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APEX MUNICIPAL FUND INC
Form N-CSR
August 26, 2005

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 811-05227

Name of Fund: Apex Municipal Fund, Inc.

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

Name and address of agent for service: Robert C. Doll, Jr., Chief Executive
Officer, 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: 06/30/05

Date of reporting period: 07/01/04 - 06/30/05

Item 1 - Report to Stockholders

Apex Municipal
Fund, Inc.

Annual Report
June 30, 2005

Apex Municipal Fund, Inc.

Portfolio Information as of June 30, 2005

| Quality Ratings by S&P/Moody's | Percent of Total Investments |
|--------------------------------|------------------------------------|
| A/A | 2.8% |
| BBB/Baa | 17.1 |
| BB/Ba | 18.4 |
| B/B | 11.2 |
| CCC/Caa | 3.0 |
| NR (Not Rated) | 45.6 |
| Other* | 1.9 |

* Includes portfolio holdings in short-term investments.

Availability of Quarterly Schedule of Investments

The Fund files its complete schedule of portfolio holdings with the Securities

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and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's Web site at <http://www.sec.gov>. The Fund's Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

Electronic Delivery

The Fund offers electronic delivery of communications to its shareholders. In order to receive this service, you must register your account and provide us with e-mail information. To sign up for this service, simply access this Web site at <http://www.icsdelivery.com/live> and follow the instructions. When you visit this site, you will obtain a personal identification number (PIN). You will need this PIN should you wish to update your e-mail address, choose to discontinue this service and/or make any other changes to the service. This service is not available for certain retirement accounts at this time.

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APEX MUNICIPAL FUND, INC.

JUNE 30, 2005

A Letter From the President

Dear Shareholder

The financial markets continued to face a number of crosscurrents over the past several months. On June 30, 2005, the Federal Reserve Board (the Fed) increased the federal funds rate for the ninth consecutive time since June 2004, bringing the target short-term interest rate to 3.25%. During the same week, first quarter 2005 U.S. gross domestic product growth was revised upward to 3.8% -- behind the 4.4% annualized growth rate recorded for all of 2004 but ahead of many economists' expectations. Signs of a slowing economy, coupled with easing inflationary fears, have prompted some observers to believe that the Fed may soon end its monetary tightening campaign.

After ending 2004 in a strong rally, U.S. equity markets have struggled to record meaningful gains in 2005. Continued high oil prices and Fed interest rate hikes have exerted downward pressure on stocks. Offsetting this somewhat have been surprisingly strong corporate earnings and lower long-term bond yields. Outside U.S. borders, results have been mixed. Several European markets have been performing well despite ongoing economic problems. In Asia, many markets have benefited from higher economic growth rates and relatively attractive valuations, although Japanese stocks have struggled as a result of slowing exports and high oil prices.

In the bond markets, the yield curve flattening "conundrum" continued. As short-term yields increased in concert with Fed interest rate hikes, yields on longer-term bonds declined (as their prices, which move opposite yields, increased). Over the past year, the two-year Treasury yield rose 96 basis points (.96%) while the 10-year Treasury yield declined 68 basis points. At period-end, the spread between the two-year and 10-year Treasury yields was just 28 basis points.

Amid these conditions, the major market benchmarks posted six-month and 12-month returns as follows:

| Total Returns as of June 30, 2005 | 6-month | 12-month |
|---|---------|----------|
| U.S. equities (Standard & Poor's 500 Index) | -0.81% | + 6.32% |

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| | | |
|---|--------|---------|
| Small-cap U.S. equities (Russell 2000 Index) | -1.25% | + 9.45% |
| International equities (MSCI Europe Australasia Far East Index) | -1.17% | +13.65% |
| Fixed income (Lehman Brothers Aggregate Bond Index) | +2.51% | + 6.80% |
| Tax-exempt fixed income (Lehman Brothers Municipal Bond Index) | +2.89% | + 8.24% |
| High yield bonds (Credit Suisse First Boston High Yield Index) | +0.77% | +10.10% |

Entering the second half of 2005, we expect more of the same type of "muddle through" environment that has befallen financial markets in the first half of the year. Nevertheless, opportunities do exist and we encourage you to work with your financial advisor to diversify your portfolio among a variety of asset types. This can help to diffuse risk while also tapping into the potential benefits of a broader range of investment alternatives. We thank you for trusting Merrill Lynch Investment Managers with your investment assets, and we look forward to serving you in the months and years ahead.

Sincerely,

/s/ Robert C. Doll, Jr.

Robert C. Doll, Jr.
President and Director

APEX MUNICIPAL FUND, INC.

JUNE 30, 2005

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A Discussion With Your Fund's Portfolio Manager

The Fund's total return exceeded the Lipper High Yield Municipal Debt Funds category average for the fiscal year, reflecting both favorable sector allocations and positive security selection.

Describe the recent market environment relative to municipal bonds.

Over the past year, long-term bond yields declined as their prices, which move in the opposite direction, increased. In the meantime, the Federal Reserve Board (the Fed) raised short-term interest rates at each of its meetings during the past year, lifting the federal funds target from 1% in June 2004 to 3.25% by period-end. As longer-term bond yields declined and short-term yields moved upward in unison with the Fed interest rate hikes, the yield curve flattened considerably. Over the 12 months ended June 30, 2005, 30-year U.S. Treasury bond yields declined 113 basis points (1.13%) to 4.16% and yields on the 10-year Treasury note fell 68 basis points to 3.94%.

In the tax-exempt market, yields on 30-year revenue bonds, as measured by the Bond Buyer Revenue Bond Index, fell 57 basis points to 4.77%. According to Municipal Market Data, yields on AAA-rated issues maturing in 30 years declined 76 basis points to 4.26%, while AAA-rated bonds maturing in 10 years saw their yields decline 50 basis points to 3.45%.

The declining tax-exempt bond yields have prompted municipalities to both issue new debt and refund outstanding, higher-coupled issues. Over the past year, more than \$377 billion in new long-term tax-exempt bonds was issued, a slight increase versus last year's total of \$372 billion. In recent months, the pace of

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new bond issuance has strengthened. During the first six months of 2005, more than \$206 billion in new municipal bonds was underwritten, an increase of 8.6% compared to the same six months in 2004. The new issuance was boosted by a greater than 55% increase in refunding issues, which have been heavily weighted in the 10-year - 20-year maturity range to lower the overall interest cost of the refunding issue. This concentration has placed pressure on intermediate tax-exempt bond yields while supporting longer-term bond prices.

Investor demand for municipal product generally has remained positive. According to statistics from the Investment Company Institute, through May 31, 2005, year-to-date net new cash flows into long-term municipal bond funds have exceeded \$1.35 billion. This represents a significant improvement from the \$7.86 billion net outflow seen during the same period in 2004. Recent June weekly figures from AMG Data Service have also shown continued positive flows. Throughout much of the past six months, high yield tax-exempt bond funds have been the principal target for these new cash inflows. During June, these lower-rated/ non-rated bond funds received an average of \$150 million per week. The need to invest these cash flows has led to very strong demand for lower-rated issues and a consequent narrowing of credit spreads. Additionally, thus far in 2005, the percentage of new issues bearing an insurer's guarantee has risen to nearly 60%, up from 53.6% during the same period a year ago. The increasing percentage of insured issuance has further reduced the availability of lower-rated municipal securities, lending more support to higher prices for these issues.

Looking forward, the tax-exempt market's technical position remains generally favorable. Municipal bond issues have underperformed in recent months as U.S. Treasury bonds have enjoyed increased demand from foreign governments which are unable to benefit from the tax advantage inherent in tax-exempt products. However, this underperformance has resulted in attractive tax-exempt bond yield ratios, which should continue to attract both traditional and nontraditional investors to the marketplace, especially should new municipal bond issuance remain modest.

How did the Fund perform during the fiscal year in light of the existing market conditions?

For the 12-month period ended June 30, 2005, the Common Stock of Apex Municipal Fund, Inc. had net annualized yields of 5.87% and 6.08%, based on a year-end per share net asset value of \$9.82 and a per share market price of \$9.48, respectively, and \$.576 per share income dividends. Over the same period, the total investment return on the Fund's Common Stock was +14.67%, based on a change in per share net asset value from \$9.13 to \$9.82, and assuming reinvestment of all distributions.

The Fund's total return for the year, based on net asset value, outpaced the +14.24% average return of the Lipper High Yield Municipal Debt Funds category. (Funds in this Lipper category invest at least 50% of their assets in lower-rated municipal debt issues.) The positive performance is attributed to the sector allocations that we implemented some time ago and have kept largely intact. Specifically, the Fund's overweight exposure to corporate-related tax-exempt debt in the transportation and health care sectors, as well as tax-backed

and assessment-related residential and commercial real estate projects, contributed to the strong relative performance. These sectors benefited from the ongoing contraction of credit spreads, a trend that was particularly advantageous in the airline and tobacco sectors, two of the market's top

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performers. The narrowing of spreads has been supported by a generally improving economy, a moderate pace of inflation and the Fed's measured approach to interest rate increases, which generally served to sustain investors' appetite for risk.

In terms of specific securities, we saw strong performance from capital appreciation bonds (or zero coupon bonds) representing toll road financing for the Pocahontas Parkway in Virginia. In conjunction with the toll road's opening in 2002 and the subsequent increase in traffic, spreads on these bonds narrowed significantly, making it a meaningful contributor to Fund performance.

For the six-month period ended June 30, 2005, the total investment return on the Fund's Common Stock was +6.33%, based on a change in per share net asset value from \$9.53 to \$9.82, and assuming reinvestment of all distributions.

For a description of the Fund's total investment return based on a change in the per share market value of the Fund's Common Stock (as measured by the trading price of the Fund's shares on the New York Stock Exchange), and assuming reinvestment of dividends, please refer to the Financial Highlights section of this report. As a closed-end fund, the Fund's shares may trade in the secondary market at a premium or discount to the Fund's net asset value. As a result, total investment returns based on changes in the market value of the Fund's Common Stock can vary significantly from total investment returns based on changes in the Fund's net asset value.

What changes were made to the portfolio during the year?

We continued to trim our exposure to corporate-related sectors through tactical sales as the market provided opportunities. Because the corporate sector tends to be the most volatile in the municipal market, our goal was to realize profits while also preparing the Fund for an eventual turn in the credit cycle (that is, widening credit spreads). Offsetting these sales, we increased the Fund's position in the tax-backed sector, specifically commercial and residential real estate, as well as long-term care, a subsector of health care. Long-term care focuses on the construction of retirement facilities that provide a range of continuing-care options, including independent living arrangements, assisted living and skilled nursing facilities.

Reflecting our move out of corporates and into the other two sectors, many of the holdings sold have been in the B, BB and BBB rating categories. In turn, those bonds we purchased have tended to be non-rated. While ostensibly this may appear to indicate a reduction in the portfolio's average credit quality, we actually view many of the non-rated issues we have added as more solid credits than some of the corporate bonds we have sold. They tend to exhibit lower volatility and, in some cases, higher degrees of liquidity. As mentioned in previous reports to shareholders, another reason for effecting this trade is our desire to achieve more market-neutral weightings in each of these categories. We have been overweight in the B-BBB range for some time, and underweight in non-rated issues. By reallocating assets to lower-rated issues, we have effectively been able to boost portfolio income and increase the Fund's dividend reserves.

Finally, we maintained our exposure to debt issued by the State of California, which has continued to benefit Fund performance as spreads tightened. We believe additional upside could exist in the California market, especially if the state pursues refinancing opportunities in the current low interest rate environment.

How would you characterize the Fund's position at the close of the period?

We continue to focus on capturing relative value within the high yield municipal arena as a means of enhancing Fund returns over time. At period-end, the Fund remained overweight in the B-BBB range, although less so than at the beginning

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of the period. We expect to continue our strategy of trimming our exposure in this area. We have made strides in terms of diversifying the portfolio over the past year, and look forward to reporting on our progress in the next report to shareholders.

Theodore R. Jaeckel Jr., CFA
Vice President and Portfolio Manager

July 7, 2005

APEX MUNICIPAL FUND, INC.

JUNE 30, 2005

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Schedule of Investments

(in Thousands)

| State | Face Amount | Municipal Bonds |
|-------------------|----------------|--|
| Alabama--0.5% | \$ 1,000 | Brewton, Alabama, IDB, PCR, Refunding (Container Corporation of Smurfit Corp. Project), 8% due 4/01/2009 |
| Alaska--1.1% | 2,000 | Alaska Industrial Development and Export Authority Revenue Bonds (Cargoport), AMT, 8% due 5/01/2023 |
| Arizona--4.0% | 1,000 | Maricopa County, Arizona, IDA, Education Revenue Bonds (Arizona Project 1), Series A, 6.625% due 7/01/2020 |
| | 80 | Maricopa County, Arizona, IDA, M/F Housing Revenue Bonds (Sun Series A, 5.875% due 11/01/2008 |
| | 20 | Series A, 6% due 11/01/2010 |
| | 970 | Series A, 6.75% due 5/01/2031 |
| | 1,500 | Sub-Series C, 9.50% due 11/01/2031 |
| | 4,000 | Phoenix, Arizona, IDA, Airport Facility, Revenue Refunding Bonds (Inc. Project), AMT, 6.30% due 4/01/2023 |
| | 1,000 | Pima County, Arizona, IDA, Education Revenue Bonds (Arizona County Series E, 7.25% due 7/01/2031 |
| | 500 | Yavapai County, Arizona, IDA, Hospital Facility Revenue Bonds (Center), Series A, 6% due 8/01/2033 |
| California--3.3% | 1,800 | California State, GO, 5% due 2/01/2033 |
| | 1,300 | California State, Various Purpose, GO, 5.25% due 11/01/2025 |
| | 1,000 | Fontana, California, Special Tax, Refunding (Community Facilities Sierra), 6% due 9/01/2034 |
| | 1,860 | Golden State Tobacco Securitization Corporation of California, Revenue Bonds, Series B, 5.50% due 6/01/2043 |
| Colorado--5.5% | 2,920 | Denver, Colorado, Urban Renewal Authority, Tax Increment Revenue Bonds, AMT, 7.75% due 9/01/2016 |
| | 2,800 | Elk Valley, Colorado, Public Improvement Revenue Bonds (Public Works Series A, 7.30% due 9/01/2022 |
| | 1,235 | North Range, Colorado, Metropolitan District Number 1, GO, 7.25% due 12/01/2025 |
| | 2,000 | Plaza Metropolitan District Number 1, Colorado, Tax Allocation Revenue Bonds (Improvement Fees), 8% due 12/01/2025 |
| | 830 | Southlands, Colorado, Medical District, GO (Metropolitan District Number 1), 7.125% due 12/01/2034 |
| Connecticut--1.8% | 1,650 | Bridgeport, Connecticut, Senior Living Facilities Revenue Bonds (Community Project), 7.25% due 4/01/2035 |
| | 490 | Connecticut State Development Authority, Airport Facility Revenue Bonds, 7.25% due 4/01/2035 |

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1,160 Project), AMT, 7.95% due 4/01/2026
 New Haven, Connecticut, Facility Revenue Bonds (Hill Health Co
 9.25% due 5/01/2017

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

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Schedule of Investments (continued) (in Thousands)

| State | Face Amount | Municipal Bonds |
|---------------|-------------|---|
| Florida--7.6% | \$ 805 | Arbor Greene Community Development District, Florida, Special 7.60% due 5/01/2018 |
| | 800 | Capital Projects Finance Authority, Florida, Continuing Care R (Glenridge on Palmer Ranch), Series A, 8% due 6/01/2032 |
| | 2,500 | Hillsborough County, Florida, IDA, Exempt Facilities Revenue B Company), AMT, Series A, 7.125% due 4/01/2030 |
| | 870 | Lakewood Ranch, Florida, Community Development District Number Revenue Refunding Bonds, Series A, 6.70% due 5/01/2031 |
| | | Midtown Miami, Florida, Community Development District, Special Bonds, Series A: |
| | 1,500 | 6% due 5/01/2024 |
| | 1,350 | 6.25% due 5/01/2037 |
| | 1,580 | Orlando, Florida, Urban Community Development District, Capital Assessment Bonds, Series A, 6.95% due 5/01/2033 |
| | 1,700 | Santa Rosa Bay Bridge Authority, Florida, Revenue Bonds, 6.25% |
| | 2,640 | Tampa Palms, Florida, Open Space and Transportation Community Revenue Bonds, Capital Improvement (Richmond Place Project), 7 |
| Georgia--2.7% | 2,000 | Atlanta, Georgia, Tax Allocation Bonds (Atlantic Station Proje Brunswick & Glynn County, Georgia, Development Authority, Firs (Coastal Community Retirement Corporation Project), Series A: |
| | 830 | 7.125% due 1/01/2025 |
| | 1,185 | 7.25% due 1/01/2035 |
| | 830 | Savannah, Georgia, EDA, Revenue Bonds (Marshes of Skidaway), F 7.40% due 1/01/2034 |
| Idaho--0.8% | 1,470 | Idaho Health Facilities Authority, Revenue Refunding Bonds (Va Corporation), Series A, 7.75% due 11/15/2016 |

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| | | |
|---------------------|-------|---|
| Illinois--5.1% | 1,845 | Caseyville, Illinois, Senior Tax Increment Revenue Bonds (Fore 7% due 12/30/2022 |
| | 3,000 | Chicago, Illinois, O'Hare International Airport, Special Facilit Bonds (American Airlines Inc. Project), 8.20% due 12/01/2024 |
| | 400 | Chicago, Illinois, Special Assessment Bonds (Lake Shore East), Illinois Development Finance Authority Revenue Bonds (Primary Facilities Acquisition Program): |
| | 585 | 7.75% due 12/01/2006 (a) |
| | 2,605 | 7.75% due 12/01/2016 |
| | 490 | Illinois State Finance Authority Revenue Bonds (Primary Health 6.60% due 7/01/2024 |
| | 755 | Lincolnshire, Illinois, Special Service Area Number 1, Special Project), 6.25% due 3/01/2034 |
| ===== | | |
| Iowa--2.5% | 3,855 | Iowa Finance Authority, Health Care Facilities, Revenue Refund Initiatives Project), 9.25% due 7/01/2025 |
| ===== | | |
| Louisiana--3.0% | 5,500 | Port New Orleans, Louisiana, IDR, Refunding (Continental Grain 7.50% due 7/01/2013 |
| ===== | | |
| Maine--0.4% | 840 | Maine Finance Authority, Solid Waste Recycling Facilities Reve Paper Project--Bowater), AMT, 7.75% due 10/01/2022 |
| ===== | | |
| Maryland--0.8% | 1,500 | Maryland State Energy Financing Administration, Limited Obliga (Cogeneration--AES Warrior Run), AMT, 7.40% due 9/01/2019 |
| ===== | | |
| Massachusetts--5.0% | 1,845 | Massachusetts State Development Finance Agency, First Mortgage (Overlook Communities Inc.), Series A, 6.25% due 7/01/2034 |
| | | Massachusetts State Development Finance Agency, Revenue Refund Nazarene College): |
| | 1,245 | 5.625% due 4/01/2019 |
| | 1,220 | 5.625% due 4/01/2029 |
| | 850 | Massachusetts State Health and Educational Facilities Authorit Hospital), Series E, 6.75% due 10/01/2033 |
| | | Massachusetts State Health and Educational Facilities Authorit Bonds: |
| | 2,100 | (Bay Cove Human Services Issue), Series A, 5.90% due 4/0 |
| | 1,000 | (Milton Hospital), Series, 5.50% due 7/01/2016 |
| | 1,200 | Massachusetts State Industrial Finance Agency Revenue Bonds, S Control Composting), AMT, 9.25% due 6/01/2010 |

APEX MUNICIPAL FUND, INC.

JUNE 30, 2005

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Schedule of Investments (continued)

(in Thousands)

| State | Face Amount | Municipal Bonds |
|-----------------|-------------|---|
| Michigan--0.6% | \$ 1,150 | Macomb County, Michigan, Hospital Finance Authority, Hospital Clemens General Hospital), Series B, 5.875% due 11/15/2034 |
| Minnesota--0.9% | 1,230 | Saint Paul, Minnesota, Port Authority, Hotel Facility, Revenue (Radisson Kellogg Project), Series 2, 7.375% due 8/01/2029 |
| | 365 | Virginia, Minnesota, Housing and Redevelopment Authority, Heal Revenue Bonds, 5.375% due 10/01/2030 |

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| | | |
|----------------------|-------|---|
| Missouri--1.2% | 1,200 | Fenton, Missouri, Tax Increment Revenue Refunding and Improvement (Bluffs), 7% due 10/01/2021 |
| | 1,000 | Kansas City, Missouri, IDA, First Mortgage Health Facilities Revenue Bonds (Spencer Place), Series A, 6.50% due 1/01/2035 |
| ===== | | |
| Nevada--0.2% | 430 | Clark County, Nevada, Improvement District Number 142 Special Revenue Bonds, due 8/01/2023 |
| ===== | | |
| New Jersey--14.8% | | Camden County, New Jersey, Improvement Authority, Lease Revenue Bonds (Warehousing), AMT, Series A (b)(c): |
| | 2,000 | 9.625% due 1/01/2011 |
| | 4,500 | 9.875% due 1/01/2021 |
| | 6,000 | Camden County, New Jersey, Pollution Control Financing Authority Revenue Bonds (Recovery), Revenue Refunding Bonds, AMT, Series A, 7.50% due 12/01/2029 |
| | 2,170 | New Jersey EDA, Cigarette Tax Revenue Bonds, 5.50% due 6/15/2032 |
| | 1,500 | New Jersey EDA, IDR, Refunding (Newark Airport Marriott Hotel), Series A, 6.50% due 1/01/2035 |
| | | New Jersey EDA, Retirement Community Revenue Bonds: |
| | 1,000 | (Cedar Crest Village Inc. Facility), Series A, 7.25% due 1/01/2035 |
| | 3,700 | (Seabrook Village Inc.), Series A, 8.125% due 11/15/2023 |
| | | New Jersey EDA, Special Facility Revenue Bonds (Continental Airfield), AMT: |
| | 3,050 | 6.625% due 9/15/2012 |
| | 4,305 | 6.25% due 9/15/2029 |
| | 1,870 | New Jersey Health Care Facilities Financing Authority Revenue Bonds (Hospital Association), 6.625% due 7/01/2036 |
| | | Tobacco Settlement Financing Corporation of New Jersey Revenue Bonds, Series A, 5.75% due 6/01/2032 |
| | 2,540 | 5.75% due 6/01/2032 |
| | 1,075 | 7% due 6/01/2041 |
| ===== | | |
| New Mexico--2.7% | 5,000 | Farmington, New Mexico, PCR, Refunding (Tucson Electric Power Company), Series A, 6.95% due 10/01/2020 |
| ===== | | |
| New York--4.9% | 1,000 | Dutchess County, New York, IDA, Civic Facility Revenue Bonds (Series B), 7.50% due 3/01/2029 |
| | 350 | New York City, New York, City IDA, Civic Facility Revenue Bonds (Series C), 6.80% due 6/01/2028 |
| | 1,495 | (Special Needs Facility Pooled Program), Series C-1, 6.50% due 1/01/2035 |
| | 1,730 | New York City, New York, City IDA, Special Facility Revenue Bonds (Project), AMT, 7.625% due 12/01/2032 |
| | 1,865 | New York State Dormitory Authority, Non-State Supported Debt, (Mount Sinai Hospital), Series C, 5.50% due 7/01/2026 |
| | | Utica, New York, GO, Public Improvement: |
| | 700 | 9.25% due 8/15/2005 |
| | 635 | 9.25% due 8/15/2006 |
| | 1,180 | Westchester County, New York, IDA, Continuing Care Retirement Community (Kendal on Hudson Project), Series A, 6.50% due 1/01/2034 |
| ===== | | |
| North Carolina--0.6% | 1,000 | North Carolina Medical Care Commission, Retirement Facilities, Revenue Bonds (Givens Estates Project), Series A, 6.50% due 7/01/2032 |
| ===== | | |
| Oregon--0.7% | 1,310 | Western Generation Agency, Oregon, Cogeneration Project Revenue Bonds (Cogeneration Project), AMT, Series B, 7.40% due 1/01/2016 |
| ===== | | |

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| State | Face Amount | Municipal Bonds |
|---------------------|-------------|--|
| Pennsylvania--6.2% | \$ 1,750 | Chester County, Pennsylvania, Health and Education Facilities Revenue Refunding Bonds (Jenners Pond Inc. Project), 7.625% due 11/15/2024 Montgomery County, Pennsylvania, Higher Education and Health Authority (Faulkeways at Gwynedd Project): 900 6.75% due 11/15/2024 925 6.75% due 11/15/2030 1,700 Montgomery County, Pennsylvania, IDA, Revenue Bonds (Whitemarsh Project), 6.25% due 2/01/2035 Philadelphia, Pennsylvania, Authority for IDR: 1,600 (Air Cargo), AMT, Series A, 7.50% due 1/01/2025 4,460 Commercial Development, 7.75% due 12/01/2017 |
| Rhode Island--0.9% | 1,750 | Central Falls, Rhode Island, Detention Facility Corporation, Revenue Refunding Bonds, 7.25% due 7/15/2035 |
| Tennessee--1.0% | 1,800 | Shelby County, Tennessee, Health, Educational and Housing Facilities Bonds (Germantown Village), Series A, 7.25% due 12/01/2034 |
| Texas--8.9% | 1,000 | Austin, Texas, Convention Center Revenue Bonds (Convention Entertainment Tier, Series A, 6.70% due 1/01/2028 Brazos River Authority, Texas, PCR, Refunding, AMT: 2,530 (Texas Utility Company), Series A, 7.70% due 4/01/2033 2,760 (Utilities Electric Company), Series B, 5.05% due 6/01/2029 1,220 Brazos River Authority, Texas, Revenue Refunding Bonds (Reliant Series B, 7.75% due 12/01/2018 1,660 Grand Prairie, Texas, Housing Finance Corporation Revenue Bonds (Living Center), 7.75% due 1/01/2034 1,000 Houston, Texas, Health Facilities Development Corporation, Revenue Bonds (Buckingham Senior Living Community), Series A, 7.125% due 1/01/2029 2,310 Matagorda County, Texas, Navigation District Number 1, Revenue Bonds (Energy Inc.), Series C, 8% due 5/01/2029 1,330 Port Corpus Christi, Texas, Individual Development Corporation Revenue Bonds (Citgo Petroleum Corporation Project) due 11/01/2031 2,000 Port Corpus Christi, Texas, Revenue Refunding Bonds (Celanese Energy Services), Series A, 6.70% due 11/01/2030 |
| Utah--1.2% | 2,240 | Carbon County, Utah, Solid Waste Disposal, Revenue Refunding Bonds (Environmental), AMT, Series A, 7.45% due 7/01/2017 |
| Virginia--5.4% | 2,480 | Dulles Town Center, Virginia, Community Development Authority, Revenue Bonds (Dulles Town Center Project), 6.25% due 3/01/2026 22,600 Pocahontas Parkway Association, Virginia, Toll Road Revenue Bonds (5.888%** due 8/15/2025 560 Tobacco Settlement Financing Corporation of Virginia, Asset-Backed Revenue Bonds (5.625% due 6/01/2037 |
| West Virginia--0.4% | 875 | Princeton, West Virginia, Hospital Revenue Refunding Bonds (Coal Association Inc. Project), 6.20% due 5/01/2013 |
| Wisconsin--0.7% | 1,320 | Wisconsin State Health and Educational Facilities Authority Revenue Bonds (Place Project), Series A, 7% due 12/01/2031 |
| Wyoming--0.9% | 1,800 | Sweetwater County, Wyoming, Solid Waste Disposal Revenue Bonds (Project), AMT, Series A, 7% due 6/01/2024 |

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APEX MUNICIPAL FUND, INC.

JUNE 30, 2005

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Schedule of Investments (concluded)

(in Thousands)

| | Face Amount | Municipal Bonds |
|---|----------------|--|
| U.S. Virgin Islands--1.2% | \$ 2,100 | Virgin Islands Government Refinery Facilities, Revenue Refund Project), AMT, 6.50% due 7/01/2021 |
| | | Total Municipal Bonds (Cost--\$182,432)--97.5% |
| | Shares Held | Short-Term Securities |
| | 3,700 | Merrill Lynch Institutional Tax-Exempt Fund (d) |
| | | Total Short-Term Securities (Cost--\$3,700)--1.9% |
| Total Investments (Cost--\$186,132*)--99.4% | | |
| Other Assets Less Liabilities--0.6% | | |
| Net Assets--100.0% | | |

* The cost and unrealized appreciation (depreciation) of investments as of June 30, 2005, as computed for federal income tax purposes, were as follows:

| | (in Thousands) |
|-------------------------------------|----------------|
| Aggregate cost | \$185,837 |
| Gross unrealized appreciation | \$ 12,870 |
| Gross unrealized depreciation | (7,380) |
| Net unrealized appreciation | \$ 5,490 |

** Represents a zero coupon bond; the interest rate shown reflects the effective yield at the time of purchase by the Fund.

(a) Prerefunded.

(b) Non-income producing security; issuer filed for bankruptcy or is in default of interest payments.

(c) Restricted securities as to resale, representing 0.4% of net assets, were as follows:

| | (in Thousands) | | |
|-------|------------------------|------|-------|
| Issue | Acquisition Date(s) | Cost | Value |

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| | | | |
|--|--------------------------|---------|--------|
| ----- | | | |
| Camden County, New Jersey Improvement Authority, Lease Revenue Bonds (Holt Hauling & Warehousing), AMT, Series A, 9.625% due 1/01/2011 | 1/29/1997 | \$2,116 | \$ 257 |
| Camden County, New Jersey Improvement Authority, Lease Revenue Bonds (Holt Hauling & Warehousing), AMT, Series A, 9.875% due 1/01/2021 | 2/06/1996 - 1/29/1997 | 4,644 | 577 |
| ----- | | | |
| Total | | \$6,760 | \$ 834 |
| ===== | | | |

- (d) Investments in companies considered to be an affiliate of the Fund (such companies are defined as "Affiliated Companies" in Section 2(a)(3) of the Investment Company Act of 1940) were as follows:

| | | |
|--|-----------------|--------------------|
| | (in Thousands) | |
| ----- | | |
| Affiliate | Net Activity | Dividend Income |
| ----- | | |
| Merrill Lynch Institutional Tax-Exempt Fund | 3,700 | \$6 |
| ----- | | |

See Notes to Financial Statements.

10 APEX MUNICIPAL FUND, INC. JUNE 30, 2005

Statement of Assets, Liabilities and Capital

As of June 30, 2005

| | |
|--|----------|
| ----- | |
| Assets | |
| ----- | |
| Investments in unaffiliated securities, at value (identified cost--\$182,432,206) | |
| Investments in affiliated securities, at value (identified cost--\$3,700,000) | |
| Cash | |
| Receivables: | |
| Interest | \$ 3,083 |
| Securities sold | 55 |
| Dividends from affiliates | ----- |
| Prepaid expenses | |
| Total assets | |
| ===== | |
| Liabilities | |
| ----- | |
| Payables: | |
| Securities purchased | 1,883 |

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| | |
|---|----------|
| Investment adviser | 84 |
| Dividends to shareholders | 80 |
| Other affiliates | 1 |
| <hr/> | |
| Accrued expenses | |
| Total liabilities | |
| <hr/> | |
| Net Assets | |
| <hr/> | |
| Net Assets | |
| <hr/> | |
| Capital | |
| <hr/> | |
| 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 | \$ 2,238 |
| Accumulated realized capital losses--net | (15,564) |
| Unrealized appreciation--net | 5,194 |
| <hr/> | |
| Total accumulated losses--net | |
| Total capital--Equivalent to \$9.82 net asset value per share of Common Stock (market price--\$9.48) | |

See Notes to Financial Statements.

APEX MUNICIPAL FUND, INC.

JUNE 30, 2005

11

Statement of Operations

For the Year Ended June 30, 2005

Investment Income

| | |
|---------------------------------|--|
| Interest | |
| Dividends from affiliates | |
| Total income | |

Expenses

| | |
|--|----------|
| Investment advisory fees | \$ 1,208 |
| Accounting services | 73 |
| Professional fees | 46 |
| Transfer agent fees | 41 |
| Printing and shareholder reports | 40 |
| Listing fees | 19 |
| Directors' fees and expenses | 16 |
| Pricing fees | 14 |
| Custodian fees | 11 |
| Other | 19 |

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| | |
|---|-------|
| Total expenses before reimbursement | 1,490 |
| Reimbursement of expenses | |
| Total expenses after reimbursement | |
| Investment income--net | |

Realized & Unrealized Gain--Net

| | |
|---|--|
| Realized gain on investments--net | |
| Change in unrealized appreciation/depreciation on investments--net | |
| Total realized and unrealized gain--net | |
| Net Increase in Net Assets Resulting from Operations | |

See Notes to Financial Statements.

12 APEX MUNICIPAL FUND, INC. JUNE 30, 2005

Statements of Changes in Net Assets

| | For |
|--|------------|
| Increase (Decrease) in Net Assets: | 2005 |
| Operations | |
| Investment income--net | \$ 11,357 |
| Realized gain--net | 157 |
| Change in unrealized appreciation/depreciation--net | 13,265 |
| Net increase in net assets resulting from operations | 24,779 |
| Dividends & Distributions to Shareholders | |
| Investment income--net | (11,287) |
| Realized gain--net | |
| Net decrease in net assets resulting from dividends and distributions to shareholders | (11,287) |
| Net Assets | |
| Total increase in net assets | 13,491 |
| Beginning of year | 178,983 |
| End of year* | \$ 192,475 |

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* Undistributed investment income--net \$ 2,238
=====

See Notes to Financial Statements.

APEX MUNICIPAL FUND, INC. JUNE 30, 2005 13

Financial Highlights

The following per share data and ratios have been derived from information provided in the financial statements. ----- For the Year En
----- 2005 2004 200

Per Share Operating Performance -----

| | | | |
|---|---------|---------|------|
| Net asset value, beginning of year | \$ 9.13 | \$ 8.99 | \$ 9 |
| Investment income--net | .58+ | .60+ | (|
| Realized and unrealized gain (loss)--net.. | .69 | .11 | (|
| Total from investment operations | 1.27 | .71 | |
| Less dividends and distributions to Common Stock shareholders: | | | |
| Investment income--net | (.58) | (.57) | (|
| Realized gain--net | -- | --** | |
| Total dividends and distributions to Common Stock shareholders | (.58) | (.57) | (|
| Net asset value, end of year | \$ 9.82 | \$ 9.13 | \$ 8 |
| Market price per share, end of year | \$ 9.48 | \$ 8.26 | \$ 8 |

=====
Total Investment Return* -----

| | | | |
|--|--------|-------|---|
| Based on net asset value per share | 14.67% | 8.64% | 4 |
| Based on market price per share | 22.36% | 4.20% | 8 |

=====
Ratios to Average Net Assets -----

| | | | |
|--------------------------------------|-------|-------|---|
| Expenses, net of reimbursement | .80% | .79% | |
| Expenses | .80% | .79% | |
| Investment income--net | 6.11% | 6.52% | 6 |

=====
Supplemental Data -----

| | | | |
|---|-----------|-----------|--------|
| Net assets, end of year (in thousands) | \$192,475 | \$178,983 | \$176, |
| Portfolio turnover | 22% | 19% | |

- =====
- * 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 effect of sales charges.
 - ** Amount is less than \$(.01) per share.
 - + Based on average shares outstanding.

See Notes to Financial Statements.

14 APEX MUNICIPAL FUND, INC. JUNE 30, 2005

Notes to Financial Statements

1. Significant Accounting Policies:

Apex Municipal Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company. The Fund's financial statements are prepared in conformity with U.S. generally accepted accounting principles, which may require the use of management accruals and estimates. Actual results may differ from these estimates. The Fund determines and makes available for publication the net asset value of its Common Stock on a daily basis. The Fund's Common Stock shares are 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 ("OTC") markets and are valued at the last available bid price in the OTC market or on the basis of values as obtained by a pricing service. Pricing services use valuation matrixes that incorporate both dealer-supplied valuations and valuation models. The procedures of the pricing service and its valuations are reviewed by the officers of the Fund under the general direction of the Board of Directors. Such valuations and procedures are reviewed periodically by the Board of Directors of the Fund. 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 OTC market, valuation is the last asked price (options written) or the last bid price (options purchased). Swap agreements are valued by quoted fair values received daily by the Fund's pricing service. Short-term investments with a remaining maturity of 60 days or less are valued at amortized cost, which approximates market value, under which method the investment is valued at cost and any premium or discount is amortized on a straight line basis to maturity. Investments in open-end investment companies are valued at their net asset value each business day. Securities and other 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.

(b) Derivative financial instruments -- The Fund may engage in various portfolio investment strategies both to increase the return of the Fund and to hedge, or protect, its exposure to interest rate movements and movements in the securities markets. 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. Futures contracts are contracts for delayed delivery of securities at a specific future date

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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 may 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.

- o Forward interest rate swaps -- The Fund may enter into forward interest rate swaps. In a forward interest rate swap, the Fund and the counterparty agree to make periodic net payments on a specified notional contract amount, commencing on a specified future effective date, unless terminated earlier. When the agreement is closed, the Fund records a realized gain or loss in an amount equal to the value of the agreement.

(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

APEX MUNICIPAL FUND, INC.

JUNE 30, 2005

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Notes to Financial Statements (concluded)

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. The Fund amortizes all premiums and discounts on debt securities.

(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 -- U.S. generally accepted accounting principles require that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. Accordingly, during the current year, \$1,311,769 has been reclassified between paid-in capital in excess of par and accumulated net realized capital losses as a result of permanent differences attributable to the expiration of capital loss carryforwards. This

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reclassification has no effect on net assets or net asset values 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 daily net assets. FAM has agreed to reimburse its management fee by the amount of management fees the Fund pays to FAM indirectly through its investment in Merrill Lynch Institutional Tax-Exempt Fund. For the year ended June 30, 2005, FAM reimbursed the Fund in the amount of \$547.

For the year ended June 30, 2005, the Fund reimbursed FAM \$4,044 for certain accounting services.

Certain officers and/or directors of the Fund are officers and/or directors of FAM, PSI, and/or ML & Co.

3. Investments:

Purchases and sales of investments, excluding short-term securities, for the year ended June 30, 2005 were \$39,388,919 and \$41,527,271, respectively.

4. Common Stock Transactions:

At June 30, 2005, the Fund had one class of shares of Common Stock, par value \$.10 per share, of which 150,000,000 shares were authorized.

5. Distributions to Shareholders:

The Fund paid a tax-exempt income dividend to holders of Common Stock in the amount of \$.048000 per share on July 28, 2005 to shareholders of record on July 14, 2005.

The tax character of distributions paid by the Fund during the fiscal years ended June 30, 2005 and June 30, 2004 was as follows:

| | 6/30/2005 | 6/30/2004 |
|---------------------------|--------------|--------------|
| Distributions paid from: | | |
| Tax-exempt income | \$11,287,718 | \$11,150,541 |
| Ordinary income | -- | 61,886 |
| Total distributions | \$11,287,718 | \$11,212,427 |
| | ===== | ===== |

As of June 30, 2005, the components of accumulated losses on a tax basis were as follows:

| | |
|--|---------------|
| Undistributed tax exempt income--net | \$ 2,409,450 |
| Undistributed long-term capital gains--net | -- |
| Total undistributed earnings--net | 2,409,450 |
| Capital loss carryforward | (15,188,907)* |

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| | |
|-------------------------------------|----------------|
| Unrealized gains--net | 4,648,001** |
| | ----- |
| Total accumulated losses--net | \$ (8,131,456) |
| | ===== |

* On June 30, 2005, the Fund had a net capital loss carryforward of \$15,188,907, of which \$938,156 expires in 2006, \$2,975,000 expires in 2008, \$5,341,699 expires in 2009, \$2,075,987 expires in 2010, \$2,163,492 expires in 2011, \$1,659,281 expires in 2012 and \$35,292 expires in 2013. 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 is attributable primarily to the difference between book and tax amortization methods for premiums and discounts on fixed income securities, book/tax differences in the accrual of income on securities in default and the deferral of post-October capital losses for tax purposes.

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APEX MUNICIPAL FUND, INC.

JUNE 30, 2005

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
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, 2005, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on the financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of June 30, 2005, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Apex Municipal Fund, Inc. as of June 30, 2005, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

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Deloitte & Touche LLP
Princeton, New Jersey
August 11, 2005

Fund Certification (unaudited)

In May 2005, the Fund filed its Chief Executive Officer Certification for the prior year with the New York Stock Exchange pursuant to Section 303A.12(a) of the New York Stock Exchange Corporate Governance Listing Standards.

The Fund's Chief Executive Officer and Chief Financial Officer Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 were filed with the Fund's Form N-CSR and are available on the Securities and Exchange Commission's Web site at <http://www.sec.gov>.

Important Tax Information (unaudited)

All of the net investment income distributions paid monthly by Apex Municipal Fund, Inc. during its taxable year ended June 30, 2005 qualify as tax-exempt interest dividends for federal income tax purposes.

APEX MUNICIPAL FUND, INC.

JUNE 30, 2005

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Automatic Dividend Reinvestment Plan

The following description of the Fund's Automatic Dividend Reinvestment Plan (the "Plan") is sent to you annually as required by federal securities laws.

Pursuant to the Fund's Plan, unless a holder of Common Stock otherwise elects, all dividend and capital gains distributions will be automatically reinvested by The Bank of New York (the "Plan Agent"), as agent for shareholders in administering the Plan, in additional shares of Common Stock of the Fund. Holders of Common Stock who elect not to participate in the Plan will receive all distributions in cash paid by check mailed directly to the shareholder of record (or, if the shares are held in street or other nominee name then to such nominee) by The Bank of New York, as dividend paying agent. Such participants may elect not to participate in the Plan and to receive all distributions of dividends and capital gains in cash by sending written instructions to The Bank of New York, as dividend paying agent, at the address set forth below. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by written notice if received by the Plan Agent not less than ten days prior to any dividend record date; otherwise such termination will be effective with respect to any subsequently declared dividend or distribution.

Whenever the Fund declares an income dividend or capital gains distribution (collectively referred to as "dividends") payable either in shares or in cash, non-participants in the Plan will receive cash and participants in the Plan will receive the equivalent in shares of Common Stock. The shares will be acquired by the Plan Agent for the participant's account, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized shares of Common Stock from the Fund ("newly issued shares") or (ii) by purchase of outstanding shares of Common Stock on the open market ("open-market purchases") on the New York Stock Exchange or elsewhere. If, on the payment date for the dividend, the net asset value per share of the Common Stock is equal to or less than the market price per share of the Common Stock plus estimated brokerage commissions (such conditions being referred to herein as "market premium"), the Plan Agent will invest the dividend amount in newly issued shares on behalf of the participant. The number of newly issued shares of

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Common Stock to be credited to the participant's account will be determined by dividing the dollar amount of the dividend by the net asset value per share on the date the shares are issued, provided that the maximum discount from the then current market price per share on the date of issuance may not exceed 5%. If, on the dividend payment date, the net asset value per share is greater than the market value (such condition being referred to herein as "market discount"), the Plan Agent will invest the dividend amount in shares acquired on behalf of the participant in open-market purchases.

In the event of a market discount on the dividend payment date, the Plan Agent will have until the last business day before the next date on which the shares trade on an "ex-dividend" basis or in no event more than 30 days after the dividend payment date (the "last purchase date") to invest the dividend amount in shares acquired in open-market purchases. It is contemplated that the Fund will pay monthly income dividends. Therefore, the period during which open-market purchases can be made will exist only from the payment date on the dividend through the date before the next "ex-dividend" date, which typically will be approximately ten days. If, before the Plan Agent has completed its open-market purchases, the market price of a share of Common Stock exceeds the net asset value per share, the average per share purchase price paid by the Plan Agent may exceed the net asset value of the Fund's shares, resulting in the acquisitions of fewer shares than if the dividend had been paid in newly issued shares on the dividend payment date. Because of the foregoing difficulty with respect to open-market purchases, the Plan provides that if the Plan Agent is unable to invest the full dividend amount in open-market purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Agent will cease making open-market purchases and will invest the uninvested portion of the dividend amount in newly issued shares at the close of business on the last purchase date determined by dividing the uninvested portion of the dividend by the net asset value per share.

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APEX MUNICIPAL FUND, INC.

JUNE 30, 2005

The Plan Agent maintains all shareholders' accounts in the Plan and furnishes written confirmation of all transactions in the account, including information needed by shareholders for tax records. Shares in the account of each Plan participant will be held by the Plan Agent in non-certificated form in the name of the participant, and each shareholder's proxy will include those shares purchased or received pursuant to the Plan. The Plan Agent will forward all proxy solicitation materials to participants and vote proxies for shares held pursuant to the Plan in accordance with the instructions of the participants.

In the case of shareholders such as banks, brokers or nominees which hold shares of others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the record shareholders as representing the total amount registered in the record shareholder's name and held for the account of beneficial owners who are to participate in the Plan.

There will be no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or capital gains distributions payable either in shares or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open-market purchases in connection with the reinvestment of dividends.

The automatic reinvestment of dividends and distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends.

Shareholders participating in the Plan may receive benefits not available to

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shareholders not participating in the Plan. If the market price plus commissions of the Fund's shares is above the net asset value, participants in the Plan will receive shares of the Fund at less than they could otherwise purchase them and will have shares with a cash value greater than the value of any cash distribution they would have received on their shares. If the market price plus commissions is below the net asset value, participants will receive distributions in shares with a net asset value greater than the value of any cash distribution they would have received on their shares. However, there may be insufficient shares available in the market to make distributions in shares at prices below the net asset value. Also, since the Fund does not redeem shares, the price on resale may be more or less than the net asset value.

The value of shares acquired pursuant to the Plan will generally be excluded from gross income to the extent that the cash amount reinvested would be excluded from gross income. If, when the Fund's shares are trading at a premium over net asset value, the Fund issues shares pursuant to the Plan that have a greater fair market value than the amount of cash reinvested, it is possible that all or a portion of such discount (which may not exceed 5% of the fair market value of the Fund's shares) could be viewed as a taxable distribution. If the discount is viewed as a taxable distribution, it is also possible that the taxable character of this discount would be allocable to all the shareholders, including shareholders who do not participate in the Plan. Thus, shareholders who do not participate in the Plan might be required to report as ordinary income a portion of their distributions equal to their allocable share of the discount.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants.

All correspondence concerning the Plan should be directed to the Plan Agent at The Bank of New York, Church Street Station, P.O. Box 11258, New York, NY 10286-1258, Telephone: 800-432-8224.

APEX MUNICIPAL FUND, INC.

JUNE 30, 2005

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Proxy Results

During the six-month period ended June 30, 2005, Apex Municipal Fund, Inc.'s shareholders voted on the following proposals. Proposal 1 was approved at a shareholders' meeting on April 28, 2005. With respect to Proposal 2, the proposal was adjourned until May 27, 2005 at which time it passed. A description of the proposals and number of shares voted were as follows:

| | | Shares Voted For |
|-----------------------------------|---------------------|---------------------|
| 1. To elect the Fund's Directors: | Robert C. Doll, Jr. | 9,904,223 |
| | James H. Bodurtha | 9,902,456 |
| | Herbert I. London | 9,895,356 |
| | Stephen B. Swensrud | 9,893,905 |

Shares Voted

Shares Voted

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| | For | Against |
|---|-----------|---------|
| 2. To approve an amendment to fundamental investment restriction. | 7,364,302 | 409,729 |

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. As of June 30, 2005, none of the Fund's total net assets were invested in these securities.

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 stable level of dividend distributions, 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.

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Officers and Directors

| Name | Address & Age | Position(s) Held with Fund | Length of Time Served | Principal Occupation(s) During Past 5 Years |
|----------------------|---|----------------------------|-----------------------|---|
| Interested Director | | | | |
| Robert C. Doll, Jr.* | P.O. Box 9011 Princeton, NJ 08543-9011 Age: 50 | President and Director | 2005 to present | President of the MLIM/FAM-advised funds since 2001; President of MLIM and FAM since 2001; Co-Head (Americas Region) thereof from 2000 to 2001 and Senior Vice President from 1999 to 2001; President and Director of Princeton Services, Inc. ("Princ |

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Services") since 2001; President of Princeton Administrators, L.P. ("Princeton Administrators" since 2001; Chief Investment Officer of Oppenheimer Funds, Inc. in 1999 and Executive Vice President thereof from 1991 to 1999.

 * Mr. Doll is a director, trustee or member of an advisory board of certain other investment funds in which the Fund acts as investment adviser. Mr. Doll is an "interested person," as defined in the Fund based on his current positions with MLIM, FAM, Princeton Services and Princeton until their resignation, removal or death, or until December 31 of the year in which Mr. Doll serves at the pleasure of the Board of Directors.

=====

Independent Directors*

| | | | | |
|---------------------|---|----------|--------------------|--|
| James H. Bodurtha** | P.O. Box 9095 Princeton, NJ 08543-9095 Age: 61 | Director | 2002 to present | Director, The China Business Group, Inc. since 1996 and Executive Vice President thereof from 1996 to 2003; Chairman of the Board, Berkshire Holding Corporation since 1980; Partner, Squire, Sanders & Dempsey from 1980 to 1993. |
|---------------------|---|----------|--------------------|--|

| | | | | |
|------------------|---|----------|--------------------|---|
| Kenneth A. Froot | P.O. Box 9095 Princeton, NJ 08543-9095 Age: 47 | Director | 2005 to present | Professor, Harvard University since 1992; Professor, Massachusetts Institute of Technology from 1986 to 1992. |
|------------------|---|----------|--------------------|---|

| | | | | |
|--------------|---|----------|--------------------|--|
| Joe Grills** | P.O. Box 9095 Princeton, NJ 08543-9095 Age: 70 | Director | 1994 to present | Member of the Committee of Investment of Employee Benefit Assets of the Association of Financial Professionals ("CIEBA") since 1986; Member of CIEBA's Executive Committee since 1988 and its Chairman from 1991 to 1992; Assistant Treasurer of International Business Machines Corporation ("IBM") and Chief Investment Officer of IBM Retirement Funds from 1986 to 1993; Member of the Investment Advisory Committee of the State of New York Common Retirement Fund since 1989; Member of the Investment Advisory Committee of the Howard Hughes Medical Institute from 1997 to 2000; Director, Duke University Management Company from 1992 to 2004, Vice Chairman thereof from 1998 to 2004 and Director Emeritus thereof since 2004; Director, LaSalle S Fund from 1995 to 2001; Director, Kimco Realty Corporation since 1997; Member of the Investment Advisory Committee of the Virginia Retirement System since 1998; Vice Chairman thereof from 2002 to 2005 and Chairman thereof since 2005; Director, Montpelier Foundation since 1998 and its Vice Chairman since 2000; Member of the Investment Committee of the Woodberry Forest School since 2000; Member of the Investment Committee of the National Trust for Historic Preservation since 2000. |
|--------------|---|----------|--------------------|--|

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| Name | Address & Age | Position(s) Held with Fund | Length of Time Served | Principal Occupation(s) During Past 5 Years |
|--|---|----------------------------------|-----------------------------|---|
| ----- Independent Directors* (concluded) ----- | | | | |
| Herbert I. London | P.O. Box 9095 Princeton, NJ 08543-9095 Age: 66 | Director | 2002 to present | John M. Olin Professor of Humanities, New York University since 1993 and Professor thereof since 1980; President, Hudson Institute since 1997 and Trustee thereof since 1980; Dean, Gallatin Division of New York University from 1976 to 1997; Distinguished Fellow, Herman Kahn Chair, Hudson Institute from 1984 to 1985; Director, Damon Corporation from 1991 to 1995; Overseer, Center for Naval Analyses from 1983 to 1993. |
| Roberta Cooper Ramo | P.O. Box 9095 Princeton, NJ 08543-9095 Age: 62 | Director | 2002 to present | Shareholder, Modrall, Sperling, Roehl, Harris & Sisk, P.A. since 1993; President, American Bar Association from 1995 to 1996 and Member of the Board of Governors thereof from 1994 to 1997; Shareholder, Poole, Kelly & Ramo, Attorneys at Law, P.C. from 1977 to 1993; Director, ECMC Group (service provider to students, schools and lenders) since 2001; Director, United New Mexico Bank (now Wells Fargo) from 1983 to 1988; Director, First National Bank of New Mexico (now Wells Fargo) from 1975 to 1976; Vice President, American Law Institute since 2004. |
| Robert S. Salomon, Jr. | P.O. Box 9095 Princeton, NJ 08543-9095 Age: 68 | Director | 1996 to present | Principal of STI Management (investment adviser) since 1994; Chairman and CEO of Salomon Brothers Asset Management from 1992 to 1995; Chairman of Salomon Brothers Equity Mutual Funds from 1992 to 1995; regular columnist with Forbes Magazine from 1992 to 2002; Director of Stock Research and U.S. Equity Strategist at Salomon Brothers Inc. from 1975 to 1991; Trustee, Commonfund from 1980 to 2001. |
| Stephen B. Swensrud | P.O. Box 9095 Princeton, NJ 08543-9095 Age: 72 | Director | 1989 to present | Chairman of Fernwood Advisors, Inc. (investment adviser) since 1996; Principal, Fernwood Associates (financial consultants) since 1975; Chairman of R.P.P. Corporation (manufacturing company) since 1978; Director of International Mobile Communications, Incorporated (telecommunications) since 1998. |

* Directors serve until their resignation, removal or death, or until December 31 of the year of their resignation.

** Co-Chairman of the Board and the Audit Committee.

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| Name | Address & Age | Position(s) Held with Fund | Length of Time Served | Principal Occupation(s) During Past 5 Years |
|-------------------------|---|---------------------------------------|---|---|
| Fund Officers* | | | | |
| Donald C. Burke | P.O. Box 9011 Princeton, NJ 08543-9011 Age: 45 | Vice President and Treasurer | 1993 to present and 1999 to present | First Vice President of MLIM and FAM since 1997 Senior Vice President and Treasurer of Princeton since 2004; Vice President of FAM Distributors, President of MLIM and FAM from 1990 to 1997; Dir to 2001; Vice President, Treasurer and Secretary |
| Kenneth A. Jacob | P.O. Box 9011 Princeton, NJ 08543-9011 Age: 54 | Senior Vice President | 2003 to present | Managing Director of MLIM since 2000; Director () MLIM from 1997 to 2000. |
| John M. Loffredo | P.O. Box 9011 Princeton, NJ 08543-9011 Age: 41 | Senior Vice President | 2003 to present | Managing Director of MLIM since 2000; Director () MLIM from 1997 to 2000. |
| Theodore R. Jaeckel Jr. | P.O. Box 9011 Princeton, NJ 08543-9011 Age: 45 | Vice President | 1997 to present | Managing Director of MLIM since 2005; Director () Management) of MLIM from 1997 to 2005; Vice Pres |
| Jeffrey Hiller | P.O. Box 9011 Princeton, NJ 08543-9011 Age: 53 | Chief Compliance Officer | 2004 to present | Chief Compliance Officer of the MLIM/FAM-advised Chief Compliance Officer of MLIM (Americas Regio Officer of the IQ Funds since 2004; Global Direc Investment Management from 2002 to 2004; Managin Compliance at Citigroup Asset Management from 20 Officer at Soros Fund Management in 2000; Chief Financial from 1995 to 2000; Senior Counsel in t Enforcement in Washington, D.C. from 1990 to 199 |
| Alice A. Pellegrino | P.O. Box 9011 Princeton, NJ 08543-9011 Age: 45 | Secretary | 2004 to present | Director (Legal Advisory) of MLIM since 2002; Vi 2002; Attorney associated with MLIM since 1997; Princeton Services since 2004. |

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

Custodian

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

Transfer Agent

The Bank of New York
101 Barclay Street -- 11 East
New York, NY 10286

NYSE Symbol

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APX

APEX MUNICIPAL FUND, INC.

JUNE 30, 2005

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[LOGO] Merrill Lynch Investment Managers

www.mlim.ml.com

Mercury Advisors

A Division of Merrill Lynch Investment Managers

www.mercury.ml.com

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.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available (1) without charge, upon request, by calling toll-free 1-800-MER-FUND (1-800-637-3863); (2) at www.mutualfunds.ml.com; and (3) on the Securities and Exchange Commission's Web site at <http://www.sec.gov>. Information about how the Fund voted proxies relating to securities held in the Fund's portfolio during the most recent 12-month period ended June 30 is available (1) at www.mutualfunds.ml.com and (2) on the Securities and Exchange Commission's Web site at <http://www.sec.gov>.

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

#10955 -- 6/05

Item 2 - Code of Ethics - The registrant has adopted 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 and principal accounting officer, or persons performing similar functions. A copy of the code of ethics is available without charge upon request by calling toll-free 1-800-MER-FUND (1-800-637-3863).

Item 3 - Audit Committee Financial Expert - The registrant's board of directors has determined that (i) the registrant has the following audit committee financial experts serving on its audit committee and (ii) each audit committee financial expert is independent: (1) Joe Grills, (2) Andre F. Perold (resigned as of October 1, 2004), (3) Robert S. Salomon, Jr., and (4) Stephen B. Swensrud.

Item 4 - Principal Accountant Fees and Services

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| | |
|--------------------------|--|
| (a) Audit Fees - | Fiscal Year Ending June 30, 2005 - \$27,500 Fiscal Year Ending June 30, 2004 - \$31,200 |
| (b) Audit-Related Fees - | Fiscal Year Ending June 30, 2005 - \$0 Fiscal Year Ending June 30, 2004 - \$0 |
| (c) Tax Fees - | Fiscal Year Ending June 30, 2005 - \$5,700 Fiscal Year Ending June 30, 2004 - \$5,610 |

The nature of the services include tax compliance, tax advice and tax planning.

| | |
|----------------------|--|
| (d) All Other Fees - | Fiscal Year Ending June 30, 2005 - \$0 Fiscal Year Ending June 30, 2004 - \$0 |
|----------------------|--|

(e) (1) The registrant's audit committee (the "Committee") has adopted policies and procedures with regard to the pre-approval of services. Audit, audit-related and tax compliance services provided to the registrant on an annual basis require specific pre-approval by the Committee. The Committee also must approve other non-audit services provided to the registrant and those non-audit services provided to the registrant's affiliated service providers that relate directly to the operations and the financial reporting of the registrant. Certain of these non-audit services that the Committee believes are a) consistent with the SEC's auditor independence rules and b) routine and recurring services that will not impair the independence of the independent accountants may be approved by the Committee without consideration on a specific case-by-case basis ("general pre-approval"). However, such services will only be deemed pre-approved provided that any individual project does not exceed \$5,000 attributable to the registrant or \$50,000 for all of the registrants the Committee oversees. Any proposed services exceeding the pre-approved cost levels will require specific pre-approval by the Committee, as will any other services not subject to general pre-approval (e.g., unanticipated but permissible services). The Committee is informed of each service approved subject to general pre-approval at the next regularly scheduled in-person board meeting.

(e) (2) 0%

(f) Not Applicable

| |
|---|
| (g) Fiscal Year Ending June 30, 2005 - \$8,181,305 Fiscal Year Ending June 30, 2004 - \$16,114,216 |
|---|

(h) The registrant's audit committee has considered and determined that the provision of non-audit services that were rendered to the registrant's 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.

Regulation S-X Rule 2-01(c) (7) (ii) - \$945,000, 0%

Item 5 - Audit Committee of Listed Registrants - The following individuals are members of the registrant's separately-designated standing audit committee established in accordance with Section 3(a) (58) (A) of the Exchange Act (15 U.S.C. 78c(a) (58) (A)):

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James H. Bodurtha
Kenneth A. Froot (as of June 1, 2005)
Joe Grills
Herbert I. London
Andre F. Perold (resigned as of October 1, 2004)
Roberta Cooper Ramo
Robert S. Solomon, Jr.
Stephen B. Swensrud

Item 6 - Schedule of Investments - Not Applicable

Item 7 - Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies - Proxy Voting Policies and Procedures

Each Fund's Board of Directors/Trustees has delegated to Merrill Lynch Investment Managers, L.P. and/or Fund Asset Management, L.P. (the "Investment Adviser") authority to vote all proxies relating to the Fund's portfolio securities. The Investment Adviser has adopted policies and procedures ("Proxy Voting Procedures") with respect to the voting of proxies related to the portfolio securities held in the account of one or more of its clients, including a Fund. Pursuant to these Proxy Voting Procedures, the Investment Adviser's primary objective when voting proxies is to make proxy voting decisions solely in the best interests of each Fund and its shareholders, and to act in a manner that the Investment Adviser believes is most likely to enhance the economic value of the securities held by the Fund. The Proxy Voting Procedures are designed to ensure that the Investment Adviser considers the interests of its clients, including the Funds, and not the interests of the Investment Adviser, when voting proxies and that real (or perceived) material conflicts that may arise between the Investment Adviser's interest and those of the Investment Adviser's clients are properly addressed and resolved.

In order to implement the Proxy Voting Procedures, the Investment Adviser has formed a Proxy Voting Committee (the "Committee"). The Committee is comprised of the Investment Adviser's Chief Investment Officer (the "CIO"), one or more other senior investment professionals appointed by the CIO, portfolio managers and investment analysts appointed by the CIO and any other personnel the CIO deems appropriate. The Committee will also include two non-voting representatives from the Investment Adviser's Legal department appointed by the Investment Adviser's General Counsel. The Committee's membership shall be limited to full-time employees of the Investment Adviser. No person with any investment banking, trading, retail brokerage or research responsibilities for the Investment Adviser's affiliates may serve as a member of the Committee or participate in its decision making (except to the extent such person is asked by the Committee to present information to the Committee, on the same basis as other interested

knowledgeable parties not affiliated with the Investment Adviser might be asked to do so). The Committee determines how to vote the proxies of all clients, including a Fund, that have delegated proxy voting authority to the Investment Adviser and seeks to ensure that all votes are consistent with the best interests of those clients and are free from unwarranted and inappropriate influences. The Committee establishes general proxy voting policies for the Investment Adviser and is responsible for determining how those policies are applied to specific proxy votes, in light of each issuer's unique structure, management, strategic options and, in certain circumstances, probable economic and other anticipated consequences of alternate actions. In so

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doing, the Committee may determine to vote a particular proxy in a manner contrary to its generally stated policies. In addition, the Committee will be responsible for ensuring that all reporting and recordkeeping requirements related to proxy voting are fulfilled.

The Committee may determine that the subject matter of a recurring proxy issue is not suitable for general voting policies and requires a case-by-case determination. In such cases, the Committee may elect not to adopt a specific voting policy applicable to that issue. The Investment Adviser believes that certain proxy voting issues require investment analysis - such as approval of mergers and other significant corporate transactions - akin to investment decisions, and are, therefore, not suitable for general guidelines. The Committee may elect to adopt a common position for the Investment Adviser on certain proxy votes that are akin to investment decisions, or determine to permit the portfolio manager to make individual decisions on how best to maximize economic value for a Fund (similar to normal buy/sell investment decisions made by such portfolio managers). While it is expected that the Investment Adviser will generally seek to vote proxies over which the Investment Adviser exercises voting authority in a uniform manner for all the Investment Adviser's clients, the Committee, in conjunction with a Fund's portfolio manager, may determine that the Fund's specific circumstances require that its proxies be voted differently.

To assist the Investment Adviser in voting proxies, the Committee has retained Institutional Shareholder Services ("ISS"). ISS is an independent adviser that specializes in providing a variety of fiduciary-level proxy-related services to institutional investment managers, plan sponsors, custodians, consultants, and other institutional investors. The services provided to the Investment Adviser by ISS include in-depth research, voting recommendations (although the Investment Adviser is not obligated to follow such recommendations), vote execution, and recordkeeping. ISS will also assist the Fund in fulfilling its reporting and recordkeeping obligations under the Investment Company Act.

The Investment Adviser's Proxy Voting Procedures also address special circumstances that can arise in connection with proxy voting. For instance, under the Proxy Voting Procedures, the Investment Adviser generally will not seek to vote proxies related to portfolio securities that are on loan, although it may do so under certain circumstances. In addition, the Investment Adviser will vote proxies related to securities of foreign issuers only on a best efforts basis and may elect not to vote at all in certain countries where the Committee determines that the costs associated with voting generally outweigh the benefits. The Committee may at any time override these general policies if it determines that such action is in the best interests of a Fund.

From time to time, the Investment Adviser may be required to vote proxies in respect of an issuer where an affiliate of the Investment Adviser (each, an "Affiliate"), or a money management or other client of the Investment Adviser (each, a "Client") is involved. The Proxy Voting Procedures and the Investment Adviser's adherence to those procedures are designed to address such conflicts of interest. The Committee intends to strictly adhere to the Proxy Voting Procedures in all proxy matters, including matters involving Affiliates and Clients. If, however, an issue representing a non-routine matter that is material to an Affiliate or a widely known Client is involved such that the Committee does not reasonably believe it is able to follow its guidelines (or if the particular proxy matter is not addressed by the guidelines) and vote impartially, the Committee may, in its discretion for the purposes of ensuring that an independent determination is reached, retain an independent fiduciary to advise the Committee on how to vote or to cast votes on behalf of the Investment

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Adviser's clients.

In the event that the Committee determines not to retain an independent fiduciary, or it does not follow the advice of such an independent fiduciary, the powers of the Committee shall pass to a subcommittee, appointed by the CIO (with advice from the Secretary of the Committee), consisting solely of Committee members selected by the CIO. The CIO shall appoint to the subcommittee, where appropriate, only persons whose job responsibilities do not include contact with the Client and whose job evaluations would not be affected by the Investment Adviser's relationship with the Client (or failure to retain such relationship). The subcommittee shall determine whether and how to vote all proxies on behalf of the Investment Adviser's clients or, if the proxy matter is, in their judgment, akin to an investment decision, to defer to the applicable portfolio managers, provided that, if the subcommittee determines to alter the Investment Adviser's normal voting guidelines or, on matters where the Investment Adviser's policy is case-by-case, does not follow the voting recommendation of any proxy voting service or other independent fiduciary that may be retained to provide research or advice to the Investment Adviser on that matter, no proxies relating to the Client may be voted unless the Secretary, or in the Secretary's absence, the Assistant Secretary of the Committee concurs that the subcommittee's determination is consistent with the Investment Adviser's fiduciary duties

In addition to the general principles outlined above, the Investment Adviser has adopted voting guidelines with respect to certain recurring proxy issues that are not expected to involve unusual circumstances. These policies are guidelines only, and the Investment Adviser may elect to vote differently from the recommendation set forth in a voting guideline if the Committee determines that it is in a Fund's best interest to do so. In addition, the guidelines may be reviewed at any time upon the request of a Committee member and may be amended or deleted upon the vote of a majority of Committee members present at a Committee meeting at which there is a quorum.

The Investment Adviser has adopted specific voting guidelines with respect to the following proxy issues:

- o Proposals related to the composition of the Board of Directors of issuers other than investment companies. As a general matter, the Committee believes that a company's Board of Directors (rather than shareholders) is most likely to have access to important, nonpublic information regarding a company's business and prospects, and is therefore best-positioned to set corporate policy and oversee management. The Committee, therefore, believes that the foundation of good corporate governance is the election of qualified, independent corporate directors who are likely to diligently represent the interests of shareholders and oversee management of the corporation in a manner that will seek to maximize shareholder value over time. In individual cases, the Committee may look at a nominee's history of representing shareholder interests as a director of other companies or other factors, to the extent the Committee deems relevant.
- o Proposals related to the selection of an issuer's independent auditors. As a general matter, the Committee believes that corporate auditors have a responsibility to represent the interests of shareholders and provide an independent view on the propriety of financial reporting decisions of corporate management. While the Committee will generally defer to a corporation's choice of auditor, in individual cases, the Committee may look at an auditors' history of representing shareholder interests as

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auditor of other companies, to the extent the Committee deems relevant.

- o Proposals related to management compensation and employee benefits. As a general matter, the Committee favors disclosure of an issuer's compensation and benefit policies and opposes excessive compensation, but believes that compensation matters are normally best determined by an issuer's board of directors, rather than shareholders. Proposals to "micro-manage" an issuer's compensation practices or to set arbitrary restrictions on compensation or benefits will, therefore, generally not be supported.
 - o Proposals related to requests, principally from management, for approval of amendments that would alter an issuer's capital structure. As a general matter, the Committee will support requests that enhance the rights of common shareholders and oppose requests that appear to be unreasonably dilutive.
 - o Proposals related to requests for approval of amendments to an issuer's charter or by-laws. As a general matter, the Committee opposes poison pill provisions.
 - o Routine proposals related to requests regarding the formalities of corporate meetings.
 - o Proposals related to proxy issues associated solely with holdings of investment company shares. As with other types of companies, the Committee believes that a fund's Board of Directors (rather than its shareholders) is best-positioned to set fund policy and oversee management. However, the Committee opposes granting Boards of Directors authority over certain matters, such as changes to a fund's investment objective, that the Investment Company Act envisions will be approved directly by shareholders.
 - o Proposals related to limiting corporate conduct in some manner that relates to the shareholder's environmental or social concerns. The Committee generally believes that annual shareholder meetings are inappropriate forums for discussion of larger social issues, and opposes shareholder resolutions "micromanaging" corporate conduct or requesting release of information that would not help a shareholder evaluate an investment in the corporation as an economic matter. While the Committee is generally supportive of proposals to require corporate disclosure of matters that seem relevant and material to the economic interests of shareholders, the Committee is generally not supportive of proposals to require disclosure of corporate matters for other purposes.
- Item 8 - Portfolio Managers of Closed-End Management Investment Companies - Not Applicable at this time
- Item 9 - Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers - Not Applicable
- Item 10 - Submission of Matters to a Vote of Security Holders - Not Applicable
- Item 11 - Controls and Procedures
- 11(a) - The registrant's certifying officers have reasonably designed such disclosure controls and procedures to ensure material information relating to the registrant is made known to us by others particularly during the period in which this report is being prepared. The registrant's certifying officers have determined that the registrant's

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disclosure controls and procedures are effective based on our evaluation of these controls and procedures as of a date within 90 days prior to the filing date of this report.

11(b) - There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d)) that occurred during the second fiscal half-year of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 12 - Exhibits attached hereto

12(a) (1) - Code of Ethics - See Item 2

12(a) (2) - Certifications - Attached hereto

12(a) (3) - Not Applicable

12(b) - Certifications - Attached hereto

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Apex Municipal Fund, Inc.

By: /s/ Robert C. Doll, Jr.

Robert C. Doll, Jr.,
Chief Executive Officer of
Apex Municipal Fund, Inc.

Date: August 19, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Robert C. Doll, Jr.

Robert C. Doll, Jr.,
Chief Executive Officer of
Apex Municipal Fund, Inc.

Date: August 19, 2005

By: /s/ Donald C. Burke

Donald C. Burke,
Chief Financial Officer of
Apex Municipal Fund, Inc.

Date: August 19, 2005