic product growth was revised higher to 1.7%, signaling improving economic conditions relative to earlier in 2001. By the end of February 2002, long-term U.S. Treasury bond yields stood at 5.42%.

In early March, a number of economic indicators, including surging existing home sales, solid consumer spending and positive nonfarm payroll growth following several months of job losses, suggested U.S. economic activity was continuing to strengthen. Also, in Congressional testimony, Federal Reserve Board Chairman Alan Greenspan was cautiously optimistic regarding future U.S. economic growth noting, while any increase in activity was likely to be moderate, "an economic expansion (was) well underway." These factors combined to push U.S. equity prices higher and bond prices sharply lower in expectation of a reversal of the Federal Reserve Board actions taken during the past 15 months. By the end of March 2002, long-term U.S. Treasury bond yields stood at 5.80%, their highest level in more than 18 months.

During the past few months, however, bond yields reversed their course to move sharply lower. First quarter 2002 gross domestic product activity was recently finalized at 6.1%, considerably above the level of economic growth seen in late 2001. A number of economic indicators, such as housing activity, consumer spending and recent employment trends have pointed to, at least, a moderate economic recovery for the remainder of 2002. Steady, dramatic declines in U.S. equity markets have led the majority of investors to conclude that the Federal Reserve Board is now unlikely to raise short-term interest rates for the remainder of 2002. U.S. Treasury issue prices were also boosted by erupting Middle East and India/Pakistan conflicts that led many international investors to seek the safe haven of U.S. Treasury securities. By the end of June 2002, long-term U.S. Treasury bond yields had declined to 5.50%. Over the last six months, long-term U.S. Treasury bond yields rose approximately 5 basis points (0.05%).

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Municipal bond prices displayed a pattern similar to their taxable counterparts during the six-month period ended June 30, 2002. In early 2002, tax-exempt bond yields traded in a relatively narrow range as an increasingly positive technical position supported existing municipal bond prices. In March, however, increased economic activity and associated concerns regarding near-term Federal Reserve Board actions also pushed tax-exempt bond prices lower. By late March, long-term municipal revenue bond yields, as measured by the Bond Buyer Revenue Bond Index, rose to 5.67%, their highest level in more than a year. During the last three months, tax-exempt bond yields generally declined largely in response to the positive fixed income environment engendered by falling equity valuations. The municipal bond market's recent price advances also have been bolstered by the continued improvement in the tax-exempt market's technical position. Despite sizable advances in the rate of new municipal bond issuance, investor demand has increased in recent months, allowing tax-exempt bond prices to rise. For the six-month period ended June 30, 2002, long-term municipal revenue bond yields stood at 5.41%, a decline of almost 20 basis points.

Solid investment demand during the past six months has allowed the tax-exempt market to outperform its taxable counterpart in recent months. Reports stated that thus far in 2002 municipal bond fund net cash flows remained very strong exceeding \$5.9 billion, up more than 40% compared to the same period in 2001. Additionally, in January and February 2002, investors received almost \$50 billion in investment proceeds from coupon income, bond maturities and early redemptions. Given the recent weakness in U.S. equity markets, much of this money was likely reinvested in tax-exempt products. Perhaps, more importantly, short-term municipal interest rates continued to move lower in response to Federal Reserve Board actions. In reaction to the Federal Reserve Board interest rate reductions, short-term municipal interest rates declined to the 1% - 1.5% range. As interest rates declined, investors extended maturities to take advantage of the steep municipal bond yield curve. Also, analysts forecast that investors will receive approximately an additional \$75 billion during June -- August 2002 from bond maturities, proceeds from early bond redemptions and coupon income. Given the lack of strong investment alternatives, it is likely that this money will continue to support the municipal bond market's currently strong technical environment.

Interest rates are likely to remain near current levels as U.S. economic conditions are expected to remain relatively weak. However, going forward, business activity is likely to accelerate, perhaps significantly. Federal aid packages in response to the September 11, 2001 attacks in New York City and Washington, DC were sizable. Airline assistance packages, involving Federal grants and loan guarantees, also were substantial and are likely to continue. The military response to the initial terrorist attacks and ongoing military presence in the Middle East will continue to require significant increases in Defense Department spending. Eventually, this increased governmental spending should result in accelerated U.S. economic activity, especially in the construction and defense industries. This governmental stimulus, in conjunction with the monetary actions taken by the Federal Reserve Board, can be expected to generate significant increases in U.S. gross domestic product growth some time later in 2002.

As inflationary pressures are expected to remain well contained going forward, increased economic activity need not result in significant increases in long-term bond yields. Also, throughout much of 2001, the municipal bond market exhibited far less volatility than its taxable counterparts. Since the strong technical position that has supported the tax-exempt bond market's performance for much of this year can be expected to continue, any potential increases in municipal bond yields can also be expected to be limited.

### Portfolio Strategy

During the 12 months ended June 30, 2002, the high-yield municipal bond market

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was characterized by general improvement in relative valuation across a wide range of disparate credit sectors ranging from health care to various cyclical industrials. Perhaps the most glaring exception was the airline sector, which suffered significant price erosion in the aftermath of the terrorist attacks of September 11, 2001. Widespread losses in the steel industry, along with revelations concerning fraudulent accounting and energy trading practices in the investor-owned utility industry have also pressured valuations for related securities. Nevertheless, the overall picture conveys an impression of recovery from depressed levels that prevailed throughout 1999 and 2000. To a degree, this was a reflection of

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Apex Municipal Fund, Inc., June 30, 2002

developments in the taxable corporate bond market where credit spreads narrowed considerably since the Federal Reserve Board embarked on its campaign of monetary policy accommodation beginning in January 2001. In addition, the municipal market in particular benefited from improved cash flows as investors were drawn to the relative stability and predictability of recent bond market returns.

Despite lower performance during the first six months of the Fund's fiscal year, the Fund has experienced more favorable results in the last few months as contributions from a diverse group of current holdings demonstrated the broad-based nature of the improvement in credit spreads. Specifically, the Fund's exposure in the airline sector recovered substantially from losses incurred last fall, providing a welcome lift to relative performance since the beginning of January 2002.

Our portfolio strategy continued to reflect our efforts to utilize analytical resources as a means to discover undervalued investment opportunities in the marketplace. This resulted in sector concentrations that included health care and transportation, while increasing exposure to infrastructure-related tax-backed financing for residential communities during the period. Future activity will likely reflect measures designed to further diversify portfolio holdings within the context of desired sector concentrations. In the past, significant exposure to individual credits has occasionally contributed to heightened levels of volatility in the Fund's total return. By achieving greater diversification, we believe the Fund's returns should exhibit less volatility, as individual credit developments are less likely to significantly impact overall performance.

In Conclusion

We appreciate your ongoing interest in Apex Municipal Fund, Inc., and we look forward to serving your investment needs in the months and years to come.

Sincerely,

/s/ Terry K. Glenn

Terry K. Glenn  
President

/s/ Kenneth A. Jacob

Kenneth A. Jacob

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Senior Vice President

/s/ John M. Loffredo

John M. Loffredo  
Senior Vice President

/s/ Theodore R. Jaeckel Jr.

Theodore R. Jaeckel Jr.  
Vice President and Portfolio Manager

August 7, 2002

SCHEDULE OF INVESTMENTS

(in Thousands)

STATE	S&P Ratings	Moody's Ratings	Face Amount	Issue
Alabama--0.6%	B	NR*	\$ 1,000	Brewton, Alabama, IDB, PCR, Refunding (Containing America--Jefferson Smurfit Corp. Project), 8%
Alaska--1.1%	NR*	NR*	2,000	Alaska Industrial Development and Export Authority (Williams Lynxs Alaska Cargoport), AMT, 8% due
Arizona--2.7%	NR*	NR*	1,505	Maricopa County, Arizona, IDA, M/F Housing Rehabilitation King Apartments Project), Sub-Series C, 9.50%
	NR*	Caa2	4,000	Phoenix, Arizona, IDA, Airport Facility Revenue (America West Airlines Inc. Project), AMT, 6.00%
	B+	Ba3	1,585	Pima County, Arizona, IDA, Industrial Revenue Bonds (Tucson Electric Power Company Project), Series
Colorado--5.5%	NR*	Baa2	3,000	Denver, Colorado, Urban Renewal Authority, Tax Exempt Bonds (Pavilions), AMT, 7.75% due 9/01/2016
	NR*	NR*	2,800	Elk Valley, Colorado, Public Improvement Revenue Bonds (Improvement Fee), Series A, 7.30% due 9/01/2016
	NR*	NR*	1,640	Lincoln Park, Colorado, Metropolitan District Revenue Bonds, 7.75% due 12/01/2026
	NR*	NR*	1,235	North Range, Colorado, Metropolitan District Revenue Bonds due 12/15/2031
	BB+	Ba1	1,145	Northwest Parkway, Colorado, Public Highway Authority First Tier, Sub-Series D, 7.125% due 6/15/2041
Connecticut--0.7%	NR*	B1	1,305	New Haven, Connecticut, Facility Revenue Bonds (New Haven Corporation Project), 9.25% due 5/01/2017
Florida--12.0%	NR*	NR*	920	Arbor Greene Community Development District, Assessment Revenue Bonds, 7.60% due 5/01/2018
	NR*	NR*	1,370	Bonnet Creek Resort, Florida, Community Development Special Assessment Revenue Bonds, 7.50% due 5/01/2018
	NR*	NR*	1,175	Capital Projects Finance Authority, Florida, Retirement Revenue Bonds (Glenridge on Palmer Road), 8% due 6/01/2032
	NR*	NR*	2,500	Hillsborough County, Florida, IDA, Exempt Facility Revenue Bonds (National Gypsum), AMT, Series A, 7.125% due

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A1+ VMIG1@ 4,400 Jacksonville, Florida, Electric Authority, EL Bonds, VRDN, Series C, 1.85% due 10/01/2030 (

Portfolio Abbreviations

To simplify the listings of Apex Municipal Fund, Inc.'s portfolio holdings in the Schedule of Investments, we have abbreviated the names of many of the securities according to the list at right.

AMT Alternative Minimum Tax (subject to)  
 EDA Economic Development Authority  
 GO General Obligation Bonds  
 IDA Industrial Development Authority  
 IDB Industrial Development Board  
 IDR Industrial Development Revenue Bonds  
 M/F Multi-Family  
 PCR Pollution Control Revenue Bonds  
 RIB Residual Interest Bonds  
 VRDN Variable Rate Demand Notes

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Apex Municipal Fund, Inc., June 30, 2002

SCHEDULE OF INVESTMENTS (continued)

(in Thousands)

STATE	S&P Ratings	Moody's Ratings	Face Amount	Issue
Florida (concluded)	NR*	NR*	\$ 925	Lakewood Ranch, Florida, Community Development Special Assessment Revenue Refunding Bonds, S due 5/01/2031
	NR*	NR*	3,100	Lee County, Florida, IDA, Health Care Facility (Cypress Cove Healthpark), Series A, 6.375% d
	NR*	NR*	1,650	Orlando, Florida, Urban Community Development Improvement Special Assessment Bonds, Series
	NR*	NR*	3,580	Parkway Center, Florida, Community Development Assessment Refunding Bonds, Series B, 8% due
	NR*	NR*	3,125	Tampa Palms, Florida, Open Space and Transportation District Revenue Bonds, Capital I Place Project), 7.50% due 5/01/2018
Georgia--3.7%	NR*	NR*	2,000	Atlanta, Georgia, Tax Allocation Revenue Bond Project), 7.90% due 12/01/2024
	NR*	NR*	3,680	Atlanta, Georgia, Urban Residential Finance A Revenue Bonds (Northside Plaza Apartments Pro due 11/01/2020
	BBB-	Ba1	1,000	Effingham County, Georgia, IDA, PCR, Refunding Corporation Project), 6.50% due 6/01/2031
Idaho--0.8%	NR*	NR*	1,470	Idaho Health Facilities Authority, Revenue Re Vista Care Corporation), Series A, 7.75% due
Illinois--3.8%	NR*	Caa1	1,000	Chicago, Illinois, O'Hare International Airport Revenue Bonds (United Airlines Project), AMT, due 11/01/2035

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	BB-	B1	3,000	Chicago, Illinois, O'Hare International Airport Revenue Refunding Bonds (American Airlines Inc) due 12/01/2024
	NR*	NR*	3,190	Illinois Development Finance Authority Revenue Care Centers Facilities Acquisition Program),
Indiana--2.5%	NR*	NR*	2,600	Indiana State Educational Facilities Authority Bonds (Saint Joseph's College Project), 7% due
	NR*	NR*	1,925	Indianapolis, Indiana, M/F Revenue Bonds (Lak Project), Series B, 7.50% due 10/01/2029
Iowa--6.6%	NR*	NR*	10,000	Iowa Finance Authority, Health Care Facilities Bonds (Care Initiatives Project), 9.25% due 7
Louisiana--3.1%	BB-	NR*	5,500	Port New Orleans, Louisiana, IDR, Refunding ( Company Project), 7.50% due 7/01/2013
Maryland--2.0%	NR*	NR*	1,875	Anne Arundel County, Maryland, Special Obliga (Arundel Mills Project), 7.10% due 7/01/2029
	NR*	NR*	1,500	Maryland State Energy Financing Administration Revenue Bonds (Cogeneration--AES Warrior Run) 9/01/2019
Massachusetts--3.6%	BBB	NR*	825	Massachusetts State Development Finance Agency Revenue Bonds (Ogden Haverhill Associates), A due 12/01/2014
	BBB-	NR*	1,220	Massachusetts State Development Finance Agency Bonds (Eastern Nazarine College): 5.625% due 4/01/2029
	BBB-	NR*	245	5.625% due 4/01/2019
	NR*	Ba2	3,000	Massachusetts State Health and Educational Fa Revenue Refunding Bonds (Bay Cove Human Servi Series A, 5.90% due 4/01/2028
	NR*	NR*	1,700	Massachusetts State Industrial Finance Agency Facility (Resource Control Composting), AMT,
	BBB	NR*	500	Massachusetts State Industrial Financial Agen Revenue Refunding Bonds (Ogden Haverhill Proj 5.60% due 12/01/2019
Michigan--0.5%	BBB-	Baa3	1,000	Michigan State Hospital Finance Authority, Re Bonds (Detroit Medical Center Obligation Grou 6.50% due 8/15/2018
Minnesota--1.8%	NR*	NR*	3,180	Anoka, Minnesota, M/F Housing Revenue Bonds ( Apartments Project), 9.375% due 12/01/2024
Missouri--0.8%	NR*	NR*	1,200	Fenton, Missouri, Tax Increment Revenue Refun Bonds (Gravois Bluffs), 7% due 10/01/2021
	A1+	VMIG1@	200	Missouri Development Finance Board, Cultural (Nelson Gallery Foundation), VRDN, Series B,
Nevada--1.2%	BBB	Baa2	2,500	Henderson, Nevada, Health Care Facility Reven Healthcare West--Saint Rose Dominican Hospita
New Jersey--12.6%				Camden County, New Jersey, Improvement Author (Holt Hauling & Warehousing), AMT, Series A (
	NR*	NR*	2,000	9.625% due 1/01/2011
	NR*	NR*	4,500	9.875% due 1/01/2021
	CCC	B2	6,000	Camden County, New Jersey, Pollution Control Solid Waste Resource Recovery Revenue Refundi 7.50% due 12/01/2010
	BBB-	NR*	1,500	New Jersey EDA, First Mortgage Revenue Bonds

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	NR*	Ba3	1,500	Series C, 5.50% due 1/01/2028 New Jersey EDA, IDR, Refunding (Newark Airpor 7% due 10/01/2014
	NR*	NR*	1,000	New Jersey EDA, Retirement Community Revenue (Cedar Crest Village Inc. Facility), 7.25%
	NR*	NR*	3,700	(Seabrook Village Inc.), 8.125% due 11/15/2
	B+	B3	3,050	New Jersey EDA, Special Facility Revenue Bond Inc. Project), AMT, 6.625% due 9/15/2012
	NR*	Baa1	1,410	New Jersey Health Care Facilities Financing A (South Jersey Hospital), 6% due 7/01/2026
=====				
New Mexico--2.8%	B+	Ba3	5,000	Farmington, New Mexico, PCR, Refunding (Tucso San Juan Project), Series A, 6.95% due 10/01/
=====				
New York--2.1%	BBB-	Ba2	1,730	New York City, New York, City IDA, Special Fa (British Airways PLC Project), AMT, 7.625% du
	BB	Ba1	700	Utica, New York, GO, Public Improvement: 9.25% due 8/15/2004
	BB	Ba1	700	9.25% due 8/15/2005
	BB	Ba1	635	9.25% due 8/15/2006
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Apex Municipal Fund, Inc., June 30, 2002

SCHEDULE OF INVESTMENTS (concluded)

(in Thousands)

STATE	S&P Ratings	Moody's Ratings	Face Amount	Issue
North Carolina--0.9%	NR*	NR*	\$ 1,600	North Carolina Medical Care Commission, Health First Mortgage Revenue Refunding Bonds (Presb Project), 7% due 10/01/2031
Ohio--1.4%	B+	B3	3,135	Cleveland, Ohio, Airport Special Revenue Refu (Continental Airlines Inc. Project), AMT, 5.7
Oregon--0.6%	NR*	NR*	1,000	Western Generation Agency, Oregon, Cogenerati (Wauna Cogeneration Project), AMT, Series B,
Pennsylvania--8.3%	NR*	NR*	750	Blair County, Pennsylvania, IDA, Revenue Bond Pennsylvania State Project), Series A, 7% due
	NR*	Ba2	2,000	Lehigh County, Pennsylvania, General Purpose Refunding Bonds (Kidspace Obligation Group), Montgomery County, Pennsylvania, Higher Educa Authority, Revenue Refunding Bonds (Faulkeway
	BBB+	NR*	900	6.75% due 11/15/2024
	BBB+	NR*	925	6.75% due 11/15/2030
	AAA	Aaa	2,000	Pennsylvania State Higher Education Assistanc Revenue Bonds, AMT, RIB, 6.173% due 3/01/2022
	NR*	Ba1	1,600	Philadelphia, Pennsylvania, Authority for IDR (Air Cargo), Series A, 7.50% due 1/01/2025
	NR*	NR*	5,500	Commercial Development, 7.75% due 12/01/201
	A1+	VMIG1@	1,200	Philadelphia, Pennsylvania, Hospitals and Hig Facilities Authority, Hospital Revenue Bonds



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				of Philadelphia Project), VRDN, Series A, 1.8
Rhode Island--1.0%	BBB	Baa2	1,770	Rhode Island State Health and Educational Building Hospital Financing Revenue Bonds (Lifespan Obligation) due 8/15/2032
South Carolina--1.2%	BBB+	Baa2	1,100	Medical University, South Carolina, Hospital Facility Revenue Refunding Bonds, Series A, 6.625% due 8/15/2031
	BBB-	NR*	1,000	South Carolina Jobs, EDA, Revenue Bonds (Myrtle Beach Convention Center), Series A, 6.625% due 4/01/2036
Texas--6.3%	BBB-	Baa3	1,000	Austin, Texas, Convention Center Revenue Bonds (Austin Convention Center Enterprises Inc.), First Tier, Series A, 6.70% due 8/15/2031
	A1+	VMIG1@	2,030	Bell County, Texas, Health Facilities Development Hospital Revenue Bonds (Scott & White Memorial Hospital), Series 2001-1, 1.85% due 8/15/2031
	A1+	VMIG1@	1,300	Series 2001-2, 1.85% due 8/15/2031
	A	A3	2,500	Brazos River, Texas, Harbor Navigation District Environmental Revenue Refunding Bonds (Dow Chemical Company), Series A-7, 6.625% due 5/15/2033
	A1+	NR*	1,000	Harris County, Texas, Health Facilities Development Hospital Revenue Refunding Bonds (Methodist Hospital), Series A, 6.625% due 12/01/2025 (c)
	BBB+	Baa1	3,500	Lower Colorado River Authority, Texas, PCR (Semiconductor), AMT, 6.375% due 4/01/2027
Utah--1.2%	NR*	NR*	2,240	Carbon County, Utah, Solid Waste Disposal Revenue Bonds (Laidlaw Environmental), AMT, Series A, 7.45% due 8/15/2031
Virginia--5.9%	NR*	NR*	2,500	Dulles Town Center, Virginia, Community Development Assessment Tax (Dulles Town Center Project), Series A, 7.50% due 1/01/2036
	NR*	NR*	3,000	Pittsylvania County, Virginia, IDA, Revenue Bonds (Pittsylvania County), Series A, 7.50% due 1/01/2036
	NR*	Ba1	6,200	Pocahontas Parkway Association, Virginia, Toll Road Revenue Bonds, First Tier, Sub-Series C, 6.25%** due 8/15/2031
	NR*	Ba1	6,200	First Tier, Sub-Series C, 6.25%** due 8/15/2031
	BBB-	Baa3	32,600	Senior Series B, 5.875%** due 8/15/2025
Washington--1.3%	NR*	NR*	2,600	Port Seattle, Washington, Special Facilities (Northwest Airlines Project), AMT, 7.25% due 8/15/2031
				Total Municipal Bonds (Cost--\$184,814)--98.6%
				Shares Held
Common Stocks--1.1%			181,353	Horizon Natural Resources (d) (e)
				Total Common Stocks (Cost--\$1,995)--1.1%
				Total Investments (Cost--\$186,809)--99.7%
				Other Assets Less Liabilities--0.3%
				Net Assets--100.0%

(a) AMBAC Insured.

(b) The interest rate is subject to change periodically and inversely based

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upon prevailing market rates. The interest rate shown is the rate in effect at June 30, 2002.

- (c) The interest rate is subject to change periodically based upon prevailing market rates. The interest rate shown is the rate in effect at June 30, 2002.
- (d) Non-income producing security.
- (e) Represents entitlement received from a bankruptcy exchange for Peninsula Ports, 6.90% due 5/22/2022.
- \* Not Rated.
- \*\* Represents a zero coupon bond; the interest rate shown reflects the effective yield at the time of purchase by the Fund.
- @ Highest short-term rating by Moody's Investors Service, Inc.

Ratings of issues shown have not been audited by Deloitte & Touche LLP.

See Notes to Financial Statements.

Quality Profile (unaudited)

The quality ratings of securities in the Fund as of June 30, 2002 were as follows:

S&P Rating/Moody's Rating	Percent of Net Assets
AAA/Aaa	1.2%
A/A	1.4
BBB/Baa	16.0
BB/Ba	14.6
B/B	7.5
CCC/Caa	1.3
NR (Not Rated)	51.0
Other+	5.6

+ Temporary investments in short-term municipal securities.

Apex Municipal Fund, Inc., June 30, 2002

STATEMENT OF ASSETS, LIABILITIES AND CAPITAL

As of June 30, 2002

Assets:	Investments, at value (identified cost--\$186,809,125)
	Cash
	Receivables:
	Interest
	Securities sold
	Prepaid expenses and other assets
	Total assets

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Liabilities:	Payables:
	Securities purchased .....
	Investment adviser .....
	Dividends to shareholders .....
	Accrued expenses .....
	Total liabilities .....

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Net Assets:	Net assets .....
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Capital:	Common Stock, \$.10 par value, 150,000,000 shares authorized; 19,596,732 shares issued and outstanding .....
	Paid-in capital in excess of par .....
	Undistributed investment income--net .....
	Accumulated realized capital losses on investments--net .....
	Unrealized depreciation on investments--net .....
	Total accumulated losses--net .....
	Total capital--Equivalent to \$9.24 net asset value per share of Common Stock (market price--\$8.39) .....

See Notes to Financial Statements.

STATEMENT OF OPERATIONS

For the Year Ended June 30, 2002

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Investment Income:	Interest .....
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Expenses:	Investment advisory fees .....
	Professional fees .....
	Accounting services .....
	Transfer agent fees .....
	Printing and shareholder reports .....
	Directors' fees and expenses .....
	Listing fees .....
	Custodian fees .....
	Pricing fees .....
	Other .....
	Total expenses .....
	Investment income--net .....

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Realized & Unrealized Loss on Investments--Net:	Realized loss on investments--net .....
	Change in unrealized depreciation on investments--net .....
	Total realized and unrealized loss on investments--net .....

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Net Increase in Net Assets Resulting from Operations .....

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN NET ASSETS

Increase (Decrease) in Net Assets:

Operations:	Investment income--net .....
	Realized loss on investments--net .....
	Change in unrealized depreciation on investments--net .....
	Net increase in net assets resulting from operations .....
Dividends to Shareholders:	Investment income--net .....
	Net decrease in net assets resulting from dividends to shareholders .....
Net Assets:	Total increase (decrease) in net assets .....
	Beginning of year .....
	End of year* .....
	* Undistributed investment income--net .....

See Notes to Financial Statements.

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Apex Municipal Fund, Inc., June 30, 2002

FINANCIAL HIGHLIGHTS

The following per share data and ratios have been derived from information provided in the financial statements.

		For the	
		2002	2001
	Increase (Decrease) in Net Asset Value:		
Per Share Operating	Net asset value, beginning of year .....	\$ 9.45	\$ 9.33

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Performance:	Investment income--net .....	.58	.59
	Realized and unrealized gain (loss) on investments--net .....	(.22)	.13
	Total from investment operations .....	.36	.72
	Less dividends from investment income--net .....	(.57)	(.60)
	Net asset value, end of year .....	\$ 9.24	\$ 9.45
	Market price per share, end of year .....	\$ 8.39	\$ 9.10
=====			
Total Investment	Based on market price per share .....	(1.64%)	9.05%
Return:*	Based on net asset value per share .....	4.31%	8.48%
=====			
Ratios to Average	Expenses .....	.87%	.82%
Net Assets:	Investment income--net .....	6.19%	6.35%
=====			
Supplemental	Net assets, end of year (in thousands) .....	\$181,093	\$185,246
Data:	Portfolio turnover .....	25%	17%
=====			

\* Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Total investment returns exclude the effects of sales charges.

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies:

Apex Municipal Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940 as a non-diversified, closed-end management investment company. The Fund's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, which may require the use of management accruals and estimates. The Fund determines and makes available for publication the net asset value of its Common Stock on a weekly basis. The Fund's Common Stock is listed on the New York Stock Exchange under the symbol APX. The following is a summary of significant accounting policies followed by the Fund.

(a) Valuation of investments--Municipal bonds are traded primarily in the over-the-counter markets and are valued at the most recent bid price or yield equivalent as obtained by the Fund's pricing service from dealers that make markets in such securities. Financial futures contracts and options thereon, which are traded on exchanges, are valued at their closing prices as of the close of such exchanges. Options written or purchased are valued at the last sale price in the case of exchange-traded options. In the case of options traded in the over-the-counter market, valuation is the last asked price (options written) or the last bid price (options purchased). Securities with remaining maturities of sixty days or less are valued at amortized cost, which

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approximates market value. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund, including valuations furnished by a pricing service retained by the Fund, which may utilize a matrix system for valuations. The procedures of the pricing service and its valuations are reviewed by the officers of the Fund under the general supervision of the Board of Directors.

(b) Derivative financial instruments--The Fund may engage in various portfolio investment strategies to increase or decrease the level of risk to which the Fund is exposed more quickly and efficiently than transactions in other types of instruments. Losses may arise due to changes in the value of the contract or if the counterparty does not perform under the contract.

o Financial futures contracts--The Fund may purchase or sell financial futures contracts and options on such futures contracts for the purpose of hedging the market risk on existing securities or the intended purchase of securities. Futures contracts are contracts for delayed delivery of securities at a specific future date and at a specific price or yield. Upon entering into a contract, the Fund deposits and maintains as collateral such initial margin as required by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as variation margin and are recorded by the Fund as unrealized gains or losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

o Options--The Fund is authorized to write covered call options and purchase put options. When the Fund writes an option, an amount equal to the premium received by the Fund is reflected as an asset and an equivalent liability. The amount of the liability is subsequently marked to market to reflect the current market value of the option written.

When a security is purchased or sold through an exercise of an option, the related premium paid (or received) is added to (or deducted from) the basis of the security acquired or deducted from (or added to) the proceeds of the security sold. When an option expires (or the Fund enters into a closing transaction), the Fund realizes a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction exceeds the premium paid or received).

Written and purchased options are non-income producing investments.

(c) Income taxes--It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to

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Apex Municipal Fund, Inc., June 30, 2002

### NOTES TO FINANCIAL STATEMENTS (concluded)

regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no Federal income tax provision is required.

(d) Security transactions and investment income--Security transactions are recorded on the dates the transactions are entered into (the trade dates). Realized gains and losses on security transactions are determined on the

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identified cost basis. Interest income is recognized on the accrual basis.

As required, effective July 1, 2001, the Fund has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing all premiums and discounts on debt securities. The cumulative effect of this accounting change had no impact on total net assets of the Fund, but resulted in a \$34,920 increase in cost of securities (which, in turn, results in a corresponding \$34,920 increase in net unrealized depreciation and a corresponding \$34,920 increase in undistributed net investment income), based on securities held by the Fund as of June 30, 2001.

The effect of this change for the year ended June 30, 2002 was to increase net investment income by \$61,069, increase net unrealized depreciation by \$87,598 and increase net realized capital losses by \$8,391. The statement of changes in net assets and financial highlights for prior periods have not been restated to reflect this change in presentation.

(e) Dividends and distributions--Dividends from net investment income are declared daily and paid monthly. Distributions of capital gains are recorded on the ex-dividend dates.

(f) Reclassification--Accounting principles generally accepted in the United States of America require that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. Accordingly, the current year's permanent book/tax differences of \$2,776,491 have been reclassified between paid-in capital in excess of par and accumulated net realized capital losses, \$80,487 has been reclassified between paid-in capital in excess of par and undistributed net investment income and \$75,714 has been reclassified between undistributed net investment income and accumulated net realized capital losses. These reclassifications have no effect on net assets or net asset value per share.

### 2. Investment Advisory Agreement and Transactions with Affiliates:

The Fund has entered into an Investment Advisory Agreement with Fund Asset Management, L.P. ("FAM"). The general partner of FAM is Princeton Services, Inc. ("PSI"), an indirect, wholly-owned subsidiary of Merrill Lynch & Co., Inc. ("ML & Co."), which is the limited partner.

FAM is responsible for the management of the Fund's portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of the Fund. For such services, the Fund pays a monthly fee at an annual rate of .65% of the Fund's average weekly net assets.

For the year ended June 30, 2002, the Fund reimbursed FAM \$10,143 for certain accounting services.

Certain officers and/or directors of the Fund are officers and/or directors of FAM, PSI, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and/or ML & Co.

### 3. Investments:

Purchases and sales of investments, excluding short-term securities, for the year ended June 30, 2002 were \$45,049,177 and \$52,053,383, respectively.

Net realized losses for the year ended June 30, 2002 and net unrealized losses as of June 30, 2002 were as follows:

	Realized Losses	Unrealized Losses
--	--------------------	----------------------

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Long-term investments .....	\$ (4,092,274)	\$ (6,263,002)
	-----	-----
Total .....	\$ (4,092,274)	\$ (6,263,002)
	=====	=====

As of June 30, 2002, net unrealized depreciation for Federal income tax purposes aggregated \$6,175,404, of which \$5,026,474 related to appreciated securities and \$11,201,878 related to depreciated securities. The aggregate cost of investments at June 30, 2002 for Federal income tax purposes was \$186,721,527.

4. Common Stock Transactions:

At June 30, 2002, the Fund had one class of shares of Common Stock, par value \$.10 per share, of which 150,000,000 shares were authorized. Shares issued and outstanding during the years ended June 30, 2002 and June 30, 2001 remained constant.

5. Distributions to Shareholders:

On July 9, 2002, an ordinary income dividend of \$.044277 was declared. The dividend was paid on July 30, 2002, to shareholders of record on June 18, 2002.

The tax character of distributions paid during the fiscal years ended June 30, 2002 and June 30, 2001 was as follows:

	6/30/2002	6/30/2001
Distributions paid from:		
Tax-exempt income .....	\$11,114,247	\$11,694,527
	-----	-----
Total distributions .....	\$11,114,247	\$11,694,527
	=====	=====

As of June 30, 2002, the components of accumulated losses on a tax basis were as follows:

Undistributed tax-exempt income--net .....	\$ 1,736,391
Undistributed long-term capital gains--net .....	--
	-----
Total undistributed earnings--net .....	1,736,391
Capital loss carryforward .....	(21,453,358) *
Unrealized losses--net .....	(9,919,073) **
	-----
Total accumulated losses--net .....	\$(29,636,040)
	=====

\* On June 30, 2002, the Fund had a net capital loss carryforward of \$21,453,358, of which \$1,754,099 expires in 2003, \$7,056,648 expires in 2004, \$1,311,769 expires in 2005, \$938,156 expires in 2006, \$2,975,000 expires in 2008, \$5,341,699 expires in 2009 and \$2,075,987 expires in 2010. This amount will be available to offset like amounts of any future taxable gains.

\*\* The difference between book-basis and tax-basis net unrealized gains (losses) is attributable primarily to the difference between book and tax amortization methods for premiums and discounts on fixed income securities, the interest accrued on securities in default, the amortized



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premium on securities in default and the deferral of post-October capital losses for tax purposes.

### INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders,  
Apex Municipal Fund, Inc.:

We have audited the accompanying statement of assets, liabilities and capital, including the schedule of investments, of Apex Municipal Fund, Inc. as of June 30, 2002, the related statements of operations for the year then ended and changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years presented. These financial statements and the financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on the financial statements and the financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned at June 30, 2002 by correspondence with the custodian and brokers; when replies were not received from brokers, we performed other auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements and the financial highlights present fairly, in all material respects, the financial position of Apex Municipal Fund, Inc. as of June 30, 2002, the results of its operations, the changes in its net assets, and the financial highlights for the respective stated periods in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP  
New York, New York  
August 9, 2002

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Apex Municipal Fund, Inc., June 30, 2002

### IMPORTANT TAX INFORMATION (unaudited)

All of the net investment income distributions declared monthly by Apex Municipal Fund, Inc. during its taxable year ended June 30, 2002 qualify as tax-exempt interest dividends for Federal income tax purposes.

Please retain this information for your records.

### ABOUT INVERSE FLOATERS

As a part of its investment strategy, the Fund may invest in certain securities whose potential income return is inversely related to changes in a floating interest rate ("inverse floaters"). In general, income on inverse floaters will decrease when short-term interest rates increase and increase when short-term interest rates decrease. Investments in inverse floaters may be characterized as

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derivative securities and may subject the Fund to the risks of reduced or eliminated interest payments and losses of invested principal. In addition, inverse floaters have the effect of providing investment leverage and, as a result, the market value of such securities will generally be more volatile than that of fixed rate, tax-exempt securities. To the extent the Fund invests in inverse securities, the market value of the Fund's portfolio and the net asset value of the Fund's shares may also be more volatile than if the Fund did not invest in these securities.

OFFICERS AND DIRECTORS

Name	Address & Age	Position(s) Held with Fund	Length of Time Served	Principal Occupation During Past 5 Years
=====				
Interested Director				
=====				
Terry K. Glenn*	P.O. Box 9011 Princeton, NJ 08543-9011 Age: 61	President and Director	1999 to present and 1989 to present	Chairman, Americas Region since 2001, Executive Vice President since 198 of Fund Asset Management, L.P. ("FAM") and Merrill Lynch Investment Managers, L.P. ("MLIM"); President Merrill Lynch Mutua Funds since 1999; President of FAM Distributors, Inc. ("FAMD") since 1986 and Director thereo since 1991; Executi Vice President and Director of Princet Services, Inc. ("Princeton Service since 1993; Preside of Princeton Administrators, L.P. since 1988; Directo of Financial Data Services, Inc. sinc 1985.

=====

\* Mr. Glenn is a director, trustee or member of an advisory board of certain investment companies which FAM or MLIM acts as investment adviser. Mr. Glenn is an "interested person" under the Investment Company Act, of the Fund based on his positions as Chairman of FAM, Vice President of FAM and MLIM; President of FAMD; Executive Vice President of Princeton Administrators, L.P. The Director's term is until resignation, removal or death, or until December 31 of the year in which he resigns. Mr. Glenn serves at the pleasure of the Board of Directors.

=====

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Name	Address & Age	Position(s) Held with Fund	Length of Time Served*	Principal Occupation During Past 5 Years
=====				
Independent Directors				
=====				
James H. Bodurtha	P.O. Box 9011 Princeton, NJ 08543-9011 Age: 58	Director	2002 to present	Director and Executive Vice President, The China Business Group Inc. since 1996.
=====				
Joe Grills	P.O. Box 9011 Princeton, NJ 08543-9011 Age: 67	Director	1994 to present	Member of Committee of Investment of Employees Benefit Assets of the Association for Financial Professionals since 1986.
=====				

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Apex Municipal Fund, Inc., June 30, 2002

OFFICERS AND DIRECTORS (concluded)

Name	Address & Age	Position(s) Held with Fund	Length of Time Served*	Principal Occupation During Past 5 Years
=====				
Independent Directors (concluded)				
=====				
Herbert I. London	P.O. Box 9011 Princeton, NJ 08543-9011 Age: 62	Director	2002 to present	John M. Olin Professor of Humanities, New York University since 1993.
=====				
Andre F. Perold	P.O. Box 9011 Princeton, NJ 08543-9011 Age: 49	Director	2002 to present	George Gund Professor of Finance and Banking, Harvard Business School since 2000; Finance Area since 1996.
=====				
Roberta Cooper Ramo	P.O. Box 9011 Princeton, NJ 08543-9011 Age: 59	Director	2002 to present	Shareholder, Modral Sperling, Roehl, Harris & Sisk, P.A. since 1993.
=====				
Robert S. Salomon, Jr.	P.O. Box 9011 Princeton, NJ 08543-9011 Age: 65	Director	1996 to present	Principal of STI Management since 1996.
=====				
Melvin R. Seiden	P.O. Box 9011	Director	1989 to	Director, Silbanc

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Princeton, NJ 08543-9011  
Age: 71

present Properties, Ltd. (n  
estate, investment,  
consulting) since 1  
Chairman and Presid  
of Seiden & de Cuev  
Inc. (private inves  
firm) from 1964 to

=====  
Stephen B. Swensrud      P.O. Box 9011      Director      1989 to      Chairman, Fernwood  
Princeton, NJ 08543-9011      present      Advisors since 1996  
Age: 69  
=====

\* The Director's term is unlimited. Directors serve until their resignation  
December 31 of the year in which they turn 72.

=====  
Name      Address & Age      Position(s) Held with Fund      Length of Time Served\*      Principal Occu  
=====

Fund Officers

=====  
Donald C. Burke      P.O. Box 9011      Vice      1993 to      First Vice Presiden  
Princeton, NJ 08543-9011      President      present      Treasurer thereof s  
Age: 42      and      and      and Treasurer of Pr  
Treasurer      1999 to      President of FAMD s  
present      and MLIM from 1990  
MLIM since 1990.  
=====

Kenneth A. Jacob      P.O. Box 9011      Senior      2001 to      First Vice Presiden  
Princeton, NJ 08543-9011      Vice      present      President thereof f  
Age: 50      President      FAM since 1984.  
=====

John M. Loffredo      P.O. Box 9011      Senior      2002 to      Managing Director o  
Princeton, NJ 08543-9011      Vice      present      President of MLIM f  
Age: 38      President      MLIM from 1991 to 1  
MLIM since 1997.  
=====

Theodore R. Jaeckel Jr.      P.O. Box 9011      Vice      1997 to      Director (Municipal  
Princeton, NJ 08543-9011      President      present      MLIM since 1997; Vi  
Age: 42      and      1997.  
Portfolio  
Manager  
=====

Stephen M. Benham      P.O. Box 9011      Secretary      2002 to      Vice President of F  
Princeton, NJ 08543-9011      present      since 2000; Associa  
Age: 42      1997 to 2000.  
=====

\* Officers of the Fund serve at the pleasure of the Board of Directors

Custodian & Transfer Agent

NYSE Symbol

The Bank of New York  
100 Church Street  
New York, NY 10286

APX

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[LOGO] Merrill Lynch Investment Managers

[GRAPHIC OMITTED]

Apex Municipal Fund, Inc. seeks to provide shareholders with high current income exempt from Federal income taxes by investing primarily in a portfolio of medium-to-lower grade or unrated municipal obligations, the interest on which is exempt from Federal income taxes in the opinion of bond counsel to the issuer.

This report, including the financial information herein, is transmitted to shareholders of Apex Municipal Fund, Inc. for their information. It is not a prospectus. Past performance results shown in this report should not be considered a representation of future performance. Statements and other information herein are as dated and are subject to change.

Apex Municipal Fund, Inc.  
Box 9011  
Princeton, NJ  
08543-9011

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[RECYCLE LOGO] Printed on post-consumer recycled paper

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