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APEX MUNICIPAL FUND INC  
Form N-CSR  
February 21, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT  
INVESTMENT COMPANIES

Investment Company Act file number 811-5729

Apex Municipal Fund, Inc.

Address: P.O. Box 9011  
Princeton, NJ 08543-9011

Name and address of agent for service: Terry K. Glenn, President, Apex Municipal  
Fund, Inc., 800 Scudders Mill Road, Plainsboro, NJ, 08536. Mailing address:  
P.O. Box 9011, Princeton, NJ 08543-9011

Registrant's telephone number, including area code: (609) 282-2800

Date of fiscal year end: 06/30/03

Date of reporting period: 07/01/02 - 12/31/02

Item 1 - Is shareholder report attached? - Y

[LOGO] Merrill Lynch Investment Managers

Semi-Annual Report  
December 31, 2002

Apex  
Municipal Fund,  
Inc.

[www.mlim.ml.com](http://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

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disclosed in the Statement of Assets, Liabilities and Capital, which comprises part of the financial information included in this report.

### Quality Profile

The quality ratings of securities in the Fund as of December 31, 2002 were as follows:

| S&P Rating/Moody's Rating | Percent of Total Investments |
|---------------------------|------------------------------|
| A/A .....                 | 5.6%                         |
| BBB/Baa .....             | 19.6                         |
| BB/Ba .....               | 18.4                         |
| B/B .....                 | 7.3                          |
| CCC/Caa .....             | 0.8                          |
| NR (Not Rated) .....      | 47.6                         |
| Other+ .....              | 0.7                          |

+ Temporary investments in short-term municipal securities.

Apex Municipal Fund, Inc., December 31, 2002

DEAR SHAREHOLDER

For the six months ended December 31, 2002, Apex Municipal Fund, Inc. earned \$.278 per share income dividends, which included earned and unpaid dividends of \$.047. This represents a net annualized yield of 6.25%, based on a period-end net asset value of \$8.84 per share. Over the same period, the Fund's total investment return was -1.07%, based on a change in per share net asset value from \$9.24 to \$8.84, and assuming reinvestment of \$.276 per share income dividends.

### The Municipal Market Environment

During the six-month period ended December 31, 2002, long-term fixed income interest rates continued to move lower. As they had earlier in 2002, declining U.S. equity markets and worldwide political tensions easily overshadowed the incipient U.S. economic recovery allowing bond yields to fall to recent historic low levels. In late July, second quarter 2002 gross domestic product activity was reported at 1.1%, a significant decline from the first quarter rate of 5%. This rate suggested that continued declines in U.S. equity prices were negatively affecting not only consumer and business confidence but undermining much of the economic growth seen earlier this year. Some analysts extrapolated that recent weakness would continue, if not accelerate. This brought about forecasts that the Federal Reserve Board would soon be obliged to lower short-term interest rates both to offset equity market declines and boost consumer and business spending. The possibility of lower short-term interest rates helped push longer-term bond yields lower still during July and August. The dramatic decline in U.S. equity prices in late August and September triggered a significant fixed income rally as investors sought the safe-haven status of U.S. Treasury securities. By the end of September, U.S. Treasury bond yields had fallen to 4.66%.

Bolstered by an unexpected decline in the national unemployment rate to 5.6% in early October, U.S. equity markets staged a strong rally throughout much of the month. The Standard & Poor's 500 (S&P 500) Index rose over 8% for the month, triggered by stronger-than-expected earnings reports from a large number of companies, such as General Electric Company, International Business Machines

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Corporation and Microsoft Corporation. As they have throughout most of the period, bond prices traded in an inverse relationship to equity prices. Consequently, as stocks rallied, bond yields rose in October, despite generally weak economic releases. During October, the U.S. housing sector remained quite robust, but retail sales and industrial production slowed. Fixed income bond yields remained under pressure in November as U.S. equity markets continued to strengthen. During November, the S&P 500 Index rose an additional 5.5%. Equity prices were supported by signs of further U.S. economic recovery, especially improving labor market activity. By the end of November, third quarter U.S. gross domestic product (GDP) growth was revised to 4%. Financial conditions were also strengthened by a larger-than-expected reduction in short-term interest rates by the Federal Reserve Board in early November. The Federal Funds target rate was lowered 50 basis points (.50%) to 1.25%, its lowest level since the 1960s. Recent action by the Federal Reserve Board was largely viewed as being taken to bolster the sputtering U.S. economic recovery. Rebounding U.S. equity markets and the prospects for a more substantial U.S. economic recovery pushed long-term U.S. Treasury yield levels to 5.10% by late November.

In December, softer equity prices and renewed investor concerns about potential U.S. military action against Iraq again combined to push long-term interest rates lower. The S&P 500 Index declined more than 5% in December on disappointing earnings reports and anticipated weak holiday sales. During December 2002, as both national and international investors sought the safe-haven sanctuary of U.S. Treasury issues, long-term U.S. Treasury yields declined over 25 basis points to end the period at 4.75%. During the last six months, long-term U.S. Treasury bond yields declined 75 basis points.

For the six-month period ended December 31, 2002, tax-exempt bond prices also generally rose. In recent months, municipal bond yields have declined in response to the positive fixed income environment engendered by falling equity valuations. Price advances in tax-exempt issues have not been able to keep pace with the U.S. Treasury bond price improvement as municipal bonds cannot offer foreign investors the safe-haven status U.S. Treasury obligations enjoy in periods of economic and political instability. Additionally, tax-exempt bond issuance increased dramatically in the last half of 2002 removing some of the positive technical support the municipal bond market enjoyed earlier this year. By the end of 2002, long-term municipal bond yields, as measured by the Bond Buyer Revenue Bond Index, stood at 5.16%, a decline of 25 basis points during the last six months.

Investor demand for tax-exempt products remained positive throughout the period. In addition to the approximately \$75 billion investors received from June to August 2002 from bond maturities, coupon income and proceeds from early redemptions, investors are expected to receive approximately \$30 billion from these sources in January 2003. The Investment Company Institute reported that in 2002 municipal bond funds net cash flows continued to be very positive at nearly \$16 billion, an increase of more than 25% compared to 2001. However, these positive demand factors have not been able to offset the increase in tax-exempt new-issue supply that has resulted in the underperformance seen in recent months. This price underperformance served to make municipal bonds a particularly attractive purchase relative to their taxable counterparts. Throughout most of the yield curve, municipal bonds have been available for purchase at yields near or exceeding those of comparable U.S. Treasury issues. Compared to their recent historical averages of 82% - 88% of U.S. Treasury yields, municipal bond yields ratios at their current 95% - 105% range are likely to prove attractive to long-term investors.

Continued uncertainty regarding the pace of the current U.S. economic recovery as well as the resolution of the U.N./Iraq confrontation are likely to keep interest rates near their present levels for the immediate future. Equity market declines over the past three years have helped push interest rates lower than economic fundamentals alone would support. When U.S. business conditions improve

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and equity markets stabilize, however, any associated interest rate increases should not be extreme. Inflationary pressures are negligible and any move by the Federal Reserve Board to raise short-term interest rates is unlikely before late 2003. As equity valuations are likely to only gradually recover, U.S. economic recovery is also likely to be a moderate process. This suggests that the pace of any interest rate increases will be gradual. As the municipal bond market's strong technical position can be expected to remain supportive in the coming months, future tax-exempt interest rate increases should be more restrained than their taxable counterparts.

### Portfolio Strategy

During the six-month period ended December 31, 2002, the high-yield tax-exempt market came under renewed pressure, as valuations remained heavily influenced by developments in the taxable corporate high-yield market. Late last summer, weaker equity markets contributed to a widening of credit spreads amid mounting investor concerns about corporate profits and the reliability of company financial statements. Portfolio investments in tax-exempt corporate-backed debt were similarly affected. Airline obligations were particularly hard hit after the sector rally earlier this year proved to be short-lived. These and other economically cyclical holdings contributed to the lackluster results during the period as high-yield fixed income markets, beset by declining liquidity and credit quality, have not participated in the rally enjoyed by both the Treasury and high grade municipal markets. Investors, perhaps more optimistic about prospects for an economic recovery, have exhibited a heightened level of risk tolerance.

Factors that had a positive effect on the Fund included concentrations in health care and tax-backed residential sectors. These sectors were largely immune to the pressures affecting corporate debt and, in fact, exhibited a tendency to rise in value relative to widely watched market benchmarks. While reasons for this strong performance vary, there is

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Apex Municipal Fund, Inc., December 31, 2002

little doubt that widely publicized reports of corporate malfeasance influenced investors' preferences when making investment decisions. As a consequence, demand for high-yield municipal bonds shifted away from corporate-related debt to other sectors unaffected by these reports. Many of the portfolio's purchases during the period occurred within these sectors, which should help to mute some of the volatility associated with corporate issuance. Nevertheless, the Fund remains positioned to benefit from an improving economic environment. Corporate-related debt still constitutes a significant concentration within the portfolio and, given the cyclical nature of many of these holdings, the expected contraction in credit spreads is likely to provide a material and beneficial effect on Fund 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

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President and Director

/s/ Kenneth A. Jacob

Kenneth A. Jacob  
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

January 5, 2003

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 Corporation of America--Jefferson Sm 8% due 4/01/2009 |
| Alaska--1.2%      | NR*         | NR*             | 2,000       | Alaska Industrial Development and Ex Bonds (Williams Lynxs Alaska Cargopo                   |
| Arizona--2.6%     | NR*         | NR*             | 1,500       | Maricopa County, Arizona, IDA, M/F H (Sun King Apartments Project), Sub-S due 11/01/2031    |
|                   | NR*         | Caa2            | 4,000       | Phoenix, Arizona, IDA, Airport Facil Bonds (America West Airlines Inc. Pr due 4/01/2023     |
|                   | B+          | Ba3             | 1,585       | Pima County, Arizona, IDA, Industria (Tucson Electric Power Company Proje due 9/01/2029     |
| Colorado--5.9%    | NR*         | Baa2            | 3,000       | Denver, Colorado, Urban Renewal Auth Revenue Bonds (Pavilions), AMT, 7.75                   |
|                   | NR*         | NR*             | 2,800       | Elk Valley, Colorado, Public Improve (Public Improvement Fee), Series A,                    |
|                   | NR*         | NR*             | 1,640       | Lincoln Park, Colorado, Metropolitan 7.75% due 12/01/2026                                   |
|                   | NR*         | NR*             | 1,235       | North Range, Colorado, Metropolitan 7.25% due 12/15/2031                                    |
|                   | BB+         | Ba1             | 1,145       | Northwest Parkway, Colorado, Public Bonds, First Tier, Sub-Series D, 7.1                    |
| Connecticut--0.8% | NR*         | B1              | 1,305       | New Haven, Connecticut, Facility Rev Corporation Project), 9.25% due 5/01                   |
| Florida--10.3%    | NR*         | NR*             | 920         | Arbor Greene Community Development D  |

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|     |     |       |   |
|-----|-----|-------|---|
| NR* | NR* | 1,370 | Assessment Revenue Bonds, 7.60% due<br>Bonnet Creek Resort, Florida, Commu  |
| NR* | NR* | 1,685 | Special Assessment Revenue Bonds, 7.<br>Capital Projects Finance Authority,<br>Retirement Revenue Bonds (Glenridge<br>Series A, 8% due 6/01/2032      |
| NR* | NR* | 2,500 | Hillsborough County, Florida, IDA, E  |
| NR* | NR* | 920   | Bonds (National Gypsum), AMT, Series<br>Lakewood Ranch, Florida, Community D<br>Number 5, Special Assessment Revenue<br>Series A, 6.70% due 5/01/2031 |
| NR* | NR* | 3,100 | Lee County, Florida, IDA, Health Car<br>(Cypress Cove Healthpark), Series A,  |

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      |
| VRDN | Variable Rate Demand Notes           |

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Apex Municipal Fund, Inc., December 31, 2002

SCHEDULE OF INVESTMENTS (continued) (in Thousands)

| STATE                  | S&P<br>Ratings | Moody's<br>Ratings | Face<br>Amount | Issue  |
|------------------------|----------------|--------------------|----------------|--|
| Florida<br>(concluded) | NR*            | NR*                | \$ 1,650       | Orlando, Florida, Urban Community De<br>Capital Improvement Special Assessme<br>6.95% due 5/01/2033                |
|                        | NR*            | NR*                | 3,480          | Parkway Center, Florida, Community D<br>Special Assessment Refunding Bonds,<br>due 5/01/2010                       |
|                        | NR*            | NR*                | 3,025          | Tampa Palms, Florida, Open Space and<br>Development District Revenue Bonds,<br>(Richmond Place Project), 7.50% due |
| Georgia--1.6%          | NR*            | NR*                | 2,000          | Atlanta, Georgia, Tax Allocation Rev<br>Station Project), 7.90% due 12/01/20                                       |
|                        | BBB-           | Ba1                | 1,000          | Effingham County, Georgia, IDA, PCR,<br>Pacific Corporation Project), 6.50%  |
| Idaho--0.9%            | NR*            | NR*                | 1,470          | Idaho Health Facilities Authority, R   |

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(Valley Vista Care Corporation), Series  
due 11/15/2016

|                     |      |        |       |   |
|---------------------|------|--------|-------|---|
| Illinois--3.4%      | BB-  | B2     | 3,000 | Chicago, Illinois, O'Hare International<br>Facility Revenue Refunding Bonds (Am<br>Project), 8.20% due 12/01/2024     |
|                     | NR*  | NR*    | 400   | Chicago, Illinois, Special Assessment<br>6.75% due 12/01/2032   |
|                     | NR*  | NR*    | 3,190 | Illinois Development Finance Authority<br>Health Care Centers Facilities Acqui<br>7.75% due 12/01/2016                |
|                     | A1+  | VMIG1+ | 250   | Illinois Health Facilities Authority<br>Bonds, VRDN (a):<br>(Resurrection Health Care), Series                        |
|                     | A1+  | VMIG1+ | 500   | (University of Chicago Hospitals),  |
| Indiana--2.6%       | NR*  | NR*    | 2,600 | Indiana State Educational Facilities<br>Refunding Bonds (Saint Joseph's Coll<br>due 10/01/2029                        |
|                     | NR*  | NR*    | 1,820 | Indianapolis, Indiana, M/F Revenue B<br>Club Project), Series B, 7.50% due 1  |
| Iowa--2.7%          | NR*  | NR*    | 4,000 | Iowa Finance Authority, Health Care<br>Refunding Bonds (Care Initiatives Pr<br>due 7/01/2025                          |
| Kansas--0.6%        | BB+  | NR*    | 1,000 | Lenexa, Kansas, Health Care Facility<br>Village Inc.), Series C, 6.875% due   |
| Louisiana--3.2%     | BB-  | NR*    | 5,500 | Port New Orleans, Louisiana, IDR, Re<br>Company Project), 7.50% due 7/01/201  |
| Maryland--2.1%      | NR*  | NR*    | 1,875 | Anne Arundel County, Maryland, Speci<br>Bonds (Arundel Mills Project), 7.10%  |
|                     | NR*  | NR*    | 1,500 | Maryland State Energy Financing Admi<br>Obligation Revenue Bonds (Cogenerati<br>AMT, 7.40% due 9/01/2019              |
| Massachusetts--3.9% | BBB  | NR*    | 825   | Massachusetts State Development Fina<br>Recovery Revenue Bonds (Ogden Haverh<br>Series A, 6.70% due 12/01/2014        |
|                     | BB+  | NR*    | 245   | Massachusetts State Development Fina<br>Refunding Bonds (Eastern Nazarine Co<br>5.625% due 4/01/2019                  |
|                     | BB+  | NR*    | 1,220 | 5.625% due 4/01/2029  |
|                     | NR*  | Ba2    | 3,000 | Massachusetts State Health and Educa<br>Authority, Revenue Refunding Bonds (I<br>Issue), Series A, 5.90% due 4/01/202 |
|                     | NR*  | NR*    | 1,700 | Massachusetts State Industrial Finan<br>Sewer Facility (Resource Control Com<br>due 6/01/2010                         |
|                     | BBB  | NR*    | 500   | Massachusetts State Industrial Finan<br>Recovery Revenue Refunding Bonds (Og<br>AMT, Series A, 5.60% due 12/01/2019   |
| Michigan--0.6%      | BBB- | Baa3   | 1,000 | Michigan State Hospital Finance Auth<br>Bonds (Detroit Medical Center Obliga<br>6.50% due 8/15/2018                   |
| Minnesota--1.8%     | NR*  | NR*    | 3,160 | Anoka, Minnesota, M/F Housing Revenue<br>Apartments Project), 9.375% due 12/0   |

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|                      |      |      |       |  |
|----------------------|------|------|-------|--|
| Missouri--0.7%       | NR*  | NR*  | 1,200 | Fenton, Missouri, Tax Increment Revenue Improvement Bonds (Gravois Bluffs),  |
| Nevada--1.3%         | BBB  | Baa2 | 2,500 | Henderson, Nevada, Health Care Facility Healthcare West--Saint Rose Dominican due 7/01/2026                                      |
| New Jersey--12.5%    | NR*  | NR*  | 2,000 | Camden County, New Jersey, Improvement Revenue Bonds (Holt Hauling & Warehouse) 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 Authority, Solid Waste Resource Recovery Bonds, AMT, Series A, 7.50% due 12/01/2014 |
|                      | BBB- | NR*  | 1,400 | New Jersey EDA, First Mortgage Revenue Bonds (New Jersey State Office Building Village), Series C, 5.50% due 1/01/2026           |
|                      | NR*  | Ba3  | 1,500 | New Jersey EDA, IDR, Refunding (Newark Hotel), 7% due 10/01/2014   |
|                      | NR*  | NR*  | 1,000 | New Jersey EDA, Retirement Community (Cedar Crest Village Inc. Facility)   |
|                      | NR*  | NR*  | 3,700 | (Seabrook Village Inc.), 8.125% due 12/01/2014   |
|                      | B+   | B3   | 3,050 | New Jersey EDA, Special Facility Revenue Bonds (Airlines Inc. Project), AMT, 6.625% due 12/01/2014                               |
|                      | NR*  | Baa1 | 1,410 | New Jersey Health Care Facilities Financing Bonds (South Jersey Hospital), 6% due 12/01/2014                                     |
|                      | A    | A1   | 2,485 | Tobacco Settlement Financing Corporation Asset-Backed Revenue Refunding Bonds  |
| New Mexico--3.0%     | B+   | Ba3  | 5,000 | Farmington, New Mexico, PCR, Refunding Power Co.--San Juan Project), Series  |
| New York--2.4%       | NR*  | NR*  | 350   | New York City, New York, City IDA, C Bonds, Series C, 6.80% due 6/01/2028  |
|                      | BBB- | Ba2  | 1,730 | New York City, New York, City IDA, S Bonds (British Airways PLC Project), due 12/01/2032   |
|                      | BBB  | Ba1  | 700   | Utica, New York, GO, Public Improvement 9.25% due 8/15/2004  |
|                      | BBB  | Ba1  | 700   | 9.25% due 8/15/2005  |
|                      | BBB  | Ba1  | 635   | 9.25% due 8/15/2006  |
| North Carolina--1.0% | NR*  | NR*  | 1,600 | North Carolina Medical Care Commission First Mortgage Revenue Refunding Bonds (Project), 7% due 10/01/2031                       |
| Ohio--1.1%           | B+   | B3   | 3,135 | Cleveland, Ohio, Airport Special Revenue Bonds (Continental Airlines Inc. Project),  |

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Apex Municipal Fund, Inc., December 31, 2002

SCHEDULE OF INVESTMENTS (concluded)

(in Thousands)

| STATE | S&P Ratings | Moody's Ratings | Face Amount | Issue |
|-------|-------------|-----------------|-------------|-------|
|-------|-------------|-----------------|-------------|-------|



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|                          |      |      |        |  |
|--------------------------|------|------|--------|--|
| Oklahoma--0.2%           | BB-  | B2   | \$ 420 | Tulsa, Oklahoma, Municipal Airport T<br>Bonds (AMR), AMT, Series A, 5.80% du   |
| Oregon--0.6%             | NR*  | NR*  | 1,000  | Western Generation Agency, Oregon, C<br>Revenue Bonds (Wauna Cogeneration Pr<br>7.40% due 1/01/2016  |
| Pennsylvania--7.9%       | NR*  | NR*  | 750    | Blair County, Pennsylvania, IDA, Rev<br>Pennsylvania State Project), Series  |
|                          | NR*  | NR*  | 1,750  | Chester County, Pennsylvania, Health<br>Authority, Senior Living Revenue Ref<br>Pond Inc. Project), 7.625% due 7/01/                                       |
|                          | NR*  | Ba2  | 2,000  | Lehigh County, Pennsylvania, General<br>Revenue Refunding Bonds (Kidspeace O<br>due 11/01/2023   |
|                          | BBB+ | NR*  | 900    | Montgomery County, Pennsylvania, Hig<br>Authority, Revenue Refunding Bonds (   |
|                          | BBB+ | NR*  | 925    | Project):<br>6.75% due 11/15/2024  |
|                          | A1+  | NR*  | 300    | 6.75% due 11/15/2030   |
|                          | NR*  | Ba1  | 1,600  | Pennsylvania State Higher Educationa<br>Revenue Refunding Bonds (Carnegie Me   |
|                          | NR*  | NR*  | 5,500  | Series C, 1.65% due 11/01/2029 (a)<br>Philadelphia, Pennsylvania, Authorit<br>(Air Cargo), Series A, 7.50% due 1   |
| Rhode Island--0.5%       | BBB  | Baa2 | 930    | Commercial Development, 7.75% due  |
| South Carolina--<br>0.6% | BBB- | NR*  | 1,000  | Rhode Island State Health and Educat<br>Hospital Financing Revenue Bonds (Li<br>6.50% due 8/15/2032  |
| Tennessee--0.5%          | BBB- | Ba1  | 840    | South Carolina Jobs, EDA, Revenue Bo<br>Convention Center), Series A, 6.625%   |
| Texas--10.3%             | BBB- | Baa3 | 1,000  | McMinn County, Tennessee, IDB, Solid<br>(Recycling Facility--Calhoun Newspri<br>due 12/01/2022   |
|                          | BBB  | Baa2 | 1,000  | Austin, Texas, Convention Center Rev<br>Enterprises Inc.), First Tier, Serie<br>due 1/01/2028  |
|                          | BBB  | Baa2 | 2,870  | Brazos River Authority, Texas, PCR,<br>(TXU Electric Company Project), Se  |
|                          | A    | A3   | 2,500  | (Utilities Electric Company), Seri<br>Brazos River, Texas, Harbor Navigati<br>County Environmental Revenue Refundi<br>Company Project), AMT, Series A-7, 6 |
|                          | NR*  | Baa2 | 900    | Gulf Coast, Texas, IDA, Solid Waste<br>(Citgo Petroleum Corporation Project  |
|                          | BBB  | Baa2 | 3,335  | Gulf Coast, Texas, Waste Disposal Au<br>Refunding Bonds (International Paper<br>6.10% due 8/01/2024  |
|                          | A1+  | NR*  | 100    | Harris County, Texas, Health Facilit<br>Corporation, Revenue Refunding Bonds   |
|                          | A-   | Baa1 | 3,500  | VRDN, 1.65% due 12/01/2032 (a)<br>Lower Colorado River Authority, Texa<br>Semiconductor), AMT, 6.375% due 4/01   |
|                          | BBB  | Baa2 | 890    | Sabine River Authority, Texas, PCR,<br>Company Project), Series C, 4% due 5  |
|                          | NR*  | Baa3 | 1,740  | Texas State Student Housing Corporat   |

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Revenue Bonds (MidWestern State Univ  
due 9/01/2022

|                      |      |      |        |   |
|----------------------|------|------|--------|---|
| Utah--1.3%           | NR*  | NR*  | 2,240  | Carbon County, Utah, Solid Waste Dis<br>Bonds (Laidlaw Environmental), AMT,<br>due 7/01/2017                                  |
| Virginia--6.0%       | NR*  | NR*  | 2,500  | Dulles Town Center, Virginia, Commu<br>Special Assessment Tax (Dulles Town<br>due 3/01/2026                                   |
|                      | NR*  | NR*  | 3,000  | Pittsylvania County, Virginia, IDA,<br>Exempt-Facility, AMT, Series A, 7.50<br>Pocahontas Parkway Association, Virg<br>Bonds: |
|                      | NR*  | Ba1  | 6,200  | First Tier, Sub-Series C, 6.25%**   |
|                      | NR*  | Ba1  | 6,200  | First Tier, Sub-Series C, 6.25%**   |
|                      | BB   | NR*  | 32,600 | Senior Series B, 5.875%** due 8/15  |
| Washington--1.7%     | NR*  | NR*  | 2,600  | Port Seattle, Washington, Special Fa<br>(Northwest Airlines Project), AMT, 7  |
|                      | A    | A1   | 1,050  | Tobacco Settlement Authority, Washin<br>Revenue Bonds, 6.625% due 6/01/2032   |
| Wyoming--1.0%        | BB+  | Ba3  | 1,800  | Sweetwater County, Wyoming, Solid Wa<br>(FMC Corporation Project), AMT, Seri  |
| Virgin Islands--1.2% | BBB- | Baa3 | 2,100  | Virgin Islands Government Refinery F<br>(Hovensa Coker Project), AMT, 6.50%   |
|                      |      |      |        | Total Municipal Bonds (Cost--\$183,77   |

| Ratings                                    | Shares<br>Held |                                   |
|--|----------------|-----------------------------------|
| Common Stock--0.0%                         | 181            | Horizon Natural Resources (b) (c) |
| Total Common Stock (Cost--\$1,995)--0      |                |                                   |
| Total Investments (Cost--\$185,769)--98.6% |                |                                   |
| Other Assets Less Liabilities--1.4%        |                |                                   |
| Net Assets--100.0%                         |                |                                   |

\* 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.

(a) The interest rate is subject to change periodically based upon prevailing market rates. The interest rate shown is the rate in effect at December 31, 2002.

(b) Non-income producing security.

(c) Represents entitlement received from a bankruptcy exchange for Peninsula Ports, 6.90% due 5/22/2022.

See Notes to Financial Statements.

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Apex Municipal Fund, Inc., December 31, 2002

STATEMENT OF ASSETS, LIABILITIES AND CAPITAL

As of December 31, 2002

|              |   |
|--------------|---|
| =====        |   |
| Assets:      | Investments, at value (identified cost--\$185,769,050) .....  |
|              | Cash .....  |
|              | Interest receivable .....   |
|              | Prepaid expenses and other assets .....   |
|              | Total assets .....  |
| =====        |   |
| Liabilities: | Payables:   |
|              | Securities purchased .....  |
|              | Investment adviser .....  |
|              | Dividends to shareholders .....   |
|              | Accrued expenses .....  |
|              | Total liabilities .....   |
| =====        |   |
| Net Assets:  | Net assets .....  |
| =====        |   |
| Capital:     | Common Stock, \$.10 par value, 150,000,000 shares authorized;<br>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 \$8.84 net asset value per share of<br>Common Stock (market price--\$7.95) .....   |
| =====        |   |

See Notes to Financial Statements.

STATEMENT OF OPERATIONS

For the Six Months Ended December 31, 2002

|            |                    |
|------------|--------------------|
| =====      |                    |
| Investment | Interest .....     |
| Income:    | Dividends .....    |
|            | Total income ..... |

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|           |   |
|-----------|---|
| =====     |   |
| Expenses: | Investment advisory fees .....                |
|           | Professional fees .....                       |
|           | Accounting services .....                     |
|           | Printing and shareholder reports .....        |
|           | Transfer agent fees .....                     |
|           | Directors' fees and expenses .....            |
|           | Listing fees .....                            |
|           | Pricing fees .....                            |
|           | Custodian fees .....                          |
|           | Other .....                                   |
|           | <br>Total expenses before reimbursement ..... |
|           | Reimbursement of expenses .....               |
|           | <br>Total expenses after reimbursement .....  |
|           | <br>Investment income--net .....              |
| =====     |   |

|                        |  |
|------------------------|--|
| Realized &             | Realized gain on investments--net .....                          |
| Unrealized Gain (Loss) | Change in unrealized depreciation on investments--net .....      |
| On Investments--Net:   | <br>Total realized and unrealized loss on investments--net ..... |
|                        | <br>Net Decrease 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 gain (loss) on investments--net .....                          |    |
|               | Change in unrealized appreciation/depreciation on investments--net      | -- |
|               | <br>Net increase (decrease) in net assets resulting from operations ... | -- |
| =====         |   |    |
| Dividends to  | Investment income--net .....  |    |
| Shareholders: | <br>Net decrease in net assets resulting from dividends to shareholders | -- |
| =====         |   |    |
| Net Assets:   | Total decrease in net assets .....                                      |    |
|               | Beginning of period .....   |    |
|               | <br>End of period* .....  | \$ |
| =====         |   |    |
|               | *Undistributed investment income--net .....                             | \$ |
| =====         |   |    |

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See Notes to Financial Statements.

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Apex Municipal Fund, Inc., December 31, 2002

FINANCIAL HIGHLIGHTS

| The following per share data and ratios have been derived from information provided in the financial statements. |   | For the Six Months Ended December 31, 2002 | For t<br>December 31, 2002 |
|--|---|--|----------------------------|
| Increase (Decrease) in Net Asset Value:  |   | 2002                                       | 2002                       |
| Per Share  | Net asset value, beginning of period .....                    | \$ 9.24                                    | \$ 9.45                    |
| Operating  | Investment income--net .....                                  | .30++                                      | .58                        |
| Performance:   | Realized and unrealized gain (loss) on investments--net ..... | (.42)                                      | (.22)                      |
|  | Total from investment operations .....                        | (.12)                                      | .36                        |
|  | Less dividends from investment income--net ....               | (.28)                                      | (.57)                      |
|  | Net asset value, end of period .....                          | \$ 8.84                                    | \$ 9.24                    |
|  | Market price per share, end of period .....                   | \$ 7.95                                    | \$ 8.39                    |
| Total Investment Return:**   | Based on market price per share .....                         | (2.01%)                                    | (1.64%)                    |
|  | Based on net asset value per share .....                      | (1.07%)+                                   | 4.31%                      |
| Ratios to Average Net Assets:  | Expenses net of reimbursement .....                           | .85%*                                      | .87%                       |
|  | Expenses .....  | .85%*                                      | .87%                       |
|  | Investment income--net .....                                  | 6.50%*                                     | 6.19%                      |
| Supplemental Data:   | Net assets, end of period (in thousands) .....                | \$ 173,208                                 | \$ 181,093                 |
|  | Portfolio turnover .....                                      | 10%  | 25%                        |

\* Annualized.

\*\* 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.

+ Aggregate total investment return.

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++ Based on average shares outstanding.

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. These unaudited financial statements reflect all adjustments, which are, in the opinion of management, necessary to a fair statement of the results for the interim period presented. All such adjustments are of a normal, recurring nature. 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 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

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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

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Apex Municipal Fund, Inc., December 31, 2002

### NOTES TO FINANCIAL STATEMENTS (concluded)

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

(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.

### 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 six months ended December 31, 2002, FAM reimbursed the Fund in the amount of \$2.

For the six months ended December 31, 2002, the Fund reimbursed FAM \$1,968 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 six months ended December 31, 2002 were \$23,663,820 and \$16,492,833, respectively.

Net realized gains for the six months ended December 31, 2002 and net unrealized losses as of December 31, 2002 were as follows:

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|                             | Realized<br>Gains | Unrealized<br>Losses |
|-----------------------------|-------------------|----------------------|
| Long-term investments ..... | \$ 514,167        | \$(15,055,601)       |
| Total .....                 | \$ 514,167        | \$(15,055,601)       |

As of December 31, 2002, net unrealized depreciation for Federal income tax purposes aggregated \$14,926,939, of which \$5,482,944 related to appreciated securities and \$20,409,883 related to depreciated securities. The aggregate cost of investments at December 31, 2002 for Federal income tax purposes was \$185,640,388.

4. Common Stock Transactions:

At December 31, 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 six months ended December 31, 2002 and the year ended June 30, 2002 remained constant.

5. Capital Loss Carryforward:

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.

6. Subsequent Event:

On January 7, 2003, the Fund's Board of Directors declared a tax exempt income dividend to Common Stock shareholders in the amount of \$.047000 per share, payable on January 30, 2003 to shareholders of record as of January 16, 2003.

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 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

Terry K. Glenn, President and Director  
 James H. Bodurtha, Director  
 Joe Grills, Director  
 Herbert I. London, Director  
 Andre F. Perold, Director  
 Roberta Cooper Ramo, Director



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Robert S. Salomon, Jr., Director  
Melvin R. Seiden, Director  
Stephen B. Swensrud, Director  
Kenneth A. Jacob, Senior Vice President  
John M. Loffredo, Senior Vice President  
Theodore R. Jaeckel Jr., Vice President  
Donald C. Burke, Vice President and Treasurer  
Stephen M. Benham, Secretary

Custodian & Transfer Agent

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

NYSE Symbol

APX

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Effective January 1, 2003, Melvin R. Seiden, Director of Apex Municipal Fund, Inc., retired. The Fund's Board of Directors wishes Mr. Seiden well in his retirement.  
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[LOGO] Merrill Lynch Investment Managers

[GRAPHICS 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

[RECYCLED LOGO] Printed on post-consumer recycled paper

#10955--12/02

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Item 2 - Did registrant adopt a code of ethics, as of the end of the period covered by this report, that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party? If not, why not? Briefly describe any amendments or waivers that occurred during the period. State here if code of ethics/amendments/waivers are on website and give website address-. State here if fund will send code of ethics to shareholders without

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charge upon request-- N/A (not answered until July 15, 2003 and only annually for funds)

Item 3 - Did the registrant's board of directors determine that the registrant either: (i) has at least one audit committee financial expert serving on its audit committee; or (ii) does not have an audit committee financial expert serving on its audit committee? If yes, disclose name of financial expert and whether he/she is "independent," (fund may, but is not required, to disclose name/independence of more than one financial expert). If no, explain why not. -N/A (not answered until July 15, 2003 and only annually for funds)

Item 4 - Disclose annually only (not answered until December 15, 2003)

- (a) Audit Fees - Disclose aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years. N/A.
- (b) Audit-Related Fees - Disclose aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit of the registrant's financial statements and are not reported under paragraph (a) of this Item. Registrants shall describe the nature of the services comprising the fees disclosed under this category. N/A.
- (c) Tax Fees - Disclose aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning. Registrants shall describe the nature of the services comprising the fees disclosed under this category. N/A.
- (d) All Other Fees - Disclose aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant, other than the services reported in paragraphs (a) through (c) of this Item. Registrants shall describe the nature of the services comprising the fees disclosed under this category. N/A.
- (e) (1) Disclose the audit committee's pre-approval policies and procedures described in paragraph (c) (7) of Rule 2-01 of Regulation S-X. N/A.
- (e) (2) Disclose the percentage of services described in each of paragraphs (b) through (d) of this Item that were approved by the audit committee pursuant to paragraph (c) (7) (i) (C) of Rule 2-01 of Regulation S-X. N/A.
- (f) If greater than 50%, disclose the percentage of hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees. N/A.

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- (g) Disclose the aggregate non-audit fees billed by the registrant's accountant for services rendered to the registrant, and rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant for each of the last two fiscal years of the registrant. N/A.
- (h) Disclose whether the registrant's audit committee has considered whether the provision of non-audit services that were rendered to the registrant's investment adviser (not including any subadviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c) (7) (ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant's independence. N/A.

Items 5-6 - Reserved

Item 7 - For closed-end funds that contain voting securities in their portfolio, describe the policies and procedures that it uses to determine how to vote proxies relating to those portfolio securities. N/A.

Item 8 -- Reserved

Item 9(a) - Disclose the conclusions of the registrant's principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, about the effectiveness of the registrant's disclosure controls and procedures (as defined in Rule 30a-2(c) under the Act (17 CFR 270.30a-2(c))) based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph. N/A.

Item 9(b) -- There were no significant changes in the registrant's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Item 10 - Exhibits

10(a) - Attach code of ethics or amendments/waivers, unless code of ethics or amendments/waivers is on website or offered to shareholders upon request without charge. N/A.

10(b) - Attach certifications (4 in total pursuant to Sections 302 and 906 for CEO/CFO). Attached hereto.