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UNITED MUNICIPAL BOND FUND INC

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December 31, 1993

PROSPECTUS

United Municipal Bond Fund, Inc. (the "Fund") is an open-end diversified management investment company. Its goal is to provide income to shareholders which is not subject to Federal income taxation.

This Prospectus contains concise information about the Fund of which you should be aware before investing. Additional information has been filed with the Securities and Exchange Commission and is contained in a Statement of Additional Information (the "SAI"), dated December 31, 1993. You may obtain a copy of the SAI free of charge by request to the Fund or Waddell & Reed, Inc., its Underwriter, at the address or telephone number shown below. The SAI is incorporated by reference into this Prospectus and you will not be aware of all facts unless you read both this Prospectus and the SAI.

Investments in high-yield, high-risk securities may entail risks that are different or more pronounced than those involved in higher-rated securities. See "Risk Factors of High-Yield Investing" included in this Prospectus for a discussion of the risks associated with non-investment grade securities.

Retain This Prospectus For Future Reference.

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

UNITED MUNICIPAL BOND FUND, INC.
Summary of Expenses

Shareholder Transaction Expenses

Maximum Sales Load Imposed on Purchases (as a percentage of offering price)	4.25%
Maximum Sales Load Imposed on Reinvested Dividends (as a percentage of offering price)	None
Deferred Sales Load (as a percentage of original purchase price or redemption proceeds, as applicable)	None
Redemption Fees (as a percentage of amount redeemed, if applicable)	None
Exchange Fee	None

Annual Fund Operating Expenses

(as a percentage of average net assets)

Management Fees	0.45%
12b-1 Service Fees*	0.25%
Other Expenses** (Includes, among other expenses, transfer	0.11%

agency, accounting, custodian, audit and legal fees)

Total Fund Operating Expenses*** 0.81%

Example	1 year	3 years	5 years	10 years
You would pay the following expenses on a $1,000 investment, assuming (1) 5% annual return and (2) redemption at the end of each time period:	$50	$67	$86	$138

The purpose of this table is to assist investors in understanding the various costs and expenses that an investor in the Fund will bear directly or indirectly. The example should not be considered a representation of past or future expenses. Actual expenses may be greater or lesser than those shown.

*Expense information reflects the 12b-1 service fee which became effective October 1, 1993, which fee will not exceed .25% of the Fund's average annual net assets. It is possible that long-term shareholders of the Fund may bear 12b-1 fees which are more than the economic equivalent of the maximum front-end sales charge permitted under the rules of the National Association of Securities Dealers, Inc.

**Expense information has been restated to reflect current transfer agency fees which became effective November 1, 1992.

***Expense information has been restated to reflect current transfer agency fees which became effective November 1, 1992 and the current maximum 12b-1 service fee which became effective October 1, 1993.

United Municipal Bond Fund, Inc.
FINANCIAL HIGHLIGHTS
(Audited)

The following information has been audited by Price Waterhouse, independent accountants, and should be read in conjunction with the financial statements and notes thereto, together with the report of Price Waterhouse.

For a Share of Capital Stock Outstanding Throughout Each Period:

<TABLE>
<CAPTION>

	For the fiscal year ended September 30,									
	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period	$7.40	$7.18	$6.66	$7.07	$6.91	$6.29	$7.67	$6.65	$6.06	$6.34
Income from investment operations:										
Net investment income ..	.41	.43	.45	.47	.49	.48	.49	.55	.57	.56
Net realized and unrealized gain (loss) on investments	.65	.35	.52	(0.16)	.22	.62	(0.70)	1.22	.59	(0.28)
Total from investment operations	1.06	.78	.97	.31	.71	1.10	(0.21)	1.77	1.16	.28
Less distributions:										
Dividends from net investment income	(0.40)	(0.43)	(0.45)	(0.49)	(0.48)	(0.48)	(0.48)	(0.56)	(0.57)	(0.56)
Distributions from capital gains	(0.23)	(0.13)	0.00	(0.23)	(0.07)	0.00	(0.69)	(0.19)	0.00	0.00
Total distributions	(0.63)	(0.56)	(0.45)	(0.72)	(0.55)	(0.48)	(1.17)	(0.75)	(0.57)	(0.56)
Net asset value, end of period	$7.83	$7.40	$7.18	$6.66	$7.07	$6.91	$6.29	$7.67	$6.65	$6.06
Total return*	15.15%	11.41%	14.97%	4.46%	10.74%	18.07%	-3.50%	28.19%	19.87%	4.60%
Net assets, end of period (000 omitted) ...	$1,055,434	$890,004	$769,122	$648,546	$594,733	$477,479	$413,163	$402,445	$279,700	$201,471
Ratio of expenses to average net assets	0.56%	0.57%	0.57%	0.57%	0.57%	0.58%	0.58%	0.61%	0.65%	0.69%
Ratio of net investment income to average net assets	5.38%	5.92%	6.47%	6.82%	6.98%	7.32%	6.98%	7.54%	8.68%	9.10%

Portfolio turnover rate ..	94.51%	125.44%	144.36%	181.25%	226.41%	225.49%	216.82%	250.00%	328.36%	222.43%

*Total return calculated without taking into account the sales load deducted on an initial purchase.

Note: During the fiscal periods ended September 30, 1993, 1992, 1991, 1990, 1989, 1988, 1987, 1986, 1985 and 1984, 62.53%, 76.13%, 97.45%, 66.46%, 84.53%, 98.05%, 40.77%, 73.57%, 97.11% and 96.21%, respectively, of the dividends paid were exempt from Federal income tax.

</TABLE>

What is United Municipal Bond Fund, Inc.?

United Municipal Bond Fund, Inc. is a corporation organized under Maryland law on September 29, 1976. It is an open-end diversified management investment company commonly called a "mutual fund." The Fund has a Board of Directors which has overall responsibility for the management of its affairs. For the names of the Directors and other information about them, see the SAI. The Fund has only one class of shares. Each share has the same rights to dividends and to vote. Shares are fully paid and nonassessable when bought. The Fund does not hold annual meetings of shareholders; however, certain significant corporate matters, such as the approval of a new investment advisory agreement or a change in a fundamental investment policy, which require shareholder approval, will be presented to shareholders at an annual or special meeting called by the Board of Directors for such purpose.

Special meetings of shareholders may be called for any purpose upon receipt by the Fund of a request in writing signed by shareholders holding not less than 25% of all shares entitled to vote at such meeting, provided certain conditions stated in the Bylaws of the Fund are met. There will normally be no meeting of shareholders for the purpose of electing directors until such time as less than a majority of directors holding office have been elected by shareholders, at which time the directors then in office will call a shareholders' meeting for the election of directors. To the extent that Section 16(c) of the Investment Company Act of 1940, as amended, applies to the Fund, the directors are required to call a meeting of shareholders for the purpose of voting upon the question of removal of any director when requested in writing to do so by the shareholders of record of not less than 10% of the Fund's outstanding shares.

Performance Information

From time to time Waddell & Reed, Inc. or the Fund may include performance data in advertisements or in information furnished to present or prospective shareholders. Fund performance may be shown by presenting one or more performance measurements, including yield, total return and performance rankings.

The Fund's yield is based on a 30-day period ending on a specific date and is computed by dividing the Fund's net investment income per share earned during the period by the Fund's maximum offering price per share on the last day of the period. The Fund may also advertise or include in information furnished to present or prospective shareholders its tax equivalent yield, which is calculated by applying the stated income tax rate to only the net investment income exempt from taxation, according to a standard formula.

The Fund's total return is its overall change in value for the period shown including the effect of reinvesting dividends and capital gains distributions and any change in the net asset value per share. A cumulative total return reflects the Fund's change in value over a stated period of time. An average annual total return reflects the hypothetical annually compounded return that would have produced the cumulative total return for a stated period if the Fund's performance had been constant during each year of that period. Average annual total returns are not actual year-by-year results and investors should realize that total returns will fluctuate.

Standardized total return figures reflect payment of the maximum sales charge. The Fund may also provide non-standardized performance information which does not reflect deduction of such sales charge or which is for periods other than those required to be presented or which differs otherwise from standardized performance information. See the SAI for yield and total return and methods of computation.

From time to time in advertisements and information furnished to present or prospective shareholders the Fund may discuss its performance rankings as published by recognized independent mutual fund statistical services such as Lipper Analytical Services, Inc., or by publications of general interest such as Forbes, Money, The Wall Street Journal, Business Week, Barron's, Fortune or Morningstar Mutual Fund Values. The Fund may also compare its performance to that of other selected mutual funds or selected recognized market indicators. Performance information may be quoted numerically or presented in a table, graph or other illustration.

All performance information which the Fund advertises or includes in information provided to present or prospective shareholders is historical in nature and is not intended to represent or guarantee future results. The value of the Fund's shares when redeemed may be more or less than their original cost.

Information regarding the performance of the Fund is contained in the Fund's annual report to shareholders, which may be obtained without charge by request to the Fund at the address or phone number shown on the cover of this Prospectus.

Goal and Investment Policies of the Fund

The goal of the Fund is to provide income which is not subject to Federal income taxation. The Fund tries to achieve this goal by investing principally in municipal bonds. The Fund's goal and the type of securities it may invest in are matters of fundamental policy and may not be changed without the approval of shareholders. At least 80% of the Fund's net assets during normal market conditions will be invested in municipal bonds.

As used in this Prospectus, "municipal bonds" means debt obligations the interest on which is excludable from gross income for Federal income tax purposes. See "Dividends, Distributions and Taxes" concerning the alternative minimum tax ("AMT"). The Fund anticipates that not more than one-third of the dividends it will pay to shareholders will be subject to treatment as a preference item for AMT purposes. The Fund and the Fund's Manager, Waddell & Reed Investment Management Company (the "Manager"), rely on the opinion of bond counsel for the issuer in determining whether obligations are municipal bonds.

Municipal bonds are issued by a wide range of governments, agencies and authorities for various public purposes. The types of municipal bonds in which the Fund may invest include "general obligation" bonds and "revenue" bonds and certain "industrial development" bonds. Industrial development bonds are revenue bonds issued by or on behalf of public authorities to obtain funds to finance privately operated facilities. Their credit quality is generally dependent on the credit standing of the company involved. Municipal obligations in which the Fund may invest also include municipal lease obligations and participations in these obligations (collectively, "lease obligations") of municipal authorities or entities. The Manager determines liquidity of lease obligations in accordance with guidelines established by the Fund's Board of Directors. Unrated municipal lease obligations will be considered to be illiquid. In determining the credit quality of unrated municipal lease obligations, one of the factors, among others, to be considered will be the likelihood that the lease will not be canceled. Certain "non-appropriation" lease obligations may present special risks because the municipality's obligation to make future lease or installment payments depends on money being appropriated each year for this purpose. See the SAI for further information about lease obligations. The Fund may also purchase municipal bonds on a when-issued basis and will do so in order to secure an advantageous price and yield at the time of entering into the transaction. These bonds are subject to market value fluctuation until delivery and payment is completed. See the SAI for additional information on the characteristics of these bonds.

Municipal bonds vary widely as to their interest rates, degree of security and maturity. The bonds purchased by the Fund are selected on the basis of quality, yield and diversification. Factors which affect the yield on municipal bonds include general money market conditions, municipal bond market conditions, the size of a particular offering, the maturity of the obligation and the nature of the issue. Lower rated bonds usually, but not always, have higher yields than similar but higher rated bonds. The Fund may not purchase any municipal bonds which are not either (i) rated at least BBB by Standard and Poor's Corporation ("S&P") or Baa by Moody's Investors Services, Inc. ("MIS") (see Appendix A for a description of bond ratings) or (ii) are unrated municipal bonds which, in the opinion of the Manager, would have the quality ratings described above if they were rated, unless thereafter at least 80% of the value of the Fund's total assets would consist of cash or municipal bonds which were of such quality at the time of purchase. See the SAI for additional information. Medium and lower rated or unrated municipal securities are frequently traded only in markets where the number of potential purchasers and sellers, if any, is very limited. This factor may have the effect of limiting the availability of the securities for purchase by the Fund and may also limit the ability of the Fund to sell such securities at their fair value either to meet redemption requests or in response to changes in the economy or the financial markets. See "Risk Factors of High-Yield Investing" for a discussion of the risks associated with debt securities rated lower than BBB by S&P or Baa by MIS.

When market conditions dictate, the Fund may have more than 25% of its assets invested in industrial development bonds the interest on which is paid by revenues from generating plants. Problems in the utility industry generally affect the values of and the dividends paid on utility common stocks rather than the ability to pay bond obligations. See the SAI for additional information.

Up to 10% of the Fund's assets may be invested in debt securities other than municipal bonds (referred to as "taxable obligations"). The Fund may also invest in Debt Futures and Municipal Bond Index Futures (defined below). The Fund does not have a fundamental policy limiting the percentage of its assets which may be invested in futures. Income from taxable obligations and Debt

Futures and Municipal Bond Index Futures will be subject to Federal income tax.

The only taxable obligations which the Fund may purchase are (i) obligations issued or guaranteed by the U.S. Government or its agencies or instrumentalities; (ii) bank obligations of domestic banks or savings and loan associations which are subject to regulation by the U.S. Government; these obligations may include certificates of deposit, letters of credit and acceptances; and (iii) commercial paper having the quality ratings described in Appendix A to this Prospectus.

The Fund may purchase and write (sell) listed options on domestic debt securities (including, without limitation, securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities) and on municipal bond indices. Exchange-listed options on securities and on municipal bond indices are issued by the Options Clearing Corporation.

The Fund may write options on securities for the purpose of increasing income (which would be taxable) in the form of premiums paid by the purchaser of the option. While writing calls may result in realization of income, the Fund will lose the opportunity to profit from an increase in the price of the security subject to the call over the exercise price. In writing puts, the Fund assumes the risk of loss should the market value of the underlying security decline below the exercise price at which the Fund is obligated to purchase the security. The Fund will write a put only when it has determined that it would be willing to purchase the underlying security at the exercise price.

The Fund may purchase calls to take advantage of an expected rise in the market value of securities that the Fund does not hold in its portfolio and to close positions in calls it has written. It may purchase puts on related investments it owns ("protective puts") or on related investments it does not own ("nonprotective puts"). Buying a protective put permits the Fund to protect itself during the put period against a decline in the value of the related investments below the exercise price by selling them through the exercise of the put. Buying a nonprotective put permits the Fund, if the market price of the related investments is below the put price during the put period, either to resell the put or to buy the related investments and sell them at the exercise price. The Fund may also purchase puts to close positions in puts it has written. If an option purchased by the Fund is not exercised or sold, it will become worthless at its expiration date and the Fund will lose the amount of the premium it paid.

The Fund may also purchase and write (sell) listed options on municipal bond indices. It may write options on municipal bond indices to generate income (which would be taxable). It may also purchase calls on municipal bond indices to hedge against an anticipated increase in the price of securities it wishes to acquire and may purchase puts on municipal bond indices to hedge against an anticipated decline in the market value of its portfolio securities. Because municipal bond index options are settled in cash, the Fund cannot provide in advance for its potential settlement obligations on a call it has written on a municipal bond index by holding the underlying securities. The Fund bears the risk that the value of the securities it holds will vary from the value of the index.

Options offer large amounts of leverage, which will result in the Fund's net asset value being more sensitive to changes in the value of the related investment. There is no assurance that a liquid secondary market will exist for exchange-listed options. If the Fund is not able to enter into a closing transaction on an option it has written, it will be required to maintain the securities or collateral used to "cover" the Fund's obligations under such option until a closing transaction can be entered into or the option expires.

For the purpose of hedging the value of the municipal bonds and taxable obligations held by the Fund from the potentially adverse consequences of changes in interest rates, the Fund may also buy and sell futures contracts on domestic debt securities ("Debt Futures"), futures contracts on municipal bond indices ("Municipal Bond Index Futures") and options on Debt Futures.

Since futures contracts and options thereon can replicate movements in the cash markets for the securities in which the Fund invests without the large cash investments required for dealing in such markets, they may subject the Fund to greater and more volatile risks than might otherwise be the case. The principal risks associated with the use of such instruments are (i) imperfect correlation between movements in the market price of the portfolio investments (held or intended to be purchased) being hedged and in the price of the futures contract or option; (ii) possible lack of a liquid secondary market for closing out futures contract or options positions; (iii) the need for additional portfolio management skills and techniques; and (iv) losses due to unanticipated market price movements. For a hedge to be completely effective, the price change of the hedging instrument should equal the price change of the security being hedged. Such equal price changes are not always possible because the investment underlying the hedging instrument may not be the same investment that is being hedged. The Manager will attempt to create a closely correlated hedge, but hedging activity may not be completely successful in eliminating market value fluctuation. The ordinary spreads between prices in the cash and futures markets (including the options on futures market), due to the differences in the natures of those markets, are subject to distortion. Due to the possibility of distortion, a correct forecast of general interest rate or market trends by the Manager may still not result in a successful transaction. The Manager may be incorrect in its expectations as to the extent of various interest rate or bond market movements or the time span within which the movements take place.

Options and futures transactions may increase the Fund's portfolio turnover rate, creating greater commission expenses, transaction costs and tax consequences.

The municipal bonds and taxable obligations which the Fund may purchase (debt securities) go up and down in value depending in large part on changes in prevailing interest rates. If interest rates go up after the Fund buys a debt security, the value of that security may go down; if interest rates go down the security value may go up. Debt securities with longer maturities, which may produce higher yields, may go up or down more than debt securities which have shorter maturities. The Fund holds securities with varying maturities. Changes in the values of the debt securities which the Fund owns will affect its net asset value per share, but will not affect the income the Fund receives.

The ability of the governments, agencies, companies or others to pay principal and interest on debt securities held by the Fund may change. Such changes, actual or expected, may also affect the value of these debt securities. If interest is not in fact paid, the level of income the Fund receives and the value of Fund shares may be affected; if principal is not paid, only the value of Fund shares would be affected.

Sometimes the Manager may believe that a full or partial defensive position is desirable temporarily due to present or anticipated market or economic conditions which are affecting or could affect the values of municipal bonds. To achieve a temporary defensive posture, the Manager may take any one or more of the following steps: (i) shorten the average maturity of the Fund's portfolio; (ii) hold cash or taxable obligations subject to the 10% limitation described above; and (iii) emphasize debt securities of a higher quality than those the Fund would ordinarily hold (see discussion of quality ratings above and in Appendix A). A defensive posture might create a reduction in the Fund's yield. As an alternative to taking a temporary defensive position in order to more quickly participate in anticipated changes in market or economic conditions, the Fund may invest in futures, as discussed above.

There can be no assurance that the Fund will achieve its goal; some market risks are inherent in all securities to varying degrees.

Risk Factors of High-Yield Investing

The market for high-yield, high-risk debt securities is relatively new and much of its growth paralleled a long economic expansion, during which this market involved a significant increase in the use of high-yield debt securities to fund highly leveraged corporate acquisitions and restructurings. Thereafter, this market was affected by a relatively high percentage of defaults with respect to high-yield securities as compared with higher rated securities. An economic downturn or increase in interest rates is likely to have a greater negative effect on this market, the value of high-yield debt securities in the Fund's portfolio, the Fund's net asset value and the ability of the bonds' issuers to repay principal and interest, meet projected business goals and obtain additional financing than on higher rated securities. An investment in this Fund may be considered more speculative than investment in shares of a fund which invests primarily in higher rated debt securities.

Prices of high-yield debt securities may be more sensitive to adverse economic changes or corporate developments than higher rated investments. Debt securities with longer maturities, which may have higher yields, may increase or decrease in value more than debt securities with shorter maturities. Market prices of high-yield debt securities structured as zero coupon or pay-in-kind securities are affected to a greater extent by interest rate changes and may be more volatile than securities which pay interest periodically and in cash. Where it deems it appropriate and in the best interests of Fund shareholders, the Fund may incur additional expenses to seek recovery on a debt security on which the issuer has defaulted and to pursue litigation to protect the interests of security holders of its portfolio companies.

Because the market for lower rated securities may be thinner and less active than for higher rated securities, there may be market price volatility for these securities and limited liquidity in the resale market. Unrated securities are usually not as attractive to as many buyers as rated securities are, a factor which may make unrated securities less marketable. These factors may have the effect of limiting the availability of the securities for purchase by the Fund and may also limit the ability of the Fund to sell such securities at their fair value either to meet redemption requests or in response to changes in the economy or the financial markets. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of high-yield debt securities, especially in a thinly traded market. To the extent the Fund owns or may acquire illiquid or restricted high-yield securities, these securities may involve special registration responsibilities, liabilities and costs, and liquidity and valuation difficulties. Changes in values of debt securities which the Fund owns will affect its net asset value per share. If market quotations are not readily available for the Fund's lower rated or unrated securities, these securities will be valued by a method that the Fund's Board of Directors believes accurately reflects fair value. Valuation becomes more difficult and judgment plays a greater role in valuing high-yield debt securities than with respect to securities for which more external sources of quotations and last sale information are available.

New and proposed laws may have an impact on the market for high-yield debt securities. For example, as a result of the Financial Institution's Reform, Recovery, and Enforcement Act of 1989, savings and loan associations must dispose of their high-yield bonds no later than July 1, 1994. Qualified affiliates of savings and loan associations, however, may purchase and retain these securities, and savings and loan associations may divest these securities by sale to their qualified affiliates. The Manager is unable at this time to predict what effect, if any, the legislation may have on the market for high-yield debt securities. Special tax considerations are associated with investing in high-yield debt securities structured as zero coupon or pay-in-kind securities.

While credit ratings are only one factor the Manager relies on in evaluating high-yield debt securities, certain risks are associated with using credit ratings. Credit ratings evaluate the safety of principal and interest payments, not market value risk. Credit rating agencies may fail to timely change the credit ratings to reflect subsequent events; however, the Manager continuously monitors the issuers of high-yield debt securities in its portfolio in an attempt to determine if the issuers will have sufficient cash flow and profits to meet required principal and interest payments. Achievement of the Fund's investment objective may be more dependent upon the Manager's credit analysis than is the case for higher quality debt securities. Credit ratings for individual securities may change from time to time, and the Fund may retain a portfolio security whose rating has been changed.

During the Fund's fiscal year ended September 30, 1993, the percentage of the Fund's assets invested in debt securities in each of the rating categories of S&P, and the debt securities not rated by an established rating service, determined on a dollar weighted average, were as follows:

Rated by S&P	Percentage of Fund Assets
AAA	24.9%
AA	17.4
A	37.1
BBB	12.4
BB	0.0
B	0.0
CCC	0.0
Unrated	5.2

The percentage of assets in each category was calculated on the basis of a monthly dollar weighted average. The monthly dollar weighted average was calculated using the market value of the securities in the Fund's portfolio at the end of each month in the thirteen-month period ended with the Fund's last fiscal year, averaged over the Fund's last fiscal year. The rating used for each security is that security's rating as of the end of each month and, as ratings may change over time, does not necessarily indicate past or future ratings of any particular security or the ratings of securities in the portfolio in general. Asset composition of the Fund by rating categories at any particular time does not necessarily indicate future asset composition by rating categories.

Management and Services

Waddell & Reed, Inc. and its predecessors served as investment manager to each of the registered investment companies in the United Group of Mutual Funds since 1940 or the inception of the investment company, whichever was later, and to TMK/United Funds, Inc. since its inception. On January 8, 1992, subject to the authority of the Fund's Board of Directors, Waddell & Reed, Inc. assigned its investment management duties (and assigned its professional staff for investment management services) to Waddell & Reed Investment Management Company, a wholly-owned subsidiary of Waddell & Reed, Inc. The Manager has also served as investment manager for Waddell & Reed Funds, Inc. since its inception in September 1992 and Torchmark Government Securities Fund, Inc. and Torchmark Insured Tax-Free Fund, Inc. since each commenced operations in February 1993. Waddell & Reed, Inc. serves as the Fund's underwriter and as underwriter for each of the investment companies in the United Group of Mutual Funds, TMK/United Funds, Inc. and Waddell & Reed Funds, Inc. Waddell & Reed, Inc. is an indirect subsidiary of Torchmark Corporation, a holding company, and United Investors Management Company, a holding company, and a direct subsidiary of Waddell & Reed Financial Services, Inc., a holding company.

Subject to authority of the Fund's Board of Directors, the Manager provides investment advice and supervises investments for which it is paid a fee consisting of two elements: (i) a "Specific" fee computed on the Fund's net asset value as of the close of business each day at the annual rate of .03 of 1% of net assets and (ii) a pro rata participation based on the relative net asset size of the Fund in a "Group" fee computed each day on the combined net asset values of all of the funds in the United Group at the annual rates shown in the following table. The fee is accrued and paid daily. Prior to the above-described assignment to the Manager on January 8, 1992, the fees were paid to Waddell & Reed, Inc.

Group Fee Rate

Group Net Asset Level (all dollars in millions)	Annual Group Fee Rate for Each Level
From $ 0 to $ 750	.51 of 1%
From $ 750 to $ 1,500	.49 of 1%
From $ 1,500 to $ 2,250	.47 of 1%
From $ 2,250 to $ 3,000	.45 of 1%
From $ 3,000 to $ 3,750	.43 of 1%
From $ 3,750 to $ 7,500	.40 of 1%
From $ 7,500 to $12,000	.38 of 1%
Over $12,000	.36 of 1%

Waddell & Reed Services Company, a subsidiary of Waddell & Reed, Inc., acts as transfer agent ("Shareholder Servicing Agent") for the Fund and processes the payments of dividends. See the SAI for the fees paid for these services. Inquiries concerning shareholder accounts should be sent to that company at the address shown on the inside back cover of this Prospectus or to the Fund at the address shown on the front cover of this Prospectus.

Waddell & Reed Services Company also acts as agent ("Accounting Services Agent") in providing bookkeeping and accounting services and assistance to the Fund and pricing daily the value of shares of the Fund. For these services, the Fund pays the Accounting Services Agent a monthly fee of one-twelfth of the annual fee shown in the following table.

Accounting Services Fee

Average Net Asset Level (all dollars in millions)	Annual Fee Rate for Each Level
From $ 0 to $ 10	$ 0
From $ 10 to $ 25	$ 10,000
From $ 25 to $ 50	$ 20,000
From $ 50 to $ 100	$ 30,000
From $ 100 to $ 200	$ 40,000
From $ 200 to $ 350	$ 50,000
From $ 350 to $ 550	$ 60,000
From $ 550 to $ 750	$ 70,000
From $ 750 to $1,000	$ 85,000
$1,000 and Over	$100,000

Under a Service Plan adopted by the Fund pursuant to Rule 12b-1 under the Investment Company Act of 1940, the Fund may pay monthly a fee to Waddell & Reed, Inc., the principal underwriter for the Fund, in an amount not to exceed .25% of the Fund's average annual net assets. The fee is to be paid to reimburse Waddell & Reed, Inc. for amounts it expends in connection with the provision of personal services to Fund shareholders and/or maintenance of shareholder accounts. In particular, the Service Plan and a related Service Agreement between the Fund and Waddell & Reed, Inc. contemplate that these expenditures may include costs and expenses incurred by Waddell & Reed, Inc. and its affiliates in compensating, training and supporting registered sales representatives, sales managers and/or other appropriate personnel in providing personal services to Fund shareholders and/or maintaining shareholder accounts; increasing services provided to Fund shareholders by office personnel located at field sales offices; engaging in other activities useful in providing personal services to Fund shareholders and/or maintenance of shareholder accounts; and in compensating broker-dealers who may regularly sell Fund shares for providing shareholder services and/or maintaining shareholder accounts. See the SAI for additional information and terms of the Service Plan.

The combined net asset values of all of the funds in the United Group were approximately $11.3 billion on September 30, 1993. Management fees for the fiscal year ended September 30, 1993 were 0.45% of the Fund's average net assets. The Fund's total expenses for that year were 0.56% of its average net assets.

The Manager places transactions for the Fund's portfolio and in doing so may consider sales of shares of the Fund and other funds it manages as a factor in the selection of brokers to execute portfolio transactions. See the SAI for further information.

John M. Holliday is primarily responsible for the day-to-day management of the portfolio of the Fund. Mr. Holliday is Senior Vice President of the Manager and Vice President of the Fund. He is also Vice President of other investment companies for which the Manager serves as investment manager. Mr. Holliday has held his Fund responsibilities since May 1980. He has been an employee of the Manager since January 8, 1992. Prior to that date, Mr. Holliday was an employee of Waddell & Reed, Inc., the then investment manager of the Fund, and served as the portfolio manager of the Fund and other investment companies managed by Waddell & Reed, Inc. He has been Senior Vice President of Waddell & Reed Asset Management Company, an affiliate of the Manager, since January 1983 and Vice President since June 1978. Other members of the Manager's investment management department provide input on market outlook, economic conditions, investment research and other considerations relating to the Fund's investments.

Dividends, Distributions and Taxes

Ordinarily, dividends are paid monthly from net investment income, which includes accrued interest, earned discount (both original issue discount and, if the Fund so elects, market discount on municipal securities purchased after April 30, 1993) and other income earned on portfolio securities less expenses. Usually they are paid on the 27th day of the month or on the last business day prior to the 27th if the 27th falls on a weekend or holiday. The Fund also distributes substantially all of its net capital gains (the excess of net long-term capital gains over net short-term capital losses) and net short-term capital gains, if any, after deducting any available capital loss carryovers, with its regular dividend at the end of the calendar year. The Fund may make additional distributions if necessary to avoid Federal income or excise taxes on certain undistributed income and capital gains.

You have the option to receive dividends and distributions in cash, to reinvest them without charge or to receive dividends in cash and reinvest distributions, as you may instruct. In the absence of instructions, dividends and distributions will be reinvested.

The Fund intends to continue to qualify for treatment as a regulated investment company under the Internal Revenue Code of 1986 so that it will be relieved of Federal income tax on that part of its investment company taxable income (consisting generally of taxable net investment income and net short-term capital gains) and net capital gains that is distributed to its shareholders. In addition, the Fund intends to continue to qualify to pay "exempt-interest" dividends, which requires, among other things, that at the close of each quarter of its taxable year at least 50% of the value of its total assets must consist of municipal bonds.

Most of the distributions by the Fund will be designated by it as exempt-interest dividends, which generally may be excluded by you from your gross income. Dividends from the Fund's investment company taxable income are taxable to you as ordinary income, to the extent of the Fund's earnings and profits, whether received in cash or reinvested in additional Fund shares. Distributions of the Fund's realized net capital gains, when designated as such, are taxable to you as long-term gains, whether received in cash or reinvested in additional Fund shares and regardless of the length of time you have owned your shares. None of the dividends paid by the Fund is expected to be eligible for the dividends-received deduction allowed to corporations. The Fund notifies you after each calendar year-end as to the amounts and status of dividends and distributions paid (or deemed paid) to you for that year.

If you have a gain on a redemption of Fund shares, the entire gain will be taxable even though a portion of the gain may represent municipal bond interest earned by the Fund but not yet paid out as a dividend. If the redemption is not made until after record date, however, that interest will be received by you as a dividend that is mostly tax-exempt rather than as part of a taxable gain. Ordinarily, record date is the first Friday after the 9th day of each month. Dividends exempt from Federal income tax may be subject to income taxation under state and local tax laws.

The Tax Reform Act of 1986 eliminated the availability of tax-exempt financing for certain functions and limited the availability of such financing for certain other functions. This has resulted in a decrease in the number of tax-exempt issues in which the Fund may invest.

Interest on indebtedness incurred or continued to purchase or carry Fund shares will not be deductible for Federal income tax purposes to the extent the

Fund's distributions consist of exempt-interest dividends.

The Fund may invest in private activity bonds ("PABs") the interest on which is treated as a tax preference item for purposes of determining your liability for the AMT. If you may be subject to the AMT, you should consult with your tax adviser concerning investment in the Fund. The Fund provides you with information concerning the amount of distributions subject to the AMT after the end of each calendar year.

Entities or other persons who are "substantial users" (or persons related to "substantial users") of facilities financed by PABs should consult their tax advisers before purchasing Fund shares because, for users of certain of these facilities, the interest on PABs is not exempt from Federal income tax. For these purposes, the term "substantial user" is defined generally to include a "non-exempt person" who regularly uses in trade or business a part of a facility financed from the proceeds of PABs.

Proposals may be introduced before Congress for the purpose of restricting or eliminating the Federal income tax exemption for interest on municipal bonds. If such a proposal were enacted, the availability of municipal bonds for investment by the Fund and the value of its portfolio would be affected. In such event, the Fund would reevaluate its investment objective and policies.

The Fund is required to withhold 31% of all taxable dividends, capital gains distributions and redemption proceeds payable to you if you are an individual or certain other noncorporate shareholder and do not furnish the Fund with a correct taxpayer identification number. Withholding at that rate from taxable dividends and capital gains distributions also is required if you otherwise are subject to backup withholding.

Your redemption of Fund shares will result in taxable gain or loss to you, depending on whether the redemption proceeds are more or less than your adjusted basis for the redeemed shares (which normally includes any sales charge paid). An exchange of Fund shares for shares of any other fund in the United Group generally will have similar tax consequences. However, special rules apply when you dispose of Fund shares through a redemption or exchange within 90 days after your purchase thereof and subsequently reacquire Fund shares or acquire shares of another fund in the United Group without paying a sales charge due to the thirty-day reinvestment privilege or exchange privilege. In these cases, any gain on the disposition of the Fund shares would be increased, or loss decreased, by the amount of the sales charge you paid when those shares were acquired, and that amount will increase the adjusted basis of the shares subsequently acquired. In addition, if you purchase Fund shares within thirty days after redeeming other Fund shares at a loss, all or part of that loss will not be deductible and will increase the basis of the newly purchased shares.

The foregoing is only a summary of some of the important Federal tax considerations generally affecting the Fund and its shareholders; see the SAI for a further discussion. There may be other Federal, state or local tax considerations applicable to a particular investor; for example, exempt-interest dividends paid by the Fund may be partially or wholly taxable under some state and local laws. You are urged to consult your own tax adviser.

Purchase of Shares

You may purchase shares through Waddell & Reed, Inc. and its sales representatives. To open an account you must complete an application. Orders are accepted only at the home office of Waddell & Reed, Inc. (see inside back cover of this Prospectus for address), and it need not accept any orders. The offering price of a share is its net asset value next determined following acceptance plus the sales charge shown in the table below. This net asset value per share is the value of the Fund's assets, less liabilities, divided by the number of shares outstanding. Net asset value is determined once each day as of the later of the close of the regular session of the New York Stock Exchange or the close of the regular session of any commodities exchange on which a future held by the Fund is traded on each day the New York Stock Exchange is open. The Fund's portfolio securities are valued according to the prices quoted by a dealer in bonds which offers a pricing service for valuation of municipal bonds or, if not available, at their fair value in a manner determined in good faith by the Board of Directors. Short-term debt securities are valued at amortized cost which approximates market value. Other assets are valued at their fair value.

Size of Purchase	Sales Charge as Percent of Offering Price	Sales Charge as Approximate Percent of Amount Invested
Under $100,000	4.25%	4.44%
$ 100,000 to less than $ 300,000 ..	3.25	3.36
300,000 to less than 500,000 ..	2.50	2.56
500,000 to less than 1,000,000 ..	1.75	1.78
1,000,000 to less than 2,000,000 ..	1.00	1.01

2,000,000 and over	0.00	0.00

Ordinarily, the minimum initial investment is $500. A $100 minimum initial investment pertains to certain exchanges of shares from other funds in the United Group.

A shareholder may arrange with Waddell & Reed, Inc. to purchase shares by having regular monthly withdrawals of $25 or more made from a checking account or by having regular monthly exchanges of shares with a value of $25 or more made from United Cash Management, Inc., subject to certain conditions explained in the SAI.

Lower sales charges are available by combining additional purchases of the Fund, United Government Securities Fund, Inc. and United Municipal High Income Fund, Inc. with the net asset value of shares already held ("rights of accumulation") and by grouping all purchases made during a thirteen-month period ("Statement of Intention"). Purchases by certain related persons may be grouped. Shares of the Fund held for at least six months may be exchanged for shares of another fund in the United Group (listed on the back cover of this Prospectus), unless the exchange is for shares of United Government Securities Fund, Inc. or United Municipal High Income Fund, Inc. or unless the Fund shares were acquired by reinvestment of a dividend or other distribution, in which cases there is no holding period. There are no additional sales charges on such exchanges. Subject to certain conditions, automatic monthly exchanges of shares of United Cash Management, Inc. and exchanges of shares of certain other funds (listed on the back cover of this Prospectus) may be made into the Fund. These exchange privileges may be eliminated or modified at any time, upon notice in certain instances. Information as to rights of accumulation, Statements of Intention, grouping by related persons, exchange privileges, and Flexible Withdrawal Service is contained in the SAI. Applicable forms are available from Waddell & Reed, Inc.'s representatives.

Fund shares may be purchased at net asset value by the Directors and officers of the Fund, employees of Waddell & Reed, Inc., employees of their affiliates, sales representatives of Waddell & Reed, Inc. and the spouse, children, parents, children's spouses and spouse's parents of each such Director, officer, employee and sales representative. Purchases in certain trusts for these persons may also be made at net asset value. Shares may also be issued at net asset value in a merger, acquisition or exchange offer made pursuant to a plan of reorganization to which the Fund is a party. See the SAI for additional information.

Redemption

You have the right to sell your shares back to the Fund (redeem) at any time by sending a written request to the address on the front cover of this Prospectus, stating how many shares or the amount in dollars you wish to redeem. The written request must be in good order which requires that if more than one person owns the shares, each owner must sign the written request. If you hold a certificate, it must be properly endorsed and sent to the Fund. The Fund reserves the right to require a signature guarantee by a national bank, a federally chartered savings and loan or a member firm of a national stock exchange or other eligible guarantor in accordance with procedures of the Fund's transfer agent if the request for redemption is made by a corporation, partnership or fiduciary, or if the redemption request is made by, or if redemption proceeds are payable to, someone other than the owner of record. If you recently purchased the shares by check, the payment of redemption proceeds on these shares may be delayed. You may arrange for the bank upon which the purchase check was drawn to provide to the Fund telephone or written assurance, satisfactory to the Fund, that the check has cleared and been honored. If no such assurance is given, payment of the redemption proceeds on these shares will be delayed until the earlier of 10 days or when the Fund has been able to verify that your purchase check has cleared and been honored.

The Fund will redeem your shares at their net asset value (which may be more or less than what you paid) next computed after receipt of your written request for redemption in good order at the Fund's address shown on the front cover of this Prospectus. Payment is made within seven days, unless delayed because of emergency conditions determined by the Securities and Exchange Commission, when the New York Stock Exchange is closed (other than on weekends and holidays) or when trading on the Exchange is restricted. Payment is made in cash, although under extraordinary conditions redemptions may be made in portfolio securities.

You may reinvest in the Fund all or part of the amount you redeemed without charge by sending to the Fund the amount you wish to reinvest. The reinvested amounts must be received within thirty days after the date of your redemption. You may do this only once as to Fund shares.

The Fund reserves the right to redeem at net asset value all shares owned by a particular shareholder in the Fund having an aggregate net asset value less than $500. The Fund will give the shareholder notice of intention to redeem and a 60-day opportunity to purchase a sufficient number of additional shares to bring the net asset value of his or her shares in the Fund to $500. See the SAI for further information.

Information concerning the establishment of automatic payments from an account is available from representatives of Waddell & Reed, Inc.

APPENDIX A

The following are descriptions of some of the ratings of securities which the Fund may use. The Fund may also use ratings provided by other nationally recognized statistical rating organizations.

DESCRIPTION OF BOND RATINGS

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

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

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

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

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

2. Nature of and provisions of the obligation.

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

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

AA -- Debt rated AA also qualifies as high quality debt obligations. Capacity to pay interest and repay principal is very strong, and in the majority of instances they differ from AAA issues only in small degree.

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

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

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

BB -- Debt rated BB has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. The BB rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BBB- rating.

B -- Debt rated B has a greater vulnerability to default but currently has the capacity to meet interest payments and principal repayments. Adverse business, financial, or economic conditions will likely impair capacity or willingness to pay interest and repay principal. The B rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BB or BB- rating.

CCC -- Debt rated CCC has a currently indefinable vulnerability to default, and is dependent upon favorable business, financial and economic conditions to meet timely payment of interest and repayment of principal. In the event of adverse business, financial or economic conditions, it is not likely to have the capacity to pay interest and repay principal. The CCC rating category is also used for debt subordinated to senior debt that is assigned an actual or implied B or B- rating.

CC -- The rating CC is typically applied to debt subordinated to senior debt that is assigned an actual or implied CCC rating.

C -- The rating C is typically applied to debt subordinated to senior debt which is assigned an actual or implied CCC- debt rating. The C rating may be used to cover a situation where a bankruptcy petition has been filed, but debt service payments are continued.

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

D -- Debt rated D is in payment default. It is used when interest payments or principal payments are not made on a due date even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace periods; it will also be used upon a filing of a bankruptcy petition if debt service payments are jeopardized.

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

NR -- Indicates that no public rating has been requested, that there is insufficient information on which to base a rating, or that S&P does not rate a particular type of obligation as a matter of policy.

Debt Obligations of issuers outside the United States and its territories are rated on the same basis as domestic corporate and municipal issues. The ratings measure the creditworthiness of the obligor but do not take into account currency exchange and related uncertainties.

Bond Investment Quality Standards: Under present commercial bank regulations issued by the Comptroller of the Currency, bonds rated in the top four categories (AAA, AA, A, BBB, commonly known as "Investment Grade" ratings) are generally regarded as eligible for bank investment. In addition, the Legal Investment Laws of various states may impose certain rating or other standards for obligations eligible for investment by savings banks, trust companies, insurance companies and fiduciaries generally.

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

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

Aa -- Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuations of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.

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

Baa -- Bonds which are rated Baa are considered as medium-grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Some bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

NOTE: Bonds within the above categories which possess the strongest investment attributes are designated by the symbol "1" following the rating.

Ba -- Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B -- Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa -- Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca -- Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C -- Bonds which are rated C are the lowest rated class of bonds and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

DESCRIPTION OF MUNICIPAL NOTE RATINGS

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

- --Amortization schedule (the larger the final maturity relative to other maturities the more likely it will be treated as a note).
- --Source of Payment (the more dependent the issue is on the market for its refinancing, the more likely it will be treated as a note.)

Note rating symbols are as follows:

SP-1 Very strong or strong capacity to pay principal and interest. Those issues determined to possess overwhelming safety characteristics will be given a plus (+) designation.
SP-2 Satisfactory capacity to pay principal and interest.
SP-3 Speculative capacity to pay principal and interest.

Moody's Short-Term Loan Ratings -- Moody's ratings for state and municipal short-term obligations will be designated Moody's Investment Grade (MIG). This distinction is in recognition of the differences between short-term credit risk and long-term risk. Factors affecting the liquidity of the borrower are uppermost in importance in short-term borrowing, while various factors of major importance in bond risk are of lesser importance over the short run. Rating symbols and their meanings follow:

MIG 1 -- This designation denotes best quality. There is present strong protection by established cash flows, superior liquidity support or demonstrated broad-based access to the market for refinancing.

MIG 2 -- This designation denotes high quality. Margins of protection are ample although not so large as in the preceding group.

MIG 3 -- This designation denotes favorable quality. All security elements are accounted for but this is lacking the undeniable strength of the preceding grades. Liquidity and cash flow protection may be narrow and market access for refinancing is likely to be less well established.

MIG 4 -- This designation denotes adequate quality. Protection commonly regarded as required of an investment security is present and although not distinctly or predominantly speculative, there is specific risk.

DESCRIPTION OF COMMERCIAL PAPER RATINGS

Standard & Poor's Corporation commercial paper rating is a current assessment of the likelihood of timely payment of debt having an original maturity of no more than 365 days. Ratings are graded into four categories, ranging from A for the highest quality obligations to D for the lowest. Issuers rated A are further referred to by use of numbers 1, 2 and 3 to indicate the relative degree of safety. Issues assigned an A rating (the highest rating) are regarded as having the greatest capacity for timely payment. An A-1 designation indicates that the degree of safety regarding timely payment is either overwhelming or very strong. Those issues determined to possess overwhelming safety characteristics are denoted with a plus sign designation. An A-2 rating indicates that capacity for timely payment is strong; however, the relative degree of safety is not as high as for issues designated A-1. Issues rated A-3 have a satisfactory capacity for timely payment; however, they are somewhat more vulnerable to the adverse effects of changes in circumstances than obligations carrying the higher designations. Issues rated B are regarded as having only an adequate capacity for timely payment; however, such capacity may be damaged by changing conditions or short-term adversities. A C rating is assigned to short-term debt obligations with a doubtful capacity for payment. Debt rated D is in payment default, which occurs when interest payments or principal payments are not made on the date due even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period.

Moody's Investors Service, Inc. commercial paper ratings are opinions of the ability of issuers to repay punctually promissory obligations not having an original maturity in excess of nine months. Moody's employs the designations of Prime 1, Prime 2 and Prime 3, all judged to be investment grade, to indicate the relative repayment capacity of rated issuers. Issuers rated Prime 1 have a superior capacity for repayment of short-term promissory obligations and repayment capacity will normally be evidenced by (1) lending market positions in well established industries; (2) high rates of return on funds employed; (3) conservative capitalization structures with moderate reliance on debt and ample asset protection; (4) broad margins in earnings coverage of fixed financial charges and high internal cash generation; and (5) well established access to a range of financial markets and assured sources of alternate liquidity. Issuers rated Prime 2 also have a strong capacity for repayment of short-term promissory obligations as will normally be evidenced by many of the characteristics described above for Prime 1 issuers, but to a lesser degree. Earnings trends and coverage ratios, while sound, will be more subject to variation; capitalization characteristics, while still appropriate, may be more affected by external conditions; and ample alternate liquidity is maintained. Issuers rated Prime 3 have an acceptable capacity for repayment of short-term promissory obligations, as will normally be evidenced by many of the characteristics above for Prime 1 issuers, but to a lesser degree. The effect of industry characteristics and market composition may be more pronounced; variability in earnings and profitability may result in changes in the level of debt protection measurements and requirement for relatively high financial leverage; and adequate alternate liquidity is maintained.

THE INVESTMENTS OF
UNITED MUNICIPAL BOND FUND, INC.
SEPTEMBER 30, 1993

	Principal Amount in Thousands	Value
MUNICIPAL BONDS		
ALABAMA - 2.03%		
City of Hoover, Alabama, General Obligation Warrants, Series 1990-B, 8.0%, 3-1-2020	$ 9,455	$ 11,156,900
Alabama Water Pollution Control Authority, Revolving Fund Loan Bonds (Jefferson County Project), Series 1992-A, 5.75%, 2-15-2010	5,000	5,181,250
The East Alabama Health Care Authority, Health Care Facilities Revenue and Tax Anticipation Bonds, Series 1993, 5.75%, 9-1-2013	2,000	2,062,500
The Special Care Facilities Financing Authority of The City of Birmingham-Children's Hospital, Health Care Facility Revenue Bonds, Children's Hospital Series 1993B, 5.5%, 6-1-2014	2,000	2,015,000
Birmingham Airport Authority, Airport Revenue Bonds, Series 1993-A, 5.25%, 7-1-2014	1,000	975,000
Total		21,390,650
ARIZONA - 4.96%		
Student Loan Acquisition Authority of Arizona (A nonprofit corporation organized pursuant to the laws of the State of Arizona), Student Loan Revenue Bonds, Senior Series 1993A-1, 3.15%, 12-1-2004	14,950	14,950,000
City of Phoenix, Civic Improvement Corporation, Wastewater System Lease Revenue Bonds, Series 1993, 6.125%, 7-1-2014	9,000	9,528,750
Certificates of Participation relating to Arizona Municipal Finance Program, Series 1988, 8.1%, 7-5-2020........................	5,000	5,008,900
Tempe Elementary School District No. 3 of Maricopa County, Arizona, School Improvement and Refunding Bonds, Series 1993,		

7.5%, 7-1-2010	2,815	3,543,381
Arizona Municipal Financing Program, Certificates of Participation (Composite Issue - Series 34),		
7.25%, 8-1-2009	2,750	3,396,250

See Notes to Schedule of Investments on page 34.

THE INVESTMENTS OF
UNITED MUNICIPAL BOND FUND, INC.
SEPTEMBER 30, 1993

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
ARIZONA (Continued)		
The Industrial Development Authority of the City of Tucson, Arizona, Multifamily Housing Revenue Bonds, Series 1985 (HSL La Cholla Project), Adjustable Rate Bond,		
3.0%, 12-1-2014	$ 3,315	$ 3,315,000
City of Phoenix, Arizona, General Obligation Refunding Bonds, Series 1993A,		
7.0%, 7-1-2010	2,500	3,025,000
Kyrene Elementary School District No. 28 of Maricopa County, Arizona, School Improvement Bonds, Project of 1993, Series A (1993),		
5.2%, 7-1-2013	3,000	2,996,250
State of Arizona, Refunding Certificates of Participation, Series 1992B,		
6.25%, 9-1-2010	2,500	2,712,500
The Industrial Development Authority of the County of Maricopa (Arizona), Samaritan Health Services, Hospital System Revenue Refunding Bonds, Series 1990A,		
7.0%, 12-1-2016	2,000	2,460,000
Paradise Valley Unified School District No. 69 of Maricopa County, Arizona, Refunding Bonds, Second Series 1993,		
0.0%, 7-1-2007	3,000	1,440,000
Total		52,376,031
ARKANSAS - 0.33%		
City of North Little Rock, Arkansas, Electric System Refunding Revenue Bonds, 1992 Series A,		
6.5%, 7-1-2010	3,000	3,517,500
CALIFORNIA - 2.99%		
Transmission Agency of Northern California, California-Oregon Transmission Project Revenue Bonds, 1990 Series A,		
7.0%, 5-1-2013	12,000	14,505,000
California Statewide Communities Development Authority, Hospital Revenue Certificates of Participation, Cedars-Sinai Medical Center, Series 1992,		
6.5%, 8-1-2012	5,200	5,921,500
California Health Facilities Financing Authority, Hospital Revenue Bonds (Downey Community Hospital), Series 1993,		
5.75%, 5-15-2015	4,250	4,265,938

See Notes to Schedule of Investments on page 34.

THE INVESTMENTS OF
UNITED MUNICIPAL BOND FUND, INC.
SEPTEMBER 30, 1993

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
CALIFORNIA (Continued)		
Southern California Public Power Authority, Multiple Project Revenue Bonds, 1989 Series,		
6.75%, 7-1-2012	$ 3,455	$ 3,986,206

Sacramento Municipal Utility District, Electric Revenue Refunding Bonds, 1993 Series G,		
6.5%, 9-1-2013	2,500	2,890,625
Total		31,569,269
COLORADO - 4.58%		
City and County of Denver, Colorado, Airport System Revenue Bonds:		
Series 1991A:		
8.75%, 11-15-2023	11,000	13,103,750
0.0%, 11-15-2003	7,855	4,408,619
Series 1991D:		
7.75%, 11-15-2013	8,705	10,522,169
0.0%, 11-15-2005	8,000	3,920,000
0.0%, 11-15-2003	5,000	2,806,250
Series 1992C:		
6.65%, 11-15-2005	7,980	8,718,150
6.35%, 11-15-2001	3,250	3,469,375
Regional Transportation District (Colorado), Weekly Adjustable/Fixed Rate, Special Passenger Fare Revenue Bonds, Series 1989A,		
5.95%, 6-1-99	1,370	1,370,000
Total		48,318,313
FLORIDA - 1.90%		
Orlando Utilities Commission, Water and Electric Subordinated Revenue Bonds, Series 1989D,		
6.75%, 10-1-2017	15,000	17,850,000
Lee County, Florida, Airport Revenue Bonds, Series 1992A,		
5.5%, 10-1-2010	2,100	2,149,875
Total		19,999,875

See Notes to Schedule of Investments on page 34.

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
GEORGIA - 6.89%		
Municipal Electric Authority of Georgia:		
General Power Revenue Bonds, 1992B Series:		
8.25%, 1-1-2011	$ 8,700	$ 11,375,250
6.375%, 1-1-2016	8,000	8,970,000
6.2%, 1-1-2010	3,495	3,822,656
Project One Special Obligation Bonds, Fifth Crossover Series,		
6.4%, 1-1-2013	15,500	18,038,125
City of Atlanta, Airport Facilities Revenue Bonds, Series 1990,		
6.5%, 1-1-2013	11,200	12,110,000
Fulton County School District (Georgia), General Obligation Refunding Bonds, Series 1991,		
6.375%, 5-1-2010	5,000	5,693,750
Hospital Authority of Gwinnett County, Georgia, Revenue Anticipation Certificates, Series 1993 (Gwinnett Hospital System, Inc. Project),		
5.0%, 9-1-2013	5,000	4,806,250
Development Authority of Monroe County (Georgia), Pollution Control Revenue Bonds (Oglethorpe Power Corporation Scherer Project), Series 1992A,		
6.75%, 1-1-2010	4,000	4,715,000
Downtown Development Authority of the City of Atlanta (Georgia), Refunding Revenue Bonds (Underground Atlanta Project), Series 1992:		
6.25%, 10-1-2016	2,000	2,152,500
6.25%, 10-1-2012	1,000	1,078,750
Total		72,762,281
HAWAII - 2.63%		
State of Hawaii, Airports System Revenue Bonds, Second Series of 1991:		
6.9%, 7-1-2012	20,195	23,855,344

7.0%, 7-1-2018	3,495	3,931,875
Total		27,787,219

IDAHO - 0.69%

Idaho Health Facilities Authority, Hospital Revenue Refunding Bonds, Series 1992 (IHC Hospitals, Inc.), Indexed Inverse Floating/Fixed Term Bonds,		
8.85%, 2-15-2021	6,000	7,290,000

See Notes to Schedule of Investments on page 34.

THE INVESTMENTS OF
UNITED MUNICIPAL BOND FUND, INC.
SEPTEMBER 30, 1993

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
ILLINOIS - 3.15%		
City of Chicago, Chicago-O'Hare International Airport, General Airport Revenue Bonds, 1992 Series A:		
6.0%, 1-1-2018	$18,675	$ 19,258,594
6.0%, 1-1-2012	5,000	5,175,000
Metropolitan Pier and Exposition Authority (Illinois), McCormick Place Expansion Project Bonds, Series 1992A,		
8.5%, 6-15-2006	5,000	6,518,750
Illinois Health Facilities Authority, Revenue Refunding Bonds, Series 1993C (Lutheran General HealthSystem),		
7.0%, 4-1-2008	2,000	2,277,500
Total		33,229,844
INDIANA - 2.58%		
Indiana State Office Building Commission, Capitol Complex Revenue Bonds:		
Series 1990B (State Office Building I Facility),		
7.4%, 7-1-2015	8,000	10,130,000
Series 1990A (Senate Avenue Parking Facility),		
7.4%, 7-1-2015	4,775	6,046,344
Indiana Transportation Finance Authority, Highway Revenue Bonds, Series 1990A,		
7.25%, 6-1-2015	9,000	11,058,750
Total		27,235,094
IOWA - 0.36%		
Muscatine County, Iowa, Variable Rate Demand Pollution Control Revenue Refunding Bonds (Monsanto Company Project), Series 1992,		
3.0%, 10-1-2007	3,800	3,800,000
KANSAS - 0.83%		
Kansas Turnpike Authority, Turnpike Revenue Bonds, Series 1993,		
5.375%, 9-1-2010	4,820	4,940,500
Water District No. 1 of Johnson County, Kansas, Water Revenue Refunding Bonds, Series 1993,		
5.3%, 12-1-2012	3,865	3,860,169
Total		8,800,669

See Notes to Schedule of Investments on page 34.

THE INVESTMENTS OF
UNITED MUNICIPAL BOND FUND, INC.
SEPTEMBER 30, 1993

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
KENTUCKY - 0.47%		
Regional Airport Authority of Louisville and Jefferson County, Kentucky, Airport System Revenue Bonds,		

1993 Series C, 5.5%, 7-1-2013	$ 5,000	$ 4,987,500
LOUISIANA - 1.23%		
Memorial Hospital Service District of the Parish of Calcasieu, State of Louisiana, Hospital Revenue Bonds (Lake Charles Memorial Hospital Project), Series 1993, 3.25%, 12-1-2018	13,010	13,010,000
MARYLAND - 0.92%		
Northeast Maryland Waste Disposal Authority, Solid Waste Revenue Bonds (Montgomery County Resource Recovery Project), Series 1993A:		
6.0%, 7-1-2006	7,170	7,564,350
6.2%, 7-1-2010	2,080	2,181,400
Total		9,745,750
MASSACHUSETTS - 13.42%		
Massachusetts Water Resources Authority: General Revenue Bonds:		
1992 Series A, 6.5%, 7-15-2019	21,740	24,484,675
1992 Series B, 5.5%, 11-1-2015	12,135	11,937,806
General Revenue Refunding Bonds, 1993 Series B, 5.25%, 3-1-2013	5,000	4,812,500
Massachusetts Bay Transportation Authority, General Transportation System Bonds: 1992 Series B Refunding:		
6.2%, 3-1-2016	10,300	11,381,500
6.0%, 3-1-2012	10,150	10,733,625
1992 Series C, 6.1%, 3-1-2013	11,000	11,866,250
The Commonwealth of Massachusetts: General Obligation Bonds, Consolidated Loan of 1992, Series A, 6.0%, 6-1-2013	25,000	26,156,250
General Obligation Refunding Bonds, 1992 Series B, 6.5%, 8-1-2008	3,115	3,570,569

See Notes to Schedule of Investments on page 34.

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
MASSACHUSETTS (Continued)		
Massachusetts Municipal Wholesale Electric Company, Power Supply System Revenue Bonds:		
1992 Series E, 6.0%, 7-1-2011	$10,875	$ 11,228,438
1992 Series B, 6.75%, 7-1-2017	8,900	9,678,750
City of Boston, Massachusetts, Industrial Development Financing Authority, Sewage Facility Revenue Bonds (Harbor Electric Energy Company Project), 1991 Series, 7.375%, 5-15-2015	6,900	7,814,250
Massachusetts Health and Educational Facilities Authority, Revenue Bonds, Baystate Medical Center Issue, Series D, 6.0%, 7-1-2015	5,000	5,268,750
Boston Water and Sewer Commission, General Revenue Bonds, 1992 Series A (Senior Series), 5.75%, 11-1-2013	1,575	1,667,531
Massachusetts Industrial Finance Agency, Pollution Control Revenue Refunding Bonds, 1993 Series (Eastern Edison Company Project), 5.875%, 8-1-2008	1,000	1,038,750
Total		141,639,644

MICHIGAN - 2.01%

Michigan Strategic Fund, Limited Obligation Refunding Revenue Bonds (The Detroit Edison Company Pollution Control Bonds Project), Collateralized Series 1991 AA, 6.95%, 5-1-2011	9,000	10,856,250
The Economic Development Corporation of Dickinson County (Michigan), Solid Waste Disposal Refunding Revenue Bonds (Champion International Corporation Project), Series 1989, 6.55%, 3-1-2007	5,000	5,325,000
Michigan State Hospital Finance Authority, Hospital Revenue Refunding Bonds (McLaren Obligated Group), Series 1993A, 5.375%, 10-15-2013	3,130	3,086,963

See Notes to Schedule of Investments on page 34.

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
MICHIGAN (Continued)		
City of Detroit, Michigan, Convention Facility Limited Tax Revenue Refunding Bonds (Cobo Hall Expansion Project), Series 1993, 5.25%, 9-30-2012	$ 2,000	$ 1,927,500
Total		21,195,713
MINNESOTA - 0.49%		
City of Rochester, Minnesota, Health Care Facilities Revenue Bonds (Mayo Foundation/Mayo Medical Center), Series 1992D, Indexed Inverse Floating/Fixed Term Bonds, 8.28%, 11-15-2009	4,500	5,169,375
MISSISSIPPI - 1.93%		
Lowndes County, Mississippi, Solid Waste Disposal and Pollution Control Refunding Revenue Bonds (Weyerhaeuser Company Project), Series 1992B, Indexed Inverse Floating/Fixed Term Bonds, 8.85%, 4-1-2022	11,000	12,801,250
Mississippi Hospital Equipment and Facilities Authority, Hospital Revenue Bonds, Series 1993 (Singing River Hospital System Project), 5.5%, 3-1-2023	5,000	4,987,500
Rankin County Mississippi, Industrial Development Revenue Bonds, Series 1984 (Yellow Freight System, Inc. Project), 5.75%, 10-1-2008	2,500	2,528,125
Total		20,316,875
MISSOURI - 3.31%		
St. Louis Municipal Finance Corporation, Leasehold Revenue Refunding Bonds, 5.85%, 7-15-2009	15,000	15,168,750
The City of St. Louis, Airport Revenue Refunding and Improvement Bonds, Series 1992, Lambert-St. Louis International Airport Project, 6.125%, 7-1-2012	8,250	8,889,375

See Notes to Schedule of Investments on page 34.

Principal

	Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
MISSOURI (Continued)		
The Industrial Development Authority of the County of Jackson, State of Missouri, Health Care System Revenue Bonds, Saint Joseph Health Center Issue, Series 1992,		
6.5%, 7-1-2012	$ 3,595	$ 3,797,219
Missouri Economic Development, Export and Infrastructure Board, Lease Revenue Bonds:		
Missouri Department of Social Service Office Facility, Series 1992,		
6.3%, 12-1-2008	2,000	2,182,500
Missouri Division of Professional Registration Office Building, Series 1992,		
6.3%, 12-1-2008	1,000	1,091,250
University Development Foundation, Power Plant Equipment, Leasehold Revenue Refunding Bonds, Series 1993 (The Curators of the University of Missouri, Lessee),		
5.625%, 5-1-2009	2,750	2,784,375
The Industrial Development Authority of the City of Kansas City, Missouri, Industrial Development Refunding Revenue Bonds (Yellow Freight System, Inc. Project), Series 1993,		
6.125%, 3-1-2009	1,000	1,051,250
Total		34,964,719
MONTANA - 0.59%		
Anaconda-Deer Lodge County, Montana, Solid Waste Facility Revenue Bonds (ARCO-Anaconda Smelter Site Project), Series 1992,		
6.375%, 10-1-2016	5,750	6,231,563
NEVADA - 0.38%		
City of Henderson, Nevada, General Obligation (Limited Tax) Water Bonds (Additionally Secured by Pledged Revenues), Series 1993A:		
6.375%, 12-1-2016	1,920	2,073,600
6.375%, 12-1-2015	1,805	1,949,400
Total		4,023,000

See Notes to Schedule of Investments on page 34.

THE INVESTMENTS OF
UNITED MUNICIPAL BOND FUND, INC.
SEPTEMBER 30, 1993

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
NEW JERSEY - 3.28%		
New Jersey Turnpike Authority, Turnpike Revenue Bonds, Series 1991 C,		
6.5%, 1-1-2016	$21,700	$ 25,443,250
State of New Jersey, General Obligation Bonds, Refunding Bonds (Series D),		
6.0%, 2-15-2013	4,000	4,320,000
Middlesex County Utilities Authority, Sewer Revenue Refunding Bonds, Series 1992A, Indexed Inverse Floating/Fixed Term Bonds,		
7.9%, 8-15-2010	3,000	3,525,000
New Jersey Economic Development Authority, Economic Development Refunding Bonds (Yellow Freight System, Inc. - 1993 Project),		
6.125%, 4-1-2008	1,250	1,328,125
Total		34,616,375
NEW MEXICO - 0.15%		
Dona Ana County, New Mexico, Gross		

	Principal Amount in Thousands	Value
Receipts Tax Refunding and Improvement Revenue Bonds, Series 1993,		
6.0%, 6-1-2014	1,500	1,541,250
NEW YORK - 8.65%		
The City of New York, General Obligation Bonds:		
Fiscal 1993 Series B,		
7.0%, 10-1-2011	15,000	16,612,500
Fiscal 1993 Series A:		
6.375%, 8-1-2008	8,000	8,390,000
6.375%, 8-1-2007	6,000	6,315,000
Fiscal 1993 Series H,		
7.0%, 2-1-2022	3,000	3,420,000
New York City Municipal Water Finance Authority, Water and Sewer System Revenue Bonds, Fiscal 1993 Series A:		
6.0%, 6-15-2010	12,000	12,705,000
6.0%, 6-15-2009	6,500	6,898,125
Metropolitan Transportation Authority, Transit Facilities Revenue Bonds, Series I,		
7.0%, 7-1-2009	9,000	10,890,000

See Notes to Schedule of Investments on page 34.

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
NEW YORK (Continued)		
Triborough Bridge and Tunnel Authority, General Purpose Revenue Bonds:		
Series Q,		
6.75%, 1-1-2009	$ 4,700	$ 5,493,125
Series Y,		
6.0%, 1-1-2012	4,305	4,767,788
Dormitory Authority of the State of New York, City University Refunding Bonds:		
1993E Issue,		
6.5%, 7-1-2008	5,560	6,331,450
1993B Issue,		
7.5%, 5-15-2011	2,000	2,455,000
New York Local Government Assistance Corporation (A Public Benefit Corporation of the State of New York), Series 1993C Refunding Bonds,		
5.375%, 4-1-2012	6,000	6,000,000
United Nations Development Corporation (a public benefit corporation of the State of New York), 1992 Refunding Bonds, Series A (Senior Lien),		
6.0%, 7-1-2012	1,000	1,045,000
Total		91,322,988
NORTH CAROLINA - 5.54%		
North Carolina Eastern Municipal Power Agency, Power System Revenue Bonds:		
Refunding Series 1993 B:		
7.0%, 1-1-2008	30,000	35,325,000
6.125%, 1-1-2009	9,000	9,787,500
6.0%, 1-1-2013	1,250	1,290,625
Refunding Series 1993 C,		
7.0%, 1-1-2013	3,500	4,173,750
North Carolina Municipal Power Agency Number 1, Catawba Electric Revenue Bonds, Series 1992,		
5.75%, 1-1-2015	7,750	7,924,375
Total		58,501,250

See Notes to Schedule of Investments on page 34.

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
OHIO - 0.62%		
Ohio Water Development Authority, State of Ohio, Water Development Revenue Refunding Bonds, Pure Water Refunding and Improvement Series, 5.5%, 12-1-2011	$ 3,500	$ 3,583,125
Akron, Bath and Copley Joint Township Hospital District, Ohio, Hospital Facilities Revenue Bonds, Series 1993A (Summa Health System Project), 5.5%, 11-15-2013	3,000	2,947,500
Total		6,530,625
OKLAHOMA - 0.87%		
McGee Creek Authority, Water Revenue Bonds, Series 1992, 6.0%, 1-1-2013	6,000	6,600,000
Tulsa Public Facilities Authority (Oklahoma), Recreational Facilities Revenue Bonds, Series 1985, 6.2%, 11-1-2012	2,540	2,619,375
Total		9,219,375
PENNSYLVANIA - 1.10%		
The Hospitals and Higher Education Facilities Authority of Philadelphia, Refunding Revenue Bonds, Saint Agnes Medical Center Project (FHA Insured Mortgage), Series 1991, 7.25%, 8-15-2031	3,750	4,209,375
Montgomery County Industrial Development Authority (Pennsylvania), Resource Recovery Revenue Bonds (Montgomery County Project), Series 1989, 7.5%, 1-1-2012	3,750	4,181,250
Public Parking Authority of Pittsburgh, Parking System Revenue Bonds, Series 1992A, 5.875%, 12-1-2012	3,000	3,172,500
Total		11,563,125
SOUTH CAROLINA - 2.55%		
Calhoun County, South Carolina, Solid Waste Disposal Facilities Revenue Bonds (Eastman Kodak Company Project), Series 1992, 6.75%, 5-1-2017	10,895	12,856,100

See Notes to Schedule of Investments on page 34.

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
SOUTH CAROLINA (Continued)		
Piedmont Municipal Power Agency (South Carolina), Electric Revenue Bonds, 1991 Refunding Series A, 6.5%, 1-1-2016	$ 4,405	$ 5,175,875
South Carolina State Education Assistance Authority, Guaranteed Student Loan Revenue and Refunding Bonds, 1993 Series, 5.5%, 9-1-2008	4,000	4,015,000
North Charleston Sewer District, South Carolina, Revenue Refunding Bonds, Series 1992A, 6.375%, 7-1-2012	2,750	3,176,250
Greenville Hospital System Board of Trustees, Hospital Facilities Revenue Bonds, Series 1990, 7.0%, 5-1-2017	1,500	1,665,000

Total		26,888,225

TENNESSEE - 0.81%		
Memphis-Shelby County Airport Authority, Airport Revenue Refunding Bonds, Series 1993B, 6.5%, 2-15-2009	3,335	3,764,381
Tennessee Housing Development Agency, Mortgage Finance Program Bonds, 1993 Series A, 5.85%, 7-1-2013	3,070	3,146,750
The Metropolitan Government of Nashville and Davidson County (Tennessee), Water and Sewer Variable Rate Demand Revenue Bonds, 1985 Series C, 7.2%, 1-1-2011	1,500	1,678,125
Total		8,589,256

See Notes to Schedule of Investments on page 34.

THE INVESTMENTS OF
UNITED MUNICIPAL BOND FUND, INC.
SEPTEMBER 30, 1993

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
TEXAS - 5.05%		
City of Houston, Texas, Water Conveyance System Contract, Certificates of Participation:		
Series 1993J, 6.125%, 12-15-2009	$ 1,800	$ 1,955,250
Series 1993F, 7.2%, 12-15-2007	1,500	1,824,375
Series 1993B, 7.0%, 12-15-2007	1,000	1,196,250
Series 1993C, 7.0%, 12-15-2007	1,000	1,196,250
Series 1993D, 6.375%, 12-15-2007	1,000	1,132,500
City of Texas City, Industrial Development Corporation, Marine Terminal Refunding Revenue Bonds, Series 1990 (ARCO Pipe Line Company Project), 7.375%, 10-1-2020	5,500	7,163,750
City of Houston, Texas, Water and Sewer System, Prior Lien Revenue Refunding Bonds, Series 1992B, 6.375%, 12-1-2014	6,500	7,003,750
Lubbock Health Facilities Development Corporation, Hospital Revenue Bonds (Methodist Hospital, Lubbock, Texas Project), 6.75%, 12-1-2010	5,000	5,850,000
Tarrant County Water Control and Improvement District Number One (Tarrant County, Texas), Water Revenue Refunding and Improvement Bonds, Series 1992, 5.75%, 3-1-2013	5,475	5,618,719
Alliance Airport Authority, Inc., Special Facilities Revenue Bonds, Series 1991 (American Airlines, Inc. Project), 7.0%, 12-1-2011	5,000	5,500,000
Harris County Health Facilities Development Corporation, Hospital Revenue Bonds (St. Luke's Episcopal Hospital Project), Series 1991A, 6.75%, 2-15-2021	5,000	5,450,000

See Notes to Schedule of Investments on page 34.

Principal
Amount in

	Thousands	Value
MUNICIPAL BONDS (Continued)		
TEXAS (Continued)		
Texas National Research Laboratory Commission Financing Corporation, Lease Revenue Bonds, Series 1991 (Superconducting Super Collider Project), 6.75%, 12-1-2004	$ 3,945	$ 4,137,319
Port of Corpus Christi, Authority of Nueces County, Texas, Pollution Control Revenue Bonds (Hoechst Celanese Corporation Project), Series 1992, 6.875%, 4-1-2017	3,500	3,902,500
Texas Public Finance Authority, Texas State Technical College System, Building Revenue and Refunding Revenue Bonds, Series 1992, 6.25%, 8-1-2009	1,250	1,393,750
Total		53,324,413
VIRGINIA - 0.20%		
Fairfax County Water Authority, Water Refunding Revenue Bonds, Series 1992, 5.75%, 4-1-2014	2,000	2,057,500
WASHINGTON - 7.94%		
Washington Public Power Supply System:		
Nuclear Project No. 3, Refunding Revenue Bonds:		
Series 1989B, Term Bonds, 7.125%, 7-1-2016	20,750	25,133,438
Series 1993B, 7.0%, 7-1-2009	2,070	2,432,250
Nuclear Project No. 1, Refunding Revenue Bonds:		
Series 1989B, 7.125%, 7-1-2016	8,200	9,932,250
Series 1993B, 7.0%, 7-1-2008	3,500	4,055,625
Series 1990B, 7.25%, 7-1-2009	3,055	3,669,819
Nuclear Project No. 2, Refunding Revenue Bonds, Series 1990A, 7.25%, 7-1-2006	6,475	7,616,219
State of Washington, Various Purpose General Obligation Bonds, Series 1990A, 6.75%, 2-1-2015	11,995	14,349,019

See Notes to Schedule of Investments on page 34.

THE INVESTMENTS OF
UNITED MUNICIPAL BOND FUND, INC.
SEPTEMBER 30, 1993

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
WASHINGTON (Continued)		
Port of Seattle, Washington, Revenue Bonds:		
Series 1990B, 6.0%, 12-1-2014	$ 3,000	$ 3,097,500
Series 1992B, 6.7%, 11-1-2010	2,000	2,217,500
Public Utility District No. 1 of Chelan County, Washington, Chelan Hydro Consolidated System Revenue Bonds, Series 1993E:		
5.7%, 7-1-2009	2,630	2,705,613
5.7%, 7-1-2008	1,500	1,545,000
Washington Health Care Facilities Authority, Revenue Bonds, Refunding Series 1993 (Franciscan Health System/St. Joseph Hospital and Health Care Center, Tacoma), 5.5%, 1-1-2009	2,785	2,844,181
Industrial Development Corporation of the Port of Longview (Washington), Solid Waste Disposal Revenue Bonds (Weyerhaeuser Company Project), Series 1992,		

6.875%, 10-1-2008	2,250	2,593,125
City of Walla Walla, Washington, Water & Sewer Revenue Refunding Bonds, Series 1992,		
6.1%, 8-1-2009	1,500	1,599,375
Total		83,790,914
WEST VIRGINIA - 0.46%		
West Virginia Hospital Finance Authority, Hospital Revenue Refunding Bonds, West Virginia University Hospitals, Inc. Issue, Series 1993,		
5.0%, 6-1-2013	5,000	4,793,750
WISCONSIN - 0.37%		
Wisconsin Housing and Economic Development Authority, Home Ownership Revenue Bonds, 1990 Series E,		
8.0%, 3-1-2021	3,500	3,867,500
TOTAL MUNICIPAL BONDS - 96.26% (Cost: $919,163,670)		$1,015,967,430
TOTAL SHORT-TERM SECURITIES - 1.07% (Cost: $11,236,831)		$ 11,236,831

See Notes to Schedule of Investments on page 34.

THE INVESTMENTS OF
UNITED MUNICIPAL BOND FUND, INC.
SEPTEMBER 30, 1993

	Value
TOTAL INVESTMENT SECURITIES - 97.33% (Cost: $930,400,501)	$1,027,204,261
CASH AND OTHER ASSETS, NET OF LIABILITIES - 2.67%	28,229,840
NET ASSETS - 100.00%	$1,055,434,101

Notes to Schedule of Investments

See Note 1 to financial statements for security valuation and other significant accounting policies concerning investments.

See Note 3 to financial statements for cost and unrealized appreciation and depreciation of investments owned for Federal income tax purposes.

UNITED MUNICIPAL BOND FUND, INC.
STATEMENT OF ASSETS AND LIABILITIES
September 30, 1993

Assets	
Investment securities-at value (Notes 1 and 3) .	$1,027,204,261
Cash	6,739
Receivables:	
Investment securities sold	27,316,898
Interest	15,843,726
Fund shares sold	1,579,720
Prepaid insurance premium	40,936
Total assets	1,071,992,280
Liabilities	
Payable for investment securities purchased	13,452,273
Payable for Fund shares redeemed	2,981,155
Accrued transfer agency and dividend disbursing	81,422
Accrued accounting services fee	8,333
Other	34,996
Total liabilities	16,558,179
Total net assets	$1,055,434,101

Net Assets
$1.00 par value capital stock, authorized --

400,000,000; shares outstanding -- 134,829,701	
Capital stock	$ 134,829,701
Additional paid-in capital	797,737,289
Accumulated undistributed income:	
Accumulated undistributed net investment income	963,086
Accumulated undistributed net realized gain on investment transactions	25,100,265
Net unrealized appreciation in value of investments at end of period	96,803,760
Net assets applicable to outstanding units of capital	$1,055,434,101
Net asset value per share (net assets divided by shares outstanding)	$7.83
Sales load (offering price x 4.25%)	.35
Offering price per share (net asset value divided by 95.75%)	$8.18

On sales of $100,000 or more the sales load is reduced as set forth on page 14.

See notes to financial statements.

UNITED MUNICIPAL BOND FUND, INC.
STATEMENT OF OPERATIONS
For the Fiscal Year Ended September 30, 1993

Investment Income	
Interest (taxable portion - $916,031)	$ 57,346,611
Expenses (Note 2):	
Investment management fee	4,349,383
Transfer agency and dividend disbursing	666,122
Accounting services fee	88,750
Custodian fees	70,468
Audit fees	34,522
Legal fees	20,956
Other	183,041
Total expenses	5,413,242
Net investment income	51,933,369
Realized and Unrealized Gain on Investments	
Realized net gain on securities	33,930,439
Realized net loss on futures contracts closed	(7,300,125)
Net realized gain on investments	26,630,314
Unrealized appreciation in value of investments during the period	57,525,709
Net gain on investments	84,156,023
Net increase in net assets resulting from operations	$136,089,392

See notes to financial statements.

UNITED MUNICIPAL BOND FUND, INC.
STATEMENT OF CHANGES IN NET ASSETS

	For the fiscal year ended September 30, 1993	1992
Increase in Net Assets		
Operations:		
Net investment income	$ 51,933,369	$ 48,948,638
Realized net gain on investments	26,630,314	29,249,300
Unrealized appreciation	57,525,709	11,276,664
Net increase in net assets resulting from operations	136,089,392	89,474,602
Dividends to shareholders from:*		

Net investment income	(51,122,560)	(49,285,116)
Realized gains on securities transactions	(27,984,514)	(14,008,258)
	(79,107,074)	(63,293,374)
Capital share transactions:		
Proceeds from sale of shares (16,974,075 and 16,775,165 shares, respectively)	127,188,027	121,793,126
Proceeds from reinvestment of dividends and/or capital gains distribution (8,990,841 and 7,135,901 shares, respectively) .	66,136,852	51,353,962
Payments for shares redeemed (11,337,453 and 10,822,368 shares, respectively)	(84,877,211)	(78,445,731)
Net increase in net assets resulting from capital share transactions	108,447,668	94,701,357
Total increase	165,429,986	120,882,585
Net Assets		
Beginning of period	890,004,115	769,121,530
End of period, including undistributed net investment income of $963,086 and $152,277, respectively	$1,055,434,101	$890,004,115

*See "Financial Highlights" on page 38.

See notes to financial statements.

UNITED MUNICIPAL BOND FUND, INC.
FINANCIAL HIGHLIGHTS
For a Share of Capital Stock Outstanding
Throughout Each Period:

<TABLE>
<CAPTION>

	For the fiscal year ended September 30,									
	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period	$7.40	$7.18	$6.66	$7.07	$6.91	$6.29	$7.67	$6.65	$6.06	$6.34
Income from investment operations:										
Net investment income ..	.41	.43	.45	.47	.49	.48	.49	.55	.57	.56
Net realized and unrealized gain (loss) on investments	.65	.35	.52	(0.16)	.22	.62	(0.70)	1.22	.59	(0.28)
Total from investment operations	1.06	.78	.97	.31	.71	1.10	(0.21)	1.77	1.16	.28
Less distributions:										
Dividends from net investment income	(0.40)	(0.43)	(0.45)	(0.49)	(0.48)	(0.48)	(0.48)	(0.56)	(0.57)	(0.56)
Distributions from capital gains	(0.23)	(0.13)	0.00	(0.23)	(0.07)	0.00	(0.69)	(0.19)	0.00	0.00
Total distributions	(0.63)	(0.56)	(0.45)	(0.72)	(0.55)	(0.48)	(1.17)	(0.75)	(0.57)	(0.56)
Net asset value, end of period	$7.83	$7.40	$7.18	$6.66	$7.07	$6.91	$6.29	$7.67	$6.65	$6.06
Total return*	15.15%	11.41%	14.97%	4.46%	10.74%	18.07%	-3.50%	28.19%	19.87%	4.60%
Net assets, end of period (000 omitted) ...	$1,055,434	$890,004	$769,122	$648,546	$594,733	$477,479	$413,163	$402,445	$279,700	$201,471
Ratio of expenses to average net assets	0.56%	0.57%	0.57%	0.57%	0.57%	0.58%	0.58%	0.61%	0.65%	0.69%
Ratio of net investment income to average net assets	5.38%	5.92%	6.47%	6.82%	6.98%	7.32%	6.98%	7.54%	8.68%	9.10%
Portfolio turnover rate ..	94.51%	125.44%	144.36%	181.25%	226.41%	225.49%	216.82%	250.00%	328.36%	222.43%

*Total return calculated without taking into account the sales load deducted on an initial purchase.

Note: During the fiscal periods ended September 30, 1993, 1992, 1991, 1990, 1989, 1988, 1987, 1986, 1985 and 1984, 62.53%, 76.13%, 97.45%, 66.46%, 84.53%, 98.05%, 40.77%, 73.57%, 97.11% and 96.21%, respectively, of the dividends paid were exempt from Federal income tax.

</TABLE>

See notes to financial statements.

UNITED MUNICIPAL BOND FUND, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1993

NOTE 1 -- Significant Accounting Policies

United Municipal Bond Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principles.

A. Security valuation -- Municipal bonds and the taxable obligations in the Fund's investment portfolio are not listed or traded on any securities exchange. Therefore, municipal bonds are valued using prices quoted by Muller and Company, a dealer in bonds which offers a pricing service. Short-term debt securities, whether taxable or nontaxable, are valued at amortized cost, which approximates market.

B. Security transactions and related investment income -- Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Securities gains and losses are calculated on the identified cost basis. Original issue discount (as defined by the Internal Revenue Code) and premiums on the purchase of bonds are amortized for both financial and tax reporting purposes over the remaining lives of the bonds. Interest income is recorded on the accrual basis. See Note 3 -- Investment Security Transactions.

C. Federal income taxes -- The Fund intends to distribute all of its net investment income and capital gains to its shareholders and otherwise qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to pay distributions as required to avoid imposition of excise tax. Accordingly, provision has not been made for Federal income taxes. In addition, the Fund intends to meet requirements of the Internal Revenue Code which will permit it to pay dividends from net investment income, substantially all of which will be exempt from Federal income tax. See Note 4 -- Federal Income Tax Matters.

D. Dividends and distributions -- Dividends and distributions to shareholders are recorded by the Fund on the record date.

NOTE 2 -- Investment Management and Payments to Affiliated Persons

The Fund pays a fee for investment management services. The fee is computed daily based on the net asset value at the close of business. The fee consists of two elements: (i) a "Specific" fee computed on net asset value as of the close of business each day at the annual rate of .03% of net assets and (ii) a "Group" fee computed each day on the combined net asset values of all of the funds in the United Group of mutual funds (approximately $11.3 billion of combined net assets at September 30, 1993) at annual rates of .51% of the first $750 million of combined net assets, .49% on that amount between $750 million and $1.5 billion, .47% between $1.5 billion and $2.25 billion, .45% between $2.25 billion and $3 billion, .43% between $3 billion and $3.75 billion, .40% between $3.75 billion and $7.5 billion, .38% between $7.5 billion and $12 billion, and .36% of that amount over $12 billion. The Fund accrues and pays this fee daily.

Pursuant to assignment of the Investment Management Agreement between the Fund and Waddell & Reed, Inc. ("W&R"), Waddell & Reed Investment Management Company ("WRIMCO"), a wholly-owned subsidiary of W&R, serves as the Fund's investment manager.

The Fund has an Accounting Services Agreement with Waddell & Reed Services Company ("WARSCO"), a wholly-owned subsidiary of W&R. Under the agreement, WARSCO acts as the agent in providing accounting services and assistance to the Fund and pricing daily the value of shares of the Fund. For these services, the Fund pays WARSCO a monthly fee of one-twelfth of the annual fee shown in the following table.

Accounting Services Fee

Average Net Asset Level (all dollars in millions)	Annual Fee Rate for Each Level

From $ 0 to $ 10	$ 0
From $ 10 to $ 25	$ 10,000
From $ 25 to $ 50	$ 20,000
From $ 50 to $ 100	$ 30,000
From $ 100 to $ 200	$ 40,000
From $ 200 to $ 350	$ 50,000
From $ 350 to $ 550	$ 60,000
From $ 550 to $ 750	$ 70,000
From $ 750 to $1,000	$ 85,000
$1,000 and Over	$100,000

The Fund also pays WARSCO a monthly per account charge for transfer agency and dividend disbursement services of $1.0208 for each shareholder account which was in existence at any time during the prior month ($0.9375 per account prior to November 1, 1992), plus $0.30 for each account on which a dividend or distribution of cash or shares had a record date in that month. The Fund also reimburses W&R and WARSCO for certain out-of-pocket costs.

As principal underwriter for the Fund's shares, W&R received direct and indirect gross sales commissions (which are not an expense of the Fund) of $3,662,610, out of which W&R paid sales commissions of $2,071,581 and all expenses in connection with the sale of Fund shares, except for registration fees and related expenses.

On September 28, 1993, shareholders of the Fund approved the adoption of a 12b-1 Service Plan with a maximum fee of .25%. The Plan went into effect October 1, 1993.

The Fund paid Directors' fees of $37,020.

W&R is an indirect subsidiary of Torchmark Corporation, a holding company, and United Investors Management Company, a holding company, and a direct subsidiary of Waddell & Reed Financial Services, Inc., a holding company.

NOTE 3 -- Investment Security Transactions

Purchases of investment securities, other than U.S. Government and short-term securities, aggregated $947,413,007 while proceeds from maturities and sales aggregated $880,066,493. Purchases of short-term securities aggregated $799,887,310 while proceeds from maturities and sales aggregated $791,249,029. There was a gain on the sale of short-term securities of $4,672. No U.S. Government securities were bought or sold during the period ended September 30, 1993.

For Federal income tax purposes, cost of investments owned at September 30, 1993 was $937,074,329, resulting in net unrealized appreciation of $90,129,932, of which $90,281,751 related to appreciated securities and $151,819 related to depreciated securities.

NOTE 4 -- Federal Income Tax Matters

For Federal income tax purposes, the Fund realized net capital gains of $31,350,546 during the fiscal year ended September 30, 1993, of which a portion was paid to shareholders during the year ended September 30, 1993. Remaining net capital gains will be distributed to the Fund's shareholders.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
United Municipal Bond Fund, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of United Municipal Bond Fund, Inc. (the "Fund") at September 30, 1993, 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 the financial highlights for each of the ten years in the period then ended, in conformity with generally accepted accounting principles. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at September 30, 1993 by correspondence with the custodian and brokers and the application of alternative auditing procedures where confirmations from brokers were not received, provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE
Kansas City, Missouri
October 29, 1993

United Municipal Bond Fund, Inc.

Custodian
United Missouri Bank, n.a.
Kansas City, Missouri

Legal Counsel
Kirkpatrick & Lockhart
1800 M Street, N. W.
Washington, D. C.

Independent Accountants
Price Waterhouse
Kansas City, Missouri

Investment Manager
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United Municipal Bond Fund, Inc.
6300 Lamar Avenue
P. O. Box 29217
Shawnee Mission, Kansas 66201-9217

PROSPECTUS
December 31, 1993

The United Group of Mutual Funds

United Funds, Inc.
- United Bond Fund
- United Income Fund
- United Accumulative Fund
- United Science and Technology Fund

United International Growth Fund, Inc.
United Continental Income Fund, Inc.
United Vanguard Fund, Inc.
United Retirement Shares, Inc.
United Municipal Bond Fund, Inc.
United High Income Fund, Inc.
United Cash Management, Inc.
United Government Securities Fund, Inc.
United New Concepts Fund, Inc.
United Gold & Government Fund, Inc.
United Municipal High Income Fund, Inc.
United High Income Fund II, Inc.

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UNITED MUNICIPAL BOND FUND, INC.

6300 Lamar Avenue

P. O. Box 29217

Shawnee Mission, Kansas 66201-9217

(913) 236-2000

December 31, 1993

STATEMENT OF ADDITIONAL INFORMATION

This Statement of Additional Information (the "SAI") is not a prospectus. Investors should read this SAI in conjunction with the prospectus (the "Prospectus") of United Municipal Bond Fund, Inc. (the "Fund"), dated December 31, 1993, which may be obtained from the Fund or its Underwriter, Waddell & Reed, Inc., at the address or telephone number shown above.

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PERFORMANCE INFORMATION

Waddell & Reed, Inc., the Fund's underwriter, or the Fund, may from time to time publish the Fund's total return information, yield information and/or performance rankings in advertisements and sales materials.

Total Return

An average annual total return quotation is computed by finding the average annual compounded rates of return over the one-, five-, and ten-year periods that would equate the initial amount invested to the ending redeemable value. Standardized total return information is calculated by assuming an initial $1,000 investment from which the maximum sales load of 4.25% is deducted. All dividends and distributions are assumed to be reinvested at net asset value as of the day the dividend or distribution is paid. No sales load is charged on reinvested dividends or distributions. The formula used to calculate the total return is:

$$P(1 + T)^n = ERV$$

Where :
- P = $1,000 initial payment
- T = Average annual total return
- n = Number of years
- ERV = Ending redeemable value of the $1,000 investment for the periods shown.

Non-standardized performance information may also be presented and it may not reflect the sales charge. For example, the Fund may also compute total return without deduction of the sales load in which case the same formula noted above will be used but the entire amount of the $1,000 initial payment will be assumed to have been invested. If the sales charge were reflected, it would reduce the performance quoted.

The average annual total return quotations as of September 30, 1993, which is the most recent balance sheet included in the Prospectus, for the periods shown were as follows:

	With Sales Load Deducted	Without Sales Load Deducted
One-year period from October 1, 1992 to September 30, 1993:	10.25%	15.15%
Five-year period from October 1, 1988 to September 30, 1993:	10.31%	11.27%
Ten-year period from October 1, 1983 to September 30, 1993:	11.58%	12.06%

The Fund may also quote unaveraged or cumulative total return which reflects the change in value of an investment over a stated period of time. Cumulative total returns will be calculated according to the formula indicated above but without averaging the rate for the number of years in the period.

Yield

A yield quoted for the Fund is computed by dividing the net investment income per share earned during the period for which the yield is shown by the maximum offering price per share on the last day of that period according to the following formula:

$$\text{Yield} = 2\left(\left(\left((a - b)/cd\right)+1\right)^{6} - 1\right)$$

Where: a = dividends and interest earned during the period.
b = expenses accrued for the period (net of reimbursements).
c = the average daily number of shares outstanding during the period that were entitled to receive dividends.
d = the maximum offering price per share on the last day of the period.

The yield computed according to the formula for the 30-day period ended on September 30, 1993, the date of the most recent balance sheet included in the Prospectus, is 4.69%.

The Fund may also advertise or include in sales material its tax equivalent yield, which is calculated by applying the stated income tax rate to only the net investment income exempt from taxation according to a standard formula which provides for computation of tax equivalent yield by dividing that portion of the Fund's yield which is tax exempt by one minus a stated income tax rate and adding the product to that portion, if any, of the yield of the Fund that is not tax exempt.

The tax equivalent yield computed according to the formula for the 30-day period ended on September 30, 1993, the date of the most recent balance sheet included in the Prospectus, is 5.50%, 6.48%, 6.76%, 7.28% and 7.71% for marginal tax brackets of 15%, 28%, 31%, 36% and 39.6%, respectively.

Change in yields primarily reflect different interest rates received by the Fund as its portfolio securities change. Yield is also affected by portfolio quality, portfolio maturity, type of securities held and operating expenses.

Performance Rankings

Waddell & Reed, Inc. or the Fund also may from time to time publish in advertisements or sales material performance rankings as published by recognized independent mutual fund statistical services such as Lipper Analytical Services, Inc., or by publications of general interest such as Forbes, Money, The Wall Street Journal, Business Week, Barron's, Fortune or Morningstar Mutual Fund Values. A Fund may also compare its performance to that of other selected mutual funds or selected recognized market indicators such as the Standard & Poor's 500 Stock Index and the Dow Jones Industrial Average. Performance information may be quoted numerically or presented in a table, graph or other illustration.

All performance information which the Fund advertises or includes in sales material is historical in nature and is not intended to represent or guarantee future results. The value of the Fund's shares when redeemed may be more or less than their original cost.

INVESTMENT OBJECTIVE AND POLICIES

The investment objective and policies of the Fund are described in the Prospectus, which refers to the following investment methods and practices.

Municipal Bonds

Municipal Bonds are issued by a wide range of governments, agencies and authorities for various public purposes. The two main kinds of municipal bonds are "general obligation" bonds and "revenue" bonds. In "general obligation" bonds, the issuer has pledged its full faith, credit and taxing power for the payment of principal and interest. "Revenue" bonds are payable only from specific sources; these may include revenues from a particular facility or class of facilities or special tax or other revenue source.

A special class of municipal bonds are some, but not all, "industrial development bonds." The Fund may purchase industrial development bonds only if the interest on them is free from Federal income taxation, though such interest is an item of tax preference for purposes of the alternative minimum tax. In general, industrial development bonds are revenue bonds and are issued by or on behalf of public authorities to obtain funds to finance privately operated facilities. They generally depend for their credit quality on the credit standing of the company involved. The Fund may invest an unlimited percentage of its assets in municipal bonds which are industrial development bonds. As of September 30, 1993, 4.81% of the Fund's net assets were invested in industrial development bonds.

Another specific type of municipal bond in which the Fund may invest includes municipal leases and participation interests therein. The factors to be considered in determining whether or not any rated municipal lease obligations are liquid include (i) the frequency of trades and quotes for the obligations; (ii) the number of dealers willing to purchase or sell the security and the number of other potential buyers; (iii) the willingness of dealers to undertake to make a market in the securities; (iv) the nature of marketplace trades, including the time needed to dispose of the security, the method of soliciting offers and the mechanics of transfer; (v) the likelihood that the marketability of the obligation will be maintained through the time the instrument is held; (vi) the credit quality of the issuer and the lessee; and (vii) the essentiality to the lessee of the property covered by the lease. Unrated municipal lease obligations will be considered to be illiquid. These obligations, which may take the form of a lease, an installment purchase, or a conditional sale contract, are issued by state and local governments and authorities to acquire land and a variety of equipment and facilities. The Fund has not held and does not intend to hold such obligations directly as a lessor of the property, but may from time to time purchase a participation interest in a municipal obligation from a bank or other third party. A participation interest gives the Fund a specified, undivided interest in the obligation in proportion to its purchased interest in the total amount of the obligation. Municipal leases frequently have risks distinct from those associated with general obligation or revenue bonds. State constitutions and statutes set forth requirements that states or municipalities must meet to incur debt, including voter referenda, interest rate limits or public sale requirements. Leases, installment purchases or conditional sale contracts have evolved as a means for governmental issuers to acquire property and equipment without being required to meet these constitutional and statutory requirements. Many leases and contracts include "non-appropriation clauses" providing that the governmental issuer has no obligation to make future payments under the lease or contract unless money is appropriated for such purpose by the legislative body on a yearly or other periodic basis. Non-appropriation clauses free the issuer from debt issuance limitations. In determining the liquidity of a municipal lease obligation, Waddell & Reed Investment Management Company (the "Manager"), the Fund's investment manager, will differentiate between direct interests in municipal leases and municipal lease-backed securities, the latter of which may take the form of a lease-backed revenue bond, a tax-exempt asset-backed security or any other investment structure using a municipal lease-purchased agreement as its base. While the former may present liquidity issues, the latter are based on a well established method of securing payment of a municipal lease obligation.

The Fund and the Manager rely on the opinion of bond counsel for the issuer in determining whether obligations are municipal bonds. If a court should hold that obligations held by the Fund are not municipal bonds (i.e., that the interest on them is taxable), the Fund will sell them as soon as possible, but it might incur losses if it sold them in other than an orderly manner.

The Fund may not purchase any municipal bonds which are not rated at least BBB by Standard & Poor's Corporation ("S&P") or Baa by Moody's Investors Services, Inc. ("MIS") unless thereafter at least 80% of the value of the Fund's total assets would consist of cash or municipal bonds which, at the time of purchase, were so rated. See Appendix A to the Prospectus for a description of these ratings. Subject to this 80% requirement, the Fund may also purchase unrated municipal bonds if, in the opinion of the Manager, the municipal bonds, if rated, would have the quality of municipal bonds rated as indicated above. Normally the issuer of unrated bonds has decided not to apply for a rating because it considers such ratings not necessary or because of the cost of obtaining the rating.

Now or in the future, S&P or MIS may use different rating designations for municipal bonds depending on their maturities on issuance or other characteristics. For example, MIS now rates the top four categories of "municipal notes" (i.e., municipal bonds generally with a maturity at the time of issuance ranging from six months to three years) as MIG 1, MIG 2, MIG 3 and

MIG 4. Municipal bonds purchased by the Fund comply with the 80% requirement discussed above if they are within the top four rating designations of S&P or MIS for the type of municipal bond in question. The Fund is not required to dispose of any municipal bond if its rating should fall below the rating required for its purchase, nor does such a fall in ratings affect the amount of unrated municipal bonds which the Fund may buy.

When-Issued Municipal Bonds

The Fund may also purchase municipal bonds on a when-issued basis; their value may be less when delivered than the purchase price paid. For example, delivery to the Fund and payment by the Fund may take place a month or more after the date of the transaction. The purchase price is fixed on the transaction date. The Fund will enter into when-issued transactions in order to secure what is considered to be an advantageous price and yield at the time of entering into the transaction. The municipal bonds so purchased by the Fund are subject to market value fluctuation; their value may be less when delivered than the purchase price paid. No interest accrues to the Fund until delivery and payment is completed. When the Fund makes a commitment to purchase securities on a when-issued basis the Fund will record the transaction and thereafter reflect the value of the securities in determining its net asset value per share.

Ordinarily the Fund purchases municipal bonds on a when-issued basis with the intention of actually taking delivery of the securities. However, before the securities are delivered to the Fund and before it has paid for them (the "settlement date") the Fund could sell the securities if the Manager decided it was advisable to do so for investment reasons. The Fund will hold aside or segregate cash or other municipal bonds, other than those purchased on a when-issued basis, at least equal to the amount it will have to pay on the settlement date; these other municipal bonds will mature or be sold at or before the settlement date. There are no percentage limitations on the Fund's right to buy municipal bonds on a when-issued basis.

Limited Permitted Investment in Other Debt Securities

All of the Fund's invested assets, other than cash or receivables, must be invested in municipal bonds, except that a limited amount of assets may be invested in specified debt securities which are referred to in the Prospectus as taxable obligations and in certain futures contracts (see discussion below). The Fund may invest in taxable obligations only if, after any such investment, not more than 10% of its total assets would consist of taxable obligations. The only taxable obligations which the Fund may purchase are (i) obligations issued or guaranteed by the U.S. Government or its agencies or instrumentalities; (ii) bank obligations of domestic banks or savings and loan associations which are subject to regulation by the U.S. Government; these obligations may include certificates of deposit, letters of credit and acceptances; and (iii) commercial paper. The taxable commercial paper the Fund may buy must, at the time of purchase, be rated A by S&P or MIS. See Appendix A to the Prospectus for a description of these ratings. The Fund has no intention to invest more than 5% of its assets in U.S. Government Securities (defined below).

Investment In Electrical Utility Related Municipal Bonds

From time to time the Fund has varying but substantial portions of its assets invested in municipal bonds of Public Power Agencies and in Pollution Control Revenue Bonds which are industrial development bonds. The interest on both of these type of bonds is paid by revenues from generating plants. As of September 30, 1993, 21.31% of the Fund's assets were so invested. The Fund may invest any portion of its assets in these bonds, and it is expected that there may be times, depending on economic conditions in the industry or the relative attractiveness of other municipal bonds, when more than 25% of its assets will be so invested.

The generating industry is facing certain problems, which may or may not affect their ability to meet their obligations on bonds of this type. These problems include the effects of: inflation on financing large construction programs; environmental considerations on costs, delays and operations; limitations of available capital on the ability to issue additional debt; shortages and high prices of fuel on operations and profits; and energy conservation on sales. Problems of these types generally affect the values of and the dividends paid on utility common stocks rather than the ability to pay bond obligations.

Options, Futures Contracts and Options on Futures Contracts

The use of options, futures contracts and options on futures contracts is subject to applicable regulations of the Securities and Exchange Commission ("SEC"), the several exchanges on which they are traded, the Commodity Futures Trading Commission ("CFTC") and various state regulatory authorities. In addition, the Fund's ability to use these instruments will be limited by tax considerations. See "Taxes."

In addition to the instruments, strategies and risks described below and in the Prospectus, the Manager expects to discover additional opportunities in connection with options, futures contracts, options on futures contracts and other similar or related techniques. These opportunities may become available as the Manager develops new techniques, as regulatory authorities broaden the range of permitted transactions and as new options, futures contracts, options on futures contracts and other techniques are developed. The Manager may utilize these opportunities to the extent that they are consistent with the Fund's investment goals and are permitted by the Fund's investment limitations and applicable regulatory authorities. The Fund's Prospectus or Statement of Additional Information will be supplemented to the extent that new products or techniques involve materially different risks than those described below or in the Prospectus.

Writing Calls on Securities. The Fund may write call options on securities, but only if the investments to which the call relates (the "related investments") are domestic debt securities, including, without limitation, securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities ("U.S. Government Securities"). The above limitation is a fundamental policy, which cannot be changed without a shareholder vote.

The Fund may write call options on domestic debt securities to attempt to enhance the Fund's income or to reduce the overall risk of its investments. The Fund may only write call options on securities if they are listed on a national securities exchange.

If the Fund writes a call, it agrees to sell to the purchaser of the call the securities subject to the call at a fixed price; this is referred to as the exercise price. This price may be equal to, or more or less than, the market price of the securities covered by the call. During the period of a call the Fund must, if the call is exercised, sell at the exercise price no matter what happens to the market price of the securities subject to the call.

As compensation for entering into this contract, the Fund receives a premium. Should the market price of the security on which the Fund has written a call go down during the call period, the premium would help to offset that decline. However, the Fund would lose the opportunity to profit from an increase in the market price of the securities that are subject to the call over the exercise price except to the extent that the premium represents such a profit. The Fund will write calls when the Manager believes that the amount of the premium represents adequate compensation for the loss of the opportunity.

Writing calls is a highly specialized activity, which involves investment techniques and risks different from those ordinarily associated with investment companies. The personnel engaging in this activity have had experience with other Funds in the United Group and in managed accounts engaging in this activity. It is believed that the Fund's limitations on writing calls will tend to reduce these risks.

The Fund may purchase calls to close its position in a call that it has written. To do this, it will make a "closing transaction." (As discussed below, it may also purchase calls other than as part of a closing transaction.) This involves buying a call on the same security with the same exercise price and expiration date as the call it has written. When the Fund sells a security on which it has written a call, it may effect a closing transaction. The Fund may also effect a closing transaction to avoid having to sell a security on which it has written a call if the call is exercised. The Fund will have a profit or loss from a closing transaction, depending on the amount of option transaction costs and on whether the amount it pays to purchase the call is less or more than the premium it received on the call that is closed out. A profit will also be realized if the call lapses unexercised because the Fund retains the premium received. There is no assurance that the Fund will be able to effect a closing transaction if there is no market for the call in question; if the Fund cannot do so, it may be required to hold the security on which the call was written until the call expires or is exercised even though it might otherwise be desirable to sell the security. If a call that the Fund wrote is exercised, it could deliver the securities that it owns (or the securities that it has the right to get). It could also deliver other securities that it purchases.

Fund securities will be sought and sold in order to attempt to achieve the goals of the Fund. However, the fact that listed calls can be written on a particular security may be a factor in buying or keeping it if it is otherwise considered suitable for the Fund.

Writing Puts on Securities. The Fund may write put options on securities, but only if the related investments are domestic debt securities, including, without limitation, U.S. Government Securities. The above limitation is a fundamental policy, which cannot be changed without a shareholder vote.

The Fund may write put options on domestic debt securities to attempt to enhance the Fund's income or to reduce the overall risk of its investments. The Fund may only write put options on securities if they are listed on a national securities exchange.

As with covered call writing, the Fund may write puts on securities for the purpose of increasing income by receiving premiums from the purchaser of the option. When the Fund writes a put, it receives a premium and agrees to purchase the related investments from the purchaser of the put during the put period at a fixed exercise price (which may differ from the market price of the related investments) regardless of market price changes during the put period. If the put is exercised, the Fund must purchase the related investments at the exercise price. Puts are ordinarily sold when the Fund anticipates that, during the option period, the market price of the underlying security will decline by less than the amount of the premium. In writing puts, the Fund assumes the risk of loss should the market value of the underlying security decline below the exercise price of the option. The Fund's cost of purchasing the investments will be adjusted by the amount of the premium it has received. The Fund will write a put only when it has determined that it would be willing to purchase the underlying security at the exercise price.

To terminate its obligation on a put that it has written, the Fund may purchase a put in a "closing transaction." (As discussed below, it may also purchase puts other than as part of a closing transaction.) A profit or loss will be realized depending on the amount of option transaction costs and whether the premium previously received is more or less than the cost of the put purchased. A profit will also be realized if the put lapses unexercised because the Fund retains the premium received.

Purchasing Calls and Puts on Securities. The Fund may purchase call and put options on securities, but only if the related investments are domestic debt securities, including, without limitation, U.S. Government Securities. The above limitation is a fundamental policy, which cannot be changed without a shareholder vote.

The Fund may purchase call and put options on domestic debt securities to attempt to enhance the Fund's income or to attempt to reduce the overall risk of its investments. The Fund may only purchase put and call options on securities if they are listed on a national securities exchange.

The Fund may purchase a call in a closing transaction in order to terminate its obligation on a call it has written. In addition, the Fund may purchase calls on securities for the purpose of taking advantage of a rise in the market value of the underlying securities.

When the Fund buys a call, it pays a premium and has the right to buy the related investments from the seller of a call during the call period at a fixed exercise price. The Fund benefits only if the market price of the related investments is above the call price prior to the expiration date and the call is either exercised or sold at a profit. If the call is not exercised or sold (whether or not at a profit), it will become worthless at its expiration date and the Fund will lose the premium paid and the right to purchase the related investments.

The Fund may purchase puts on securities to protect against price declines in the value of its portfolio securities. The Fund may purchase a put on a security it owns ("protective put") or on a security it does not own ("nonprotective put"). When the Fund buys a put, it pays a premium and has the right to sell the related investments to the seller of the put during the put period at a fixed exercise price. Buying a protective put (as defined above) permits the Fund to protect itself prior to the time the put expires against a decline in the value of the related investments below the exercise price by selling them through the exercise of the put. Buying a nonprotective put (as defined above) permits the Fund, if the market price of the related investments is below the put price during the put period, either to resell the put or to buy the related investments and sell them at the exercise price. If the market price of the related investments is above the exercise price and as a result the put is not exercised or resold (whether or not at a profit), the put will become worthless at its expiration date.

Risks of Options on Securities. The Fund is only authorized to write and purchase options on securities that are listed. Exchange-listed options are issued by a clearing organization affiliated with the exchange on which the option is listed. A position in an exchange-listed option may be closed out only on an exchange that provides a secondary market for options covering the same related investment having the same exercise price and expiration date. There is no assurance that a liquid secondary market will exist for any particular option.

The Fund's put and call activities may affect its turnover rate and brokerage commission payments. The exercise of calls or puts written by the Fund may cause it to sell or purchase related investments, thus increasing its turnover rate in a manner beyond its control. Once the Fund has received an exercise notice on an option it has written, it cannot effect a closing transaction in order to terminate its obligation under the option and must deliver or receive the underlying securities at the exercise price. The exercise of puts purchased by the Fund may also cause the sale of related investments, also increasing turnover; although such exercise is within the Fund's control, holding a protective put might cause it to sell the related investments for reasons that would not exist in the absence of the put. The Fund will pay a brokerage commission each time it buys or sells a put or call. Such commissions may be higher than those that would apply to direct purchases or sales.

Option premiums paid to control an amount of related investments are small in relation to the market value of related investments and, consequently, put and call options offer large amounts of leverage. The leverage offered by trading in options will result in the Fund's net asset value being more sensitive to changes in the value of the related investment.

Options on Municipal Bond Indices. The Fund may write and purchase options on indices, but only if the indices are municipal bond indices. The above limitation is a fundamental policy, which cannot be changed without a shareholder vote.

The Fund may write and purchase options on municipal bond indices to attempt to enhance the Fund's income or to reduce the overall risk of its investments. The Fund may only write and purchase options on municipal bond indices if they are listed on a national securities exchange.

The Fund may write options on municipal bond indices, primarily to generate income, when the Manager anticipates that the index price will not increase or decrease by more than the premium received by the Fund. The Fund may purchase calls on municipal bond indices to hedge against anticipated increases in the price of debt securities it wishes to acquire and purchase puts on municipal bond indices to hedge against anticipated declines in the market value of portfolio securities. Puts and calls on municipal bond indices are similar to puts and calls on securities or futures contracts except that all settlements are in cash and gain or loss depends on changes in the index in question (and thus on price movements in the municipal bond market generally) rather than on price movements in individual securities or futures contracts. When the Fund writes a call on a municipal bond index, it receives a premium and agrees that, prior to the expiration date, the purchaser of the call, upon exercise of the call, will receive from the Fund an amount of cash if the closing level of the municipal bond index upon which the call is based is greater than the exercise price of the call. The amount of cash is equal to the difference between the closing price of the index and the exercise price of the call times a specified multiple ("multiplier"), which determines the total dollar value for each point of such difference. When the Fund buys a call on a municipal bond index, it pays a premium and has the same rights as to such call as are indicated above. When the Fund buys a put on a municipal bond index, it pays a premium and has the right, prior to the expiration date, to require the seller of the put, upon the Fund's exercise of the put, to deliver to the Fund an amount of cash if the closing level of the municipal bond index upon which the put is based is less than the exercise price of the put, which amount of cash is determined by the multiplier, as described above for calls. When the Fund writes a put on a municipal bond index, it receives a premium and the purchaser has the right, prior to the expiration date, to require the Fund to deliver to it an amount of cash equal to the difference between the closing level of the municipal bond index and the exercise price times the multiplier if the closing level is less than the exercise price.

Risks of Options on Municipal Bond Indices. The risks of investment in options on municipal bond indices may be greater than options on securities. Because municipal bond index options are settled in cash, when the Fund writes a call on a municipal bond index it cannot provide in advance for its potential settlement obligations by acquiring and holding the underlying securities. The Fund can offset some of the risk of writing a call index option by holding a diversified portfolio of municipal bonds similar to those on which the underlying index is based. However, the Fund cannot, as a practical matter, acquire and hold a portfolio containing exactly the same municipal bonds as those that underlie the index and, as a result, bears a risk that the value of the securities it does hold will vary from the value of the index.

Even if the Fund could assemble a municipal bond portfolio that exactly reproduced the composition of the underlying index, it still would not be fully covered from a risk standpoint because of the "timing risk" inherent in writing index options. When an index option is exercised, the amount of cash that the holder is entitled to receive is determined by the difference between the exercise price and the closing index level on the date when the option is exercised. As with other kinds of options, the Fund as the call writer will not learn that it has been assigned until the next business day at the earliest. The time lag between exercise and notice of assignment poses no risk for the writer of a covered call on a specific underlying security, such as a municipal bond, because there the writer's obligation is to deliver the underlying security, not to pay its value as of a fixed time in the past. So long as the writer already owns the underlying security, it can satisfy its settlement obligations by simply delivering it, and the risk that its value may have declined since the exercise date is borne by the exercising holder. In contrast, even if the writer of an index call holds municipal bonds that exactly match the composition of the underlying index, it will not be able to satisfy its assignment obligations by delivering those municipal bonds against payment of the exercise price. Instead, it will be required to pay cash in an amount based on the closing index value on the exercise date. By the time it learns that it has been assigned, the index may have declined, with a corresponding decline in the value of its municipal bond portfolio. This "timing risk" is an inherent limitation on the ability of index call writers to cover their risk exposure by holding municipal bond positions.

If the Fund has purchased an index option and exercises it before the closing index value for that day is available, it runs the risk that the level of the underlying index may subsequently change. If such a change causes the exercised option to fall out-of-the-money, the Fund will be required to pay the difference between the closing index value and the exercise price of the option (times the applicable multiplier) to the assigned writer.

Futures Contracts and Options Thereon. The Fund may engage in buying and selling interest rate futures contracts, but only "Debt Futures" (futures relating to domestic debt securities) and "Municipal Bond Index Futures" (futures contracts relating to municipal bond indices). The Fund may also buy and sell options on Debt Futures. The limitation on buying and selling futures contracts to Debt Futures and Municipal Bond Index Futures, and the limitation on buying and selling options on futures contracts to options on Debt Futures, are fundamental policies, which cannot be changed without a shareholder vote.

When the Fund purchases a futures contract, it incurs an obligation to take delivery of a specified amount of the obligation underlying the contract at a specified time in the future for a specified price. When the Fund sells a futures contract, it incurs an obligation to deliver the specified amount of the underlying obligation at a specified time in return for an agreed upon price. In the case of a Municipal Bond Index Future, the obligation underlying the futures contract is an amount of cash equal to a specified dollar amount times the difference between the index value at the close of the last trading day of the futures contract and the price at which the futures contract is originally struck. In the case of a Debt Future, the underlying obligation is the related domestic debt security.

When the Fund writes an option on a futures contract, it becomes obligated, in return for the premium paid, to assume a position in the futures contract at a specified exercise price at any time during the term of the option. If the Fund has written a call, it becomes obligated to assume a "short" position in the futures contract, which means that it is required to deliver the underlying securities. If it has written a put, it becomes obligated to assume a "long" position in the futures contract, which means that it is required to take delivery of the underlying securities. When the Fund purchases an option on a futures contract, it acquires the right, in return for the premium it paid, to assume a position in the futures contract, a "long" position if the option is a call and a "short" position if the option is a put.

The Fund will not purchase or sell futures contracts or options thereon for speculative purposes but rather only for the purpose of hedging against changes in the market value of its portfolio securities or changes in the market value of securities that the Manager anticipates that it may wish to include in the portfolio of the Fund. The Fund may sell a Municipal Bond Index Future if the Manager anticipates that a general market or market sector decline may adversely affect the market value of any or all of the Fund's municipal bond holdings. The Fund may buy a Municipal Bond Index Future if the Manager anticipates a significant market sector advance in the municipal bonds it intends to purchase for the Fund's portfolio. The Fund may purchase a Municipal Bond Index Future as a temporary substitute for the purchase of individual bonds that may then be purchased in an orderly fashion. In the case of debt securities, the Fund could sell a Debt Future, or write a call or buy a put on a Debt Future, to attempt to protect against the risk that the value of the debt securities held by the Fund might decline. The Fund could purchase a Debt Future, or purchase a call or write a put on a Debt Future, to protect against the risk of an increase in the value of debt securities at a time when the Fund is not invested in debt securities to the extent permitted by its investment policies. As securities are purchased, corresponding futures or options positions would be terminated.

Futures strategies also can be used to manage the average duration of the Fund's portfolio. If the Manager wishes to shorten the average duration of the Fund, the Fund may sell a Debt Future or a call option thereon, or purchase a put option on a Debt Future. If the Manager wishes to lengthen the average duration of the Fund, the Fund may buy a Debt Future or a call option thereon, or sell a put option on a Debt Future.

Unlike when the Fund purchases or sells a municipal bond or taxable obligation, no price is paid or received by it when it purchases or sells a futures contract. Initially, the Fund will be required to deposit an amount of cash or U.S. Treasury Bills equal to a varying specified percentage of the contract amount. This amount is known as initial margin. Cash held in the margin account is not income producing. Subsequent payments, called variation margin, to and from the broker will be made on a daily basis as the price of the underlying debt securities or index fluctuates making the futures contract more or less valuable, a process known as "marking-to-market."

If the Fund writes an option on a futures contract, it will be required to deposit initial and variation margin pursuant to the requirements similar to those applicable to futures contracts. Premiums received from the writing of an option on a futures contract are included in the initial margin deposit.

Changes in variation margin are recorded by the Fund as unrealized gains or losses. Initial margin payments will be deposited with the Fund's Custodian bank in an account registered in the broker's name; access to the assets in that account may be made by the broker only under specified conditions. At any time prior to expiration of a futures contract or option thereon, the Fund may elect to close the position by taking an opposite position, which will operate to terminate its position in the futures contract or option. A final determination of variation margin is then made, additional cash is required to be paid by or released to the Fund and the Fund realizes a loss or a gain. Although futures contracts by their terms call for the actual delivery or acquisition of the underlying obligation, in most cases the contractual obligation is fulfilled without having to make or take delivery. The Fund does not generally intend to make or take delivery of the underlying obligation. All transactions in futures contracts and options thereon are made, offset or fulfilled through a clearing house associated with the exchange on which the contracts are traded. Although the Fund intends to buy and sell futures contracts and options thereon only on exchanges where there appears to be an active secondary market, there is no assurance that a liquid secondary market will exist for any particular futures contract or option thereon at any particular time. In such event, it may not be possible to close a futures contract or options position.

Under certain circumstances, futures exchanges may establish daily limits on the amount that the price of a futures contract or option thereon can vary from the previous day's settlement price; once that limit is reached, no trades may be made that day at a price beyond the limit. Daily price limits do not limit potential losses because prices could move to the daily limit for several consecutive days with little or no trading, thereby preventing the liquidation of unfavorable positions.

If the Fund were unable to liquidate a futures contract or option thereon due to the absence of a liquid secondary market or the imposition of price limits, it could incur substantial losses. The Fund would continue to be subject to market risk with respect to the position. In addition, the Fund would be required to make daily variation margin payments and might be required to maintain the position being hedged by the futures contract or option or to maintain cash or securities in a segregated account.

The Fund must operate within certain restrictions as to positions in futures contracts and options thereon under a rule ("CFTC Rule") adopted by the CFTC under the Commodity Exchange Act ("CEA") to be eligible for the exclusion provided by the CFTC Rule from registration by the Fund with the CFTC as a "commodity pool operator" (as defined under the CEA), and must represent to the CFTC that it will operate within such restrictions. Under these restrictions, to the extent that the Fund enters into futures contracts and options on futures contracts that are not for bona fide hedging purposes (as defined by the CFTC), the aggregate initial margin and premiums on these positions (excluding the amount by which options are "in-the-money") may not exceed 5% of the Fund's net assets. (In general, a call option on a futures contract is "in-the-money" if the value of the underlying futures contract exceeds the strike, i.e., exercise, price of the call; a put option on a futures contract is "in-the-money" if the value of the underlying futures contract is exceeded by the strike price of the put.)

Risks of Futures Contracts and Options Thereon. Since futures contracts and options thereon can replicate movements in the cash markets for the securities in which the Fund invests without the large cash investments required for dealing in such markets, they may subject the Fund to greater and more volatile risks than might otherwise be the case. The principal risks associated with the use of such instruments are (i) imperfect correlation between movements in the market price of the portfolio investments (held or intended to be purchased) being hedged and in the price of the futures contract or option; (ii) possible lack of a liquid secondary market for closing out futures contract or options positions; (iii) the need for additional portfolio management skills and techniques; and (iv) losses due to unanticipated market price movements.

For a hedge to be completely effective the price change of the hedging instrument should equal the price change of the security being hedged. Such equal price changes are not always possible because the investment underlying the hedging instrument may not be the same investment that is being hedged. The Manager will attempt to create a closely correlated hedge, but hedging activity may not be completely successful in eliminating market value fluctuation. (See below for additional discussion of correlation as it relates to Municipal Bond Index Futures.)

The ordinary spreads between prices in the cash and futures markets (including the options on futures market), due to differences in the natures of those markets, are subject to the following factors, which may create distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, investors may close futures contracts through offsetting transactions, which could distort the normal relationship between the cash and futures markets. Second, the liquidity of the futures market depends on participants entering into offsetting transactions rather than making or taking delivery. The extent participants decide to make or take delivery, liquidity in the futures market could be reduced, thus producing distortion. Third, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market may cause temporary price distortions. Due to the possibility of distortion, a correct forecast of general interest rate or municipal bond market trends by the Manager may still not result in a successful transaction. The Manager may be incorrect in its expectations as to the extent of various interest rate or bond market movements or the time span within which the movements take place.

The risk of imperfect correlation between movements in the price of a Municipal Bond Index Future and movements in the price of the municipal bonds that are the subject of the hedge increases as the composition of the Fund's municipal bond portfolio diverges from the municipal bonds included in the index. The price of the Municipal Bond Index Futures may move more than or less than the price of the securities being hedged. If the price of the Municipal Bond Index Future moves less than the price of the securities that are the subject of the hedge, the hedge will not be fully effective but, if the price of the securities being hedged has moved in an unfavorable direction, the Fund would be in a better position than if it had not hedged at all. If the price of the securities being hedged has moved in a favorable direction, this advantage will be partially offset by the futures contract. If the price of the futures contract moves more than the price of the security, the Fund will experience either a loss or a gain on the futures contract that will not be completely offset by movements in the price of the securities that are the subject of the hedge. To compensate for the imperfect correlation of movements in the price of the securities being hedged and movements in the price of the Municipal Bond Index Futures, the Fund may buy or sell Municipal Bond Index Futures in a greater dollar amount than the dollar amount of the securities being hedged if the historical volatility of the prices of such securities being hedged is more than the historical volatility of the municipal bonds included in the index. It is also possible that, where the Fund has sold futures contracts to hedge its portfolio against decline in the market, the market may advance and the value of the municipal bonds and taxable obligations held in the portfolio may decline. If this occurred the Fund would lose money on the futures contract and also experience a decline in value of its portfolio securities. However, while this could occur for a very brief period or to a very small degree, over time the value of a diversified portfolio of municipal bonds will tend to move in the same direction as the municipal bond indices on which the futures contracts are based.

Where Municipal Bond Index Futures are purchased to hedge against a possible increase in the price of municipal bonds and/or taxable obligations before the Fund is able to invest in them in an orderly fashion, it is possible that the market may decline instead. If the Fund then concludes not to invest in them at that time because of concern as to possible further market decline or for other reasons, it will realize a loss on the futures contract that is not offset by a reduction in the price of the municipal bonds and/or taxable obligations it had anticipated purchasing.

Limitations on the Use of Options on Securities, Municipal Bond Indices and Futures Contracts. The Fund's use of options is governed by the following guidelines, which can be changed by the Fund's Board of Directors without a shareholder vote:

(1) options may be purchased or written only when the Manager believes that there exists a liquid secondary market in such options;

(2) the Fund may not write call options having aggregate exercise prices greater than 25% of its net assets; and

(3) the Fund may purchase a put or a call option (including straddles or spreads) only if the value of its premium, when aggregated with the premiums on all other options held by the Fund, does not exceed 5% of the Fund's total assets.

Cover for Futures Contracts and Options on Securities, Municipal Bond Indices and Futures Contracts. Transactions using futures contracts and options (other than options that the Fund has purchased) expose the Fund to an obligation to another party. The Fund will not enter into any such transactions unless it owns either (1) an offsetting ("covered") position in securities or other options or futures contracts or (2) cash, receivables and short-term debt securities with a value sufficient at all times to cover its potential obligations not covered as provided in (1) above. The Fund will comply with SEC guidelines regarding cover for these instruments and, if the guidelines so require, set aside cash, U.S. Government Securities or other liquid, high-grade debt securities in a segregated account with its Custodian in the prescribed amount.

Assets used as cover or held in a segregated account cannot be sold while the position in the corresponding futures contract or option is open, unless they are replaced with similar assets. As a result, the commitment of a large portion of the Fund's assets to cover or segregated accounts could impede portfolio management or the Fund's ability to meet redemption requests or other current obligations.

Defensive Strategies and Temporary Investments

Sometimes the Manager may believe that a full or partial defensive position is desirable due to present or anticipated market or economic conditions which are affecting or could affect the value of municipal bonds. The length of time a temporary defensive position is maintained depends on actual or foreseen changes in the conditions due to which the position was taken. To achieve a defensive posture, the Manager may take any one or more of the following steps: (i) shortening the average maturity of the portfolio; (ii) holding cash or taxable obligations (which obligations may be held only subject to the 10% limitation described in the Prospectus); and (iii) emphasizing high-grade debt securities. Going defensive in any one or more of these manners might involve a reduction in the yield on the Fund's portfolio. As an alternative to taking a defensive posture at a time when present or anticipated market conditions may affect the value of municipal bonds, the Manager may buy or sell futures contracts.

To shorten the average maturity of the Fund's portfolio, it may buy municipal bonds which are payable in a relatively short time. This could be either because they were so payable when they were first issued or because they will mature shortly after purchase.

Another reason for buying either these short-term municipal bonds or taxable obligations (up to the 10% limitation on taxable obligations described in the Prospectus) during normal market conditions is to keep assets at work until appropriate investments in longer-term municipal bonds can be made or in order to have cash available to pay for redemptions.

Short-term municipal bonds or taxable obligations purchased for defensive purposes will be held for as long as the Manager believes a temporary defensive posture should be maintained. When bought during normal conditions, they will be held until appropriate investments in longer-term municipal bonds are made or until they are sold to meet redemptions.

Investment Restrictions

Certain of the Fund's investment restrictions and policies are described in the Prospectus. The following are fundamental policies and, together with certain restrictions described in the Prospectus, cannot be changed without shareholder approval. Under these additional restrictions, the Fund:

(i) May not make any investments other than in the municipal bonds and in the taxable obligations, options, futures contracts and other financial instruments described in the Prospectus. Further, such municipal bonds and taxable obligations are subject to the percentage limitations and the quality restrictions described in the Prospectus. Thus, the Fund may not purchase any voting securities, any commodities or commodity contracts (except that it may buy and sell the options, futures contracts and other financial instruments described in the Prospectus whether or not any of them is considered to be a commodity or a commodity contract), any real estate or interests in real estate investment trusts or any investment company securities. Also, the Fund may not engage in repurchase transactions;

(ii) May not invest in securities on which the payment of principal and interest is the obligation of any nongovernmental entity (i.e., a company) unless the company obligated to make these payments has been in continuous operation for at least three years. This three-year test includes the operation of predecessor companies. However, the Fund may buy securities not meeting this test if it does not then have more than 5% of its total assets in these other securities;

(iii) May not lend money or other assets; it may, of course, purchase all or a portion of an issue of the municipal bonds or taxable obligations in which it invests;

(iv) May not invest for the purpose of exercising control or management of other companies;

(v) May not buy or continue to hold securities if any one of the Fund's

Directors or officers or certain others own more than .5 of 1% of the securities of an issuer and if the persons who own that much or more own 5% of that issuer's securities;

(vi) May not sell short, buy on margin, engage in arbitrage transactions or participate on a joint, or a joint and several, basis in any trading account in securities; however, it may make margin deposits in connection with the options, futures contracts and other financial instruments described in the Prospectus; also, the Fund may enter into escrow and collateral arrangements in connection with its use of options and futures contracts;

(vii) May not engage in the underwriting of securities, that is, the selling of securities for others. Also, it may not invest in restricted securities. Restricted securities are securities which cannot freely be sold for legal reasons or because a promise has been given establishing conditions for their sale;

(viii) May not purchase the securities of any "issuer" if more than 5% of the Fund's total assets, taken at market, would then be invested in that "issuer." There is a question as to who is the "issuer" of municipal bonds. For example, they may be created by a particular government but be backed only by the assets and revenues of a subdivision of that government such as an agency, instrumentality, authority or other subdivision. In such case, the Fund would consider that such subdivision is the "issuer" for the purposes of this 5% restriction. In the case of industrial development bonds, the nongovernmental user of facilities financed by them is also considered as a separate "issuer." The method of determining who is an "issuer" may be changed without shareholder vote. This restriction does not apply to U.S. Government Securities, i.e., securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.

In applying this 5% restriction, the Fund allows the same standards set forth above for determining who is an "issuer"; however, it also considers for the purpose of this 5% restriction that a guarantee by a government or other entity of a municipal bond is a separate security which would be given a value and included in the 5% restriction if the value of all municipal bonds created by the government or entity and owned by the Fund should exceed 10% of the value of its total assets;

(ix) May not purchase securities of issuers in any one industry except for municipal bonds and U.S. Government Securities (see above) if more than 25% of the value of its assets would then be invested in issuers in that industry. Despite the fact that this restriction does not apply to municipal bonds, the Fund intends to apply the restriction to nongovernmental users (other than utilities) of facilities financed by industrial development bonds.

Additional Restrictions

The Fund has undertaken to the State of Ohio that it will not borrow, pledge, mortgage or hypothecate assets in excess of one-third of total Fund assets. The Fund's ability to borrow for other than emergency or extraordinary purposes is a special risk consideration.

Portfolio Turnover

A portfolio turnover rate is, in general, the percentage computed by taking the lesser of purchases or sales of portfolio securities for a year and dividing it by the monthly average of the market value of such securities during the year, excluding certain short-term securities. A Fund's turnover rate may vary greatly from year to year as well as with a particular year and may be affected by cash requirements for the redemption of its shares. For fiscal years 1993 and 1992 the portfolio turnover rates were 94.51% and 125.44%, respectively. These high rates resulted in part from increased activity in the municipal bond market during these periods and the issuance of a high number of new municipal bond securities which were favorably priced relative to older issues.

INVESTMENT MANAGEMENT AND OTHER SERVICES

The Management Agreement

The Fund has an Investment Management Agreement (the "Management Agreement") with Waddell & Reed, Inc. On January 8, 1992, subject to the authority of the Fund's Board of Directors, Waddell & Reed, Inc. assigned the Management Agreement and all related investment management duties (and related professional staff) to Waddell & Reed Investment Management Company, a wholly-owned subsidiary of Waddell & Reed, Inc. Under the Management Agreement, the Manager is employed to supervise the investments of the Fund and provide investment advice to the Fund. The address of the Manager and Waddell & Reed, Inc. is 6300 Lamar Avenue, P.O. Box 29217, Shawnee Mission, Kansas 66201-9217. Waddell & Reed, Inc. is the Fund's underwriter.

The Management Agreement permits Waddell & Reed, Inc. or an affiliate of Waddell & Reed, Inc. to enter into a separate agreement for transfer agency services ("Shareholder Servicing Agreement") and a separate agreement for accounting services ("Accounting Services Agreement") with the Fund. The Management Agreement contains detailed provisions as to the matters to be considered by the Fund's Directors prior to approving any Shareholder Servicing Agreement or Accounting Services Agreement.

Torchmark Corporation and United Investors Management Company

The Manager is a wholly-owned subsidiary of Waddell & Reed, Inc. Waddell & Reed, Inc. is a wholly-owned subsidiary of Waddell & Reed Financial Services, Inc., a holding company. Waddell & Reed Financial Services, Inc. is a wholly-owned subsidiary of United Investors Management Company. United Investors Management Company is a wholly-owned subsidiary of Torchmark Corporation. Torchmark Corporation is a publicly held company. The address of Torchmark Corporation and United Investors Management Company is 2001 Third Avenue South, Birmingham, Alabama 35233.

Waddell & Reed, Inc. and its predecessors served as investment manager to each of the registered investment companies in the United Group of Mutual Funds since 1940 or the company's inception date, whichever was later, and to TMK/United Funds, Inc. since that fund's inception, until January 8, 1992 when it assigned its duties as investment manager for these funds (and the related professional staff) to the Manager. The Manager has also served as investment manager for Waddell & Reed Funds, Inc. since its inception in September 1992 and Torchmark Government Securities Fund, Inc. and Torchmark Insured Tax-Free Fund, Inc. since they each commenced operations in February 1993. Waddell & Reed, Inc. serves as principal underwriter for the investment companies in the United Group of Mutual Funds, TMK/United Funds, Inc. and Waddell & Reed Funds, Inc.

Shareholder Services

Under the Shareholder Servicing Agreement entered into between Waddell & Reed Services Company (the "Agent"), a subsidiary of Waddell & Reed, Inc., and the Fund, the Agent performs shareholder servicing functions, including the maintenance of shareholder accounts, the issuance, transfer and redemption of shares, distribution of dividends and payment of redemptions, the furnishing of related information to the Fund and handling of shareholder inquiries. A new Shareholder Servicing Agreement, or amendments to the existing one, may be approved by the Fund's Directors without shareholder approval.

Accounting Services

Under the Accounting Services Agreement entered into between the Fund and the Agent, the Agent provides the Fund with bookkeeping and accounting services and assistance, including maintenance of the Fund's records, pricing of the Fund's shares, and preparation of prospectuses for existing shareholders, proxy statements and certain reports. A new Accounting Services Agreement, or amendments to an existing one, may be approved by the Fund's Directors without shareholder approval.

Payments by the Fund for Management, Accounting and Shareholder Services

Under the Management Agreement, for the Manager's management services, the Fund pays the Manager a fee as described in the Prospectus.

Prior to the above-described assignment from Waddell & Reed, Inc. to Waddell & Reed Investment Management Company, all fees were paid to Waddell & Reed, Inc. The management fee paid to the investment manager during the three fiscal years ended September 30, 1993, 1992 and 1991 were $4,349,383, $3,781,296 and $3,292,284, respectively. For purposes of calculating the daily fee the Fund does not include money owed to it by Waddell & Reed, Inc. for shares which it has sold but not yet paid to the Fund. The Fund accrues and pays this fee daily.

Under the Shareholder Servicing Agreement, the Fund pays the Agent a monthly fee of $1.0208 for each shareholder account which was in existence at any time during the prior month, plus $0.30 for each account on which a dividend or distribution, of cash or shares, had a record date in that month. It also pays certain out-of-pocket expenses of the Agent, including long distance telephone communications costs; microfilm and storage costs for certain documents; forms, printing and mailing costs and costs of legal and special services not provided by Waddell & Reed, Inc., the Manager or the Agent.

Under the Accounting Services Agreement, the Fund pays the Agent a fee for accounting services as described in the Prospectus. The fees paid to the Agent for the fiscal years ended September 30, 1993, 1992 and 1991 were $88,750, $85,000 and $71,250, respectively.

The State of California imposes limits on the amount of certain expenses the Fund can pay and requires the Manager to reduce its fee if these expense amounts are exceeded. The Manager must reduce the amount of such expenses to the extent they exceed these expense limits. Not all of the Fund's expenses are included in the limit. The excluded expenses include interest, taxes, brokerage commissions and extraordinary expenses such as litigation that usually do not arise in the normal operations of a mutual fund. The Fund's other expenses, including its management fee, are included.

The Manager must, under California law, reduce the cost of any included expenses which are over 2.5% of the Fund's first $30 million of average net assets, 2% of the next $70 million of average net assets, and 1.5% of any remaining average net assets during a fiscal year. The Fund will notify shareholders of any change in the limitation.

Since the Fund pays a management fee for investment supervision and an accounting services fee for accounting services as discussed above, the Manager and the Agent, respectively, pay all of their own expenses in providing these services. Amounts paid by the Fund under the Shareholder Servicing Agreement are described above. Waddell & Reed, Inc. and affiliates pay the Fund's Directors and officers who are affiliated with the Manager and its affiliates. The Fund pays the fees and expenses of the Fund's other Directors.

Waddell & Reed. Inc., under an agreement separate from the Management Agreement, Shareholder Servicing Agreement and Accounting Services Agreement, acts as the Fund's underwriter, i.e., sells its shares on a continuous basis. Waddell & Reed, Inc. is not required to sell any particular number of shares, and thus sells shares only for purchase orders received. Under this agreement, Waddell & Reed, Inc. pays the costs of sales literature, including the costs of shareholder reports used as sales literature, and the costs of printing the prospectus furnished to it by the Fund. The aggregate dollar amounts of underwriting commissions for the fiscal years ended September 30, 1993, 1992 and 1991 were $3,662,610, $4,043,316 and $2,900,063, respectively. The amounts retained by Waddell & Reed, Inc. for each fiscal year were $1,591,029, $1,750,505 and $1,250,594, respectively.

A major portion of the sales charge is paid to sales representatives and managers of Waddell & Reed, Inc. Waddell & Reed. Inc. may compensate its sales representatives as to purchases for which there is no sales charge.

The Fund pays all of its other expenses. These include the costs of materials sent to shareholders, audit and outside legal fees, taxes, brokerage commissions, interest, insurance premiums, custodian fees, fees payable by the Fund under Federal or other securities laws and to the Investment Company Institute and nonrecurring and extraordinary expenses, including litigation and indemnification relating to litigation.

Under a Service Plan (the "Plan") adopted by the Fund pursuant to Rule 12b-1 under the Investment Company Act of 1940, the Fund may pay Waddell & Reed, Inc., the principal underwriter for the Fund, a fee not to exceed .25% of the Fund's average annual net assets, paid monthly, to reimburse Waddell & Reed, Inc. for its costs and expenses in connection with the provision of personal services to Fund shareholders and/or maintenance of shareholder accounts.

The Plan and a related Service Agreement between the Fund and Waddell & Reed, Inc. contemplate that Waddell & Reed, Inc. may be reimbursed for amounts it expends in compensating, training and supporting registered sales representatives, sales managers and/or other appropriate personnel in providing personal services to Fund shareholders and/or maintaining shareholder accounts; increasing services provided to Fund shareholders by office personnel located at field sales offices; engaging in other activities useful in providing personal service to Fund shareholders and/or maintenance of shareholder accounts; and in compensating broker-dealers who may regularly sell Fund shares for providing shareholder services and/or maintaining shareholder accounts.

The Plan and the Service Agreement were approved by the Fund's Board of Directors, including the Directors who are not interested persons of the Fund and who have no direct or indirect financial interest in the operations of the Plan or any agreement referred to in the Plan (hereafter, the "Plan Directors"). The Plan was also approved by shareholders of the Fund.

Among other things, the Plan provides that (i) Waddell & Reed, Inc. will provide to the Directors of the Fund at least quarterly, and the Directors will review, a report of amounts expended under the Plan and the purposes for which such expenditures were made, (ii) the Plan will continue in effect only so long as it is approved at least annually, and any material amendments thereto will be effective only if approved, by the Directors including the Plan Directors acting in person at a meeting called for that purpose, (iii) amounts to be paid by the Fund under the Plan may not be materially increased without the vote of the holders of a majority of the outstanding shares of the Fund, and (iv) while the Plan remains in effect, the selection and nomination of the Directors who are Plan Directors will be committed to the discretion of the Plan Directors.

Custodial and Auditing Services

The Fund's Custodian is United Missouri Bank, n.a., Kansas City, Missouri. In general, the Custodian is responsible for holding the Fund's cash and securities. Price Waterhouse, Kansas City, Missouri, the Fund's independent accountants, audits the Fund's financial statements.

PURCHASE, REDEMPTION AND PRICING OF SHARES

Determination of Offering Price

The net asset value of one of the shares of the Fund is the value of its assets, less what it owes, divided by the total number of shares. For example, if on a particular day the Fund owned securities worth $100 and had cash of $15, the total value of the assets would be $115. If it owed $5, the net asset value would be $110 ($115 minus $5). If it had 11 shares outstanding, the net asset value of one share would be $10 ($110 divided by 11).

Shares of the Fund are sold at their next determined net asset value plus the sales charge described in the Prospectus. The price makeup as of September 30, 1993 was as follows:

Net asset value per share (net assets divided by capital shares outstanding)	$7.83
Add: selling commission (4.25% of offering price)	.35

Maximum offering price per share (net asset value per share divided by 95.75%)	$8.18
	=====

The offering price of a share is its net asset value next determined following acceptance of a purchase order plus the sales charge. The number of shares you receive for your purchase depends on the next offering price after Waddell & Reed, Inc. receives and accepts your order at its principal business office at the address shown on the cover of this SAI. You will be sent a confirmation after your purchase which will indicate how many shares you have purchased. Shares are normally issued for cash only.

Waddell & Reed, Inc. need not accept any purchase order, and it or the Fund may determine to discontinue offering Fund shares for purchase.

The net asset value and offering price per share are ordinarily computed once each day that the New York Stock Exchange is open for trading at the time discussed below. That Exchange annually announces the days on which it will not be open for trading. The most recent announcement indicates that it will not be open on the following days: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. However, it is possible that the Exchange may close on other days. The net asset value will change every business day, since the value of the assets changes every business day and so does the number of shares.

The Board of Directors has decided to use the prices quoted by a dealer in bonds which offers a pricing service to value municipal bonds. The Board believes that such a service does quote their fair value. The Board, however, may hereafter determine to use another service or use the bid price quoted by dealers if it should determine that such service or quotes more accurately reflect the fair value of municipal bonds held by the Fund.

Short-term debt securities are valued at amortized cost, which approximates market. Securities or other assets which are not valued by either of the foregoing methods and for which market quotations are not readily available would be valued by appraisal at their fair value as determined in good faith under procedures established by and under the general supervision and responsibility of the Board of Directors.

Debt Futures and Municipal Bond Index Futures purchased and held by the Fund are valued at the last sales price thereof on the commodities exchange on which they are traded, or, if there are no transactions, at the mean between bid and asked prices. (Ordinarily the close of the regular session of the commodities exchanges is 2:15 P.M. Central Eastern Time.) Net asset value per share will ordinarily be computed on each day on which it is computed (see above) as of the last close of the regular session of any such exchange. Futures contracts will be valued by reference to established futures exchanges. The value of a futures contract purchased by the Fund will be either the closing price of that contract or the bid price. Conversely, the value of a futures contract sold by the Fund will be either the closing price or the asked price.

Minimum Initial and Subsequent Investments

Initial investments must be at least $500 with the exceptions described in this paragraph. A minimum initial investment of $25 is applicable to purchases made through payroll deduction for or by employees of the Manager, Waddell & Reed, Inc. or their affiliates. A $100 minimum initial investment pertains to certain exchanges of shares from another fund in the United Group. Except with respect to certain exchanges and automatic withdrawals from a checking account, a shareholder may make subsequent investments of any amount. See "Exchanges for Shares of Other Funds in the United Group."

Waddell & Reed, Inc., in addition to distributing shares of the funds in the United Group, TMK/United Funds, Inc. and Waddell & Reed Funds, Inc., may distribute certain limited partnership investment interests from time to time. These investments may provide distributions at various intervals in amounts less than $500. A Fund account may be set up by an investor in these limited partnerships to receive partnership distributions of $25 or more. Accordingly, the $500 minimum initial investment will not apply to such accounts.

Reduced Sales Charges

Account Grouping

Large purchases are subject to lower sales charges. The schedule of sales charges appears in the Prospectus. For the purpose of taking advantage of the lower sales charges available for large purchases, a purchase in any of categories 1 through 7 listed below made by an individual or deemed to be made by an individual may be grouped with purchases in any other of these categories. References to purchases in an Individual Retirement Account ("IRA") or other retirement plan (for which investments in the Fund would not be appropriate) are made only to illustrate how purchases of Fund shares may be grouped with purchases made in other funds in the United Group.

1. Purchases by an individual for his or her own account (includes purchases under the United Funds Revocable Trust form);

2. Purchases by that individual's spouse purchasing for his or her own account (includes United Funds Revocable Trust Form of spouse);

3. Purchases by that individual or his or her spouse in their joint account;

4. Purchases by that individual or his or her spouse for the account of their child under age 21;

5. Purchase by any custodian for the child of that individual or spouse in a Uniform Gift to Minors Act ("UGMA") or Uniform Transfers to Minors Act account;

6. Purchases by that individual or his or her spouse for his or her IRA, tax sheltered annuity account ("T.S.A.") or Keogh plan account, provided that the individual and spouse are the only participants in the Keogh plan; and

7. Purchases by a trustee under a trust where that individual or his or her spouse is the settlor (the person who establishes the trust).

Examples:

A. Grandmother opens an UGMA account for grandson A; Grandmother has an account in her own name; A's father has an account in his own name; the UGMA account may be grouped with A's father's account but may not be grouped with Grandmother's account;

B. H establishes a trust naming his children as beneficiaries and appointing himself and his bank as co-trustees; a purchase made in the trust account is eligible for grouping with an IRA account of W, H's wife;

C. H's will provides for the establishment of a trust for the benefit of his minor children upon H's death; his bank is named as trustee; upon H's death, an account is established in the name of the bank, as trustee; a purchase in the account may be grouped with an account held by H's wife in her own name.

D. X establishes a trust naming herself as trustee and R, her son, as successor trustee and R and S as beneficiaries; upon X's death, the account is transferred to R as trustee; a purchase in the account may not be grouped with R's individual account. (If X's spouse, Y, was successor trustee, this purchase could be grouped with Y's individual account.)

Account grouping as described above is available under the following circumstances.

One-time Purchases

A one-time purchase in accounts eligible for grouping may be combined for purposes of determining the availability of a reduced sales charge. In order for an eligible purchase to be grouped, the investor must advise Waddell & Reed, Inc. at the time the purchase is made that it is eligible for grouping and identify the accounts with which it may be grouped.

Example: H and W open an account in the Fund and invest $100,000; at the same time, H's parents open up two Uniform Gift to Minors Act accounts for H and W's two minor children and invest $100,000 in each child's name; the combined purchases are subject to the reduced sales load applicable to a purchase of $300,000 provided that Waddell & Reed, Inc. is advised that the purchases are entitled to grouping.

Rights of Accumulation

If shares are held in any account and an additional purchase is made in that account or in any account eligible for grouping with that account, the additional purchase is combined with the net asset value of the existing account as of the date the new purchase is accepted by Waddell & Reed, Inc. for the purpose of determining the availability of a reduced sales charge.

Example: H is a current shareholder who invested in the Fund three years ago. His account has a net asset value of $100,000. His wife, W, now wishes to invest $15,000 in the Fund. W's purchase will be combined with H's existing account and will be entitled to the reduced sales charge applicable to a purchase in excess of $100,000. H's original $100,000 purchase was subject to a full sales charge and the reduced charge does not apply retroactively to that purchase.

In order to be entitled to rights of accumulation, the purchaser must inform Waddell & Reed, Inc. that the purchaser is entitled to a reduced charge and provide Waddell & Reed, Inc. with the name and number of the existing account with which the purchase may be combined.

If a purchaser holds shares which have been purchased under an investment program ("contractual plan") the shares held under the plan may be combined with the additional purchase only if the contractual plan has been completed.

Statement of Intention

The benefit of a reduced sales charge for larger purchases is also available under a Statement of Intention. By signing a Statement of Intention form, which is available from Waddell & Reed, Inc., the purchaser indicates an intention to invest, over a 13-month period, a dollar amount which is sufficient to qualify for a reduced sales charge. The 13-month period begins on the date the first purchase made under the Statement is accepted by Waddell & Reed, Inc. Each purchase made from time to time under the Statement is treated as if the purchaser were buying at one time the total amount which he or she intends to invest. The sales charge applicable to all purchases made under the terms of the Statement will be the sales charge in effect on the beginning date of the 13-month period.

In determining the amount which the purchaser must invest in order to qualify for a reduced sales charge under a Statement of Intention, the investor's Rights of Accumulation (see above) will be taken into account; that is, shares already held in the same account in which the purchase is being made or in any account eligible for grouping with that account, as described above, will be included.

Example: H signs a Statement of Intention indicating his intent to invest in his own name a dollar amount sufficient to entitle him to purchase shares at the sales charge applicable to a purchase of $300,000. H has an UGMA for his child and the shares held in the account have a net asset value as of the date the Statement is accepted by Waddell & Reed, Inc. of $50,000; H's wife, W, has an account in her own name invested in another fund in the United Group which charges the same sales load as the Fund, with a net asset value as of the date of acceptance of the Statement of $75,000; H needs to invest $175,000 over the 13-month period in order to qualify for the reduced sales load applicable to a purchase of $300,000.

A copy of the Statement of Intention signed by a purchaser will be returned to the purchaser after it is accepted by Waddell & Reed, Inc. and will set forth the dollar amount which must be purchased within the 13-month period in order to qualify for the reduced sales charge.

The minimum initial investment under a Statement of Intention is 5% of the dollar amount which must be invested under the Statement. An amount equal to 5% of the purchase required under the Statement will be held "in escrow." If a purchaser does not, during the period covered by the Statement, invest the amount required to qualify for the reduced sales charge under the terms of the Statement, he or she will be responsible for payment of the sales charge applicable to the amount actually invested. The additional sales charge owed on purchases made under a Statement which is not completed will be collected by redeeming part of the shares purchased under the Statement and held "in escrow" unless the purchaser makes payment of this amount to Waddell & Reed, Inc. within 20 days of Waddell & Reed, Inc.'s request for payment.

If the actual amount invested is higher than the amount an investor intends to invest, and is large enough to qualify for a sales charge lower than that available under the Statement of Intention, the lower sales charge will apply.

A Statement of Intention does not bind the purchaser to buy, or Waddell & Reed, Inc. to sell, the shares covered by the Statement.

With respect to Statements of Intention for $2,000,000 or purchases otherwise qualifying for no sales charge under the terms of the Statement of Intention, the initial investment must be at least $200,000, and the value of any shares redeemed during the 13-month period which were acquired under the Statement will be deducted in computing the aggregate purchases under the Statement.

Other Funds in the United Group

Reduced sales charges for larger purchases apply to purchases of any of the funds in the United Group which are subject to a sales charge. A purchase of, or shares held, in any of the funds in the United Group which are subject to the same sales charge as the Fund will be treated as an investment in the Fund for the purpose of determining the applicable sales charge. The following funds in the United Group are subject to a maximum 5.75% ("full") sales charge as described in the prospectus of each Fund: United Funds, Inc., United International Growth Fund, Inc., United Continental Income Fund, Inc., United Vanguard Fund, Inc., United Retirement Shares, Inc., United High Income Fund, Inc., United New Concepts Fund, Inc., United Gold & Government Fund, Inc. and United High Income Fund II, Inc. The following funds in the United Group are subject to a "reduced" sales charge as described in the prospectus of each fund: United Municipal Bond Fund, Inc., United Government Securities Fund, Inc. and United Municipal High Income Fund, Inc. For the purposes of obtaining the lower sales charge which applies to large purchases, purchases in a fund in the United Group which is subject to a full sales charge may not be grouped with purchases in a fund in the United Group which is subject to a reduced sales charge; conversely, purchases made in a fund with a reduced sales charge may not be grouped or combined with purchases of a fund which is subject to a full sales charge.

United Cash Management, Inc. is not subject to a sales charge. Purchases in that fund are not eligible for grouping with purchases in any other fund.

Net Asset Value Purchases

As stated in the Prospectus, Fund shares may be purchased at net asset value by the Directors and officers of the Fund, employees of Waddell & Reed, Inc., employees of their affiliates, sales representatives of Waddell & Reed, Inc. and the spouse, children, parents, children's spouses and spouse's parents of each such Director, officer, employee and sales representative. "Child" includes stepchild; "parent" includes stepparent. Trusts under which the grantor and the trustee or a co-trustee are each an eligible purchaser are also eligible for net asset value purchases. "Employees" includes retired employees. A retired employee is an individual separated from service from Waddell & Reed, Inc. or affiliated companies with a vested interest in any Employee Benefit Plan sponsored by Waddell & Reed, Inc. or its affiliated companies. "Sales representatives" includes retired sales representatives. A "retired sales representative" is any sales representative who was, at the time of separation from service from Waddell & Reed, Inc., a Senior Account Representative. A custodian under the Uniform Gifts (or Transfers) to Minors Act purchasing for the child or grandchild of any employee or sales representative may purchase at net asset value whether or not the custodian himself is an eligible purchaser.

Reasons for Differences in Public Offering Price

As described herein and in the Prospectus, there are a number of instances in which the Fund's shares are sold or issued on a basis other than the maximum public offering price, that is, the net asset value plus the highest sales charge. Some of these relate to lower or eliminated sales charges for larger purchases, whether made at one time or over a period of time as under a Statement of Intention or right of accumulation. See the table of sales charges in the Prospectus. The reasons for these quantity discounts are, in general, that (i) they are traditional and have long been permitted in the industry and are therefore necessary to meet competition as to sales of shares of other funds having such discounts; (ii) certain quantity discounts are required by rules of the National Association of Securities Dealers, Inc. (as are elimination of sales charges on the reinvestment of dividends and distributions); and (iii) they are designed to avoid an unduly large dollar amount of sales charge on substantial purchases in view of reduced selling expenses. Quantity discounts are made available to certain related persons for reasons of family unity and to provide a benefit to tax exempt plans and organizations.

The reasons for the other instances in which there are reduced or eliminated sales charges are as follows. Exchanges at net asset value are permitted because a sales charge has already been paid on the shares exchanged. Sales without sales charge are permitted to Directors, officers and certain others due to reduced or eliminated selling expenses and since such sales may aid in the development of a sound employee organization, encourage incentive, responsibility and interest in the United Group and an identification with its aims and policies. Limited reinvestments of redemptions at no sales charge are permitted to attempt to protect against mistaken or not fully informed redemption decisions. Shares may be issued at no sales charge in plans of reorganization due to reduced or eliminated sales expenses and since, in some cases, such issuance is exempted in the Investment Company Act of 1940 from the otherwise applicable restrictions as to what sales charge must be imposed. In no case in which there is a reduced or eliminated sales charge are the interests of existing shareholders adversely affected since, in each case, the Fund receives the net asset value per share of all shares sold or issued.

Redemptions

The Prospectus gives information as to redemption procedures; the emergency or other extraordinary conditions there indicated under which payment may be delayed beyond seven days are certain emergency conditions determined by the Securities and Exchange Commission, when the New York Stock Exchange is closed other than for weekends or holidays, or when trading on the Exchange is restricted. The extraordinary conditions mentioned in the Prospectus under which redemptions may be made in portfolio securities are that the Fund's Board of Directors can decide that conditions exist making cash payments undesirable. If they should, redemption payments could be made in securities. They would be valued at the value used in figuring net asset value. There would be brokerage costs to the redeeming shareholder in selling such securities. The Fund, however, has elected to be governed by Rule 18f-1 under the Investment Company Act, pursuant to which it is obligated to redeem shares solely in cash up to the lesser of $250,000 or 1% of its net asset value during any 90-day period for any one shareholder.

Flexible Withdrawal Service

If you qualify, you may arrange to receive regular monthly, quarterly, semi-annual or annual payments; this can be done by redeeming shares on a regular basis. This service is called Flexible Withdrawal Service (the "Service"). It is available not only for Fund shares but also for shares of any of the funds in the United Group. It would be a disadvantage to an investor to make additional purchases of shares while a withdrawal program is in effect as this would result in duplication of sales charges.

To qualify for the Service, you must have invested at least $10,000 in shares which you still own of any of the funds in the United Group; or, you must own shares having a value of at least $10,000. The value for this purpose is not the net asset value but the value at the offering price, i.e., the net asset value plus the sales charge.

To start this service, you must fill out a form (available from Waddell & Reed, Inc.), advising Waddell & Reed, Inc. how you want your shares redeemed to make the payments. You have three choices:

First. To get a monthly, quarterly, semi-annual or annual payment of $50 or more;

Second. To get a monthly payment, which will change each month, equal to one-twelfth of a percentage of the value of the shares in the Account; you fix the percentage; or

Third. To get a monthly or quarterly payment, which will change each month or quarter, by redeeming a fixed number of shares (at least five shares).

Shares are redeemed on the 20th day of the month in which the payment is to be made, or on the prior business day if the 20th is not a business day. Payments are made within five days of the redemption.

The Fund, not Waddell & Reed, Inc., pays the costs of this Service. Having the Service costs you nothing extra individually.

If you have a share certificate for the shares you want to make available for this Service, you must enclose the certificate with the form initiating the Service.

The dividends and distributions on shares you have made available for this Service are reinvested in additional shares. All payments are made by redeeming shares, which may involve a gain or loss for tax purposes. To the extent that payments exceed dividends and distributions, the number of shares you own will decrease. When all of the shares in your account are redeemed, you will not receive any payments. Thus, the payments are not an annuity or an income or return on your investment.

You may, at any time change the manner in which you have chosen to have shares redeemed to any of the other choices originally available to you. For example, if you started out with a $50 monthly payment, you could change to a

$200 quarterly payment. You can at any time redeem part or all of the shares in your account; if you redeem all of the shares, the Service is terminated. The Fund can also terminate the Service by notifying you in writing.

After the end of each calendar year, information on shares redeemed will be sent to you to assist you in completing your Federal income tax return.

Exchanges for Shares of Other Funds in the United Group

You may decide you would rather own shares of one or more of the other funds in the United Group rather than Fund shares. An exchange of Fund shares may be made only if you have held the shares for at least six months unless the exchange is for shares of United Government Securities Fund, Inc. or United Municipal High Income Fund, Inc. or unless the Fund shares were acquired by reinvestment of a dividend or distribution, in which cases there is no holding period. You may exchange for shares of another fund without payment of an additional sales charge. You should ask for and read the prospectus for the fund into which you are thinking of making an exchange before doing so.

Fund shares may be received in exchange for shares of any of the other funds in the United Group, except for shares of United Cash Management, Inc. acquired by direct purchase or received in payment of dividends on those shares.

Subject to the above rules regarding sales charges, you may have a specific dollar amount of shares of United Cash Management, Inc. automatically exchanged each month into the Fund or any other fund in the United Group. The shares of United Cash Management, Inc. which you designate for automatic exchange must be worth at least $100 or you must own shares of the fund in the United Group into which you want to exchange. The minimum value of shares which you may designate for automatic exchange monthly is $100, which may be allocated among different funds in the United Group so long as each fund receives a value of at least $25. Minimum initial investment and minimum balance requirements apply to such automatic exchange service.

When you exchange shares, the total shares you receive will have the same aggregate net asset value as the total shares you exchange. The relative values are those next figured after the fund receives your written exchange request in good order.

These exchange rights and other exchange rights concerning the other funds in the United Group can in most instances be eliminated or modified at any time and any such exchange may not be accepted.

Reinvestment Privilege

The Prospectus discusses the reinvestment privilege under which, if you redeem and then decide it was not a good idea, you may reinvest. If Fund shares are then being offered, you can put all or part of your redemption payment back into Fund shares without any sales charge at the net asset value next determined after you have returned the amount. Your written request to do this must be received within 30 days after your redemption request was received. You can do this only once as to Fund shares.

Mandatory Redemption of Certain Small Accounts

The Fund has the right to compel the redemption of shares held under any account or any plan if the aggregate net asset value of such shares (taken at cost or value as the Board of Directors may determine) is less than $500. The Board has no intent to compel redemptions in the foreseeable future. If it should elect to compel redemptions, shareholders who are affected will receive prior written notice and will be permitted 60 days to bring their accounts up to the minimum before this redemption is processed.

DIRECTORS AND OFFICERS

The day-to-day affairs of the Fund are handled by outside organizations selected by the Board of Directors. The Board has responsibility for establishing broad corporate policies for the Fund and for overseeing overall performance of the selected experts. It has the benefit of advice and reports from independent counsel and independent auditors.

Each of the Fund's Directors is also a Director of each of the other funds in the United Group, TMK/United Funds, Inc., Waddell & Reed Funds, Inc., Torchmark Government Securities Fund, Inc. and Torchmark Insured Tax-Free Fund, Inc. and each of its officers is also an officer of one or more of these funds. The principal occupation of each Director and officer during at least the past five years is given below. Each of the persons listed through and including Mr. Wright is a member of the Fund's Board of Directors. The other persons are officers but not Board members.

RONALD K. RICHEY*
2001 Third Avenue South
Birmingham, Alabama 35233

Chairman of the Board of Directors of the Fund; Chairman of the Board of Directors of Waddell & Reed Financial Services, Inc., United Investors Management Company and United Investors Life Insurance Company; Chairman of the Board of Directors and Chief Executive Officer of Torchmark Corporation; formerly, Chairman of the Board of Directors of Waddell & Reed, Inc.

KEITH A. TUCKER*

President of the Fund; President, Chief Executive Officer and Director of Waddell & Reed Financial Services, Inc.; Chairman of the Board of Directors of the Manager, Waddell & Reed, Inc., Waddell & Reed Services Company, Waddell & Reed Asset Management Company and Torchmark Distributors, Inc., an affiliate of Waddell & Reed, Inc.; Vice Chairman of the Board of Directors, Chief Executive Officer and President of United Investors Management Company; Vice Chairman of the Board of Directors of Torchmark Corporation; formerly, partner in Trivest, a private investment concern; formerly, Director of Atlantis Group, Inc., a diversified company.

HENRY L. BELLMON
Route 1
Red Rock, Oklahoma 74651

Rancher; Professor, Oklahoma State University; formerly, Governor of Oklahoma; prior to his current service as Director of the funds in the United Group, TMK/United Funds, Inc., Waddell & Reed Funds, Inc., Torchmark Government Securities Fund, Inc. and Torchmark Insured Tax-Free Fund, Inc., he served in such capacity for the funds in the United Group and TMK/United Funds, Inc.

DODDS I. BUCHANAN
University of Colorado
Campus Box 419
Boulder, Colorado 80309

Professor of Marketing, College of Business, University of Colorado; Advisory Director, The Hand Companies; President, Buchanan Ranch Corp.; formerly, Senior Vice President and Director of Marketing Services, The Meyer Group of Management Consultants; formerly, Chairman, Department of Marketing, Transportation and Tourism, University of Colorado.

JAY B. DILLINGHAM
926 Livestock Exchange Building
Kansas City, Missouri 64102

Partner in Dillingham Farms, a farming operation; formerly, President and Director of Kansas City Stock Yards Company.

JOHN F. HAYES*
335 N. Washington
P.O. Box 2977
Hutchinson, Kansas 67504-2977

President of Gilliland & Hayes, P.A., a law firm; Director of Central Bank and Trust.

GLENDON E. JOHNSON
7300 Corporate Center Drive
Miami, Florida 33126-1208

Director and Chief Executive Officer of John Alden Life Insurance Company.

WILLIAM T. MORGAN*
1799 Westridge Road
Los Angeles, California 90049

Retired; formerly, Chairman of the Board of Directors and President of the Fund, each Fund in the United Group, TMK/United Funds, Inc., Waddell & Reed Funds, Inc., Torchmark Government Securities Fund, Inc. and Torchmark Insured Tax-Free Fund, Inc. (Mr. Morgan retired as Chairman of the Board of Directors and President of these Funds on April 30, 1993); formerly, President, Director and Chief Executive Officer of the Manager and Waddell & Reed, Inc.; formerly, Chairman of the Board of Directors of Waddell & Reed Services Company; formerly, Director of Waddell & Reed Asset Management Company, United Investors Management Company and United Investors Life Insurance Company, affiliates of Waddell & Reed, Inc.

DOYLE PATTERSON
1030 West 56th Street
Kansas City, Missouri 64113

Associated with Republic Real Estate, engaged in real estate management and investment; formerly, Director of The Vendo Company, a manufacturer and distributor of vending machines.

FREDERICK VOGEL, III
1805 West Bradley Road
Milwaukee, Wisconsin 53217

Formerly, President and Director of Univest Corporation, a real estate investment company; formerly, Director of Classified Financial Corp., an insurance company.

PAUL S. WISE

P.O. Box 5248
8648 Silver Saddle Drive
Carefree, Arizona 85377
Director of Potash Corporation of Saskatchewan.

LESLIE S. WRIGHT
Samford University
800 Lakeshore Drive
Birmingham, Alabama 35209
Chancellor of Samford University; formerly, Director of City Federal Savings and Loan Association; formerly, President of Samford University.

Robert L. Hechler
Vice President of the Fund; Vice President, Chief Operations Officer, Director and Treasurer of Waddell & Reed Financial Services, Inc.; Executive Vice President, Principal Financial Officer, Director and Treasurer of the Manager; President, Chief Executive Officer, Principal Financial Officer, Director and Treasurer of Waddell & Reed, Inc.; Director and Treasurer of Waddell & Reed Asset Management Company; President, Director and Treasurer of Waddell & Reed Services Company; Vice President, Treasurer and Director of Torchmark Distributors, Inc.

Henry J. Herrmann
Vice President of the Fund; Vice President, Chief Investment Officer and Director of Waddell & Reed Financial Services, Inc.; Director of Waddell & Reed, Inc.; President, Chief Executive Officer, Chief Investment Officer and Director of the Manager and Waddell & Reed Asset Management Company; Senior Vice President and Chief Investment Officer of United Investors Management Company.

Theodore W. Howard
Vice President and Treasurer of the Fund; Vice President of Waddell & Reed Services Company.

Rodney O. McWhinney
Vice President, Assistant Secretary and General Counsel of the Fund; Vice President, Secretary and General Counsel of Waddell & Reed Financial Services, Inc.; Senior Vice President, Secretary and General Counsel of the Manager and Waddell & Reed, Inc.; Director, Senior Vice President, Secretary and General Counsel of Waddell & Reed Services Company; Director, Secretary and General Counsel of Waddell & Reed Asset Management Company; Vice President, Secretary and General Counsel of Torchmark Distributors, Inc.; Director of ICI Mutual Insurance Company.

Sharon K. Pappas
Vice President, Secretary and Assistant General Counsel of the Fund; Assistant Secretary and Assistant General Counsel of the Manager; Assistant General Counsel of Waddell & Reed Financial Services, Inc., Waddell & Reed, Inc., Waddell & Reed Asset Management Company and Waddell & Reed Services Company; formerly, an associate with Stinson, Mag & Fizzell, a law firm.

John M. Holliday
Vice President of the Fund; Senior Vice President of the Manager and Waddell & Reed Asset Management Company; formerly, Senior Vice President of Waddell & Reed, Inc..

Carl E. Sturgeon
Vice President of the Fund; Vice President of the Manager; formerly, Vice President of Waddell & Reed, Inc.

The address of each person is 6300 Lamar Avenue, P.O. Box 29217, Shawnee Mission, Kansas 66201-9217 unless a different address is given.

As of the date of this SAI, four of the Fund's Directors may be deemed to be "interested persons" of its underwriter, Waddell & Reed, Inc. The Directors who may be deemed to be "interested persons" as defined in the Investment Company Act of 1940 are indicated as such by an asterisk.

The Board has created an honorary position of Director Emeritus, which position a director may elect after resignation from the Board provided the director has attained the age of 75 and has served as director of the funds in the United Group for a total of at least five years. A Director Emeritus receives fees in recognition of his past services whether or not services are rendered in his capacity as Director Emeritus, but has no authority or responsibility with respect to management of the Fund.

The funds in the United Group, TMK/United Funds, Inc. and Waddell & Reed Funds, Inc. pay to each Director a total of $40,000 per year ($38,000 per year prior to January 1, 1993), plus $500 for each meeting of the Board of Directors attended and $500 for each committee meeting attended which is not in conjunction with a Board of Directors' meeting, other than Directors who are affiliates of Waddell & Reed, Inc. The fees to the Directors who receive them are divided among these funds based on their relative size. During the Fund's fiscal year ended September 30, 1993, its share was $37,020. The officers are paid by the Manager or an affiliate of the Manager.

Shareholdings

As of November 30, 1993, all of the Fund's Directors and officers as a group owned less than 1% of the outstanding shares of the Fund. As of such date no person owned of record or was known by the Fund to own beneficially 5% or more of the Fund's outstanding shares.

PAYMENTS TO SHAREHOLDERS

General

There are two sources for the payments the Fund makes to you as a shareholder, other than payments when you redeem your shares. The first source is net investment income, which is derived from the interest the Fund receives on the securities it holds, less its expenses. The payments made to you from this source are called dividends.

The second source is realized capital gains, which are derived from the Fund's proceeds received from the sale of its securities at a price higher than the Fund's basis (usually cost) in such securities. These gains can be either long-term or short-term, depending on how long the Fund has owned the securities before it sells them. Payments, if any, from this source are called distributions.

The Fund pays distributions only if it happens to have realized capital gains. It may or may not have them, depending on whether or not securities are sold and at what price. If it has them, it will pay distributions once each year, in the latter part of the fourth calendar quarter. Even if it has capital gains during a year, it does not pay them out if it has applicable prior year losses to offset the capital gains in the current year.

Choices You Have on Your Dividends and Distributions

In your application form, you can give instructions that (i) you want cash for your dividends and distributions; or (ii) you want cash for your dividends and want your distributions reinvested in Fund shares. You can change your instructions at any time. If you give neither instruction, your dividends and distributions will be reinvested in Fund shares. All reinvestments are at net asset value without any sales charge. The net asset value used for this purpose is that computed as of the record date for the dividend or distribution, although this could be changed by the Directors. The record date is the date used to determine which shareholders are entitled to receive a dividend or distribution; investors who own shares on that date are so entitled.

Even if you get dividends and distributions in cash, you can thereafter reinvest them (or distributions only) in Fund shares at net asset value (i.e., no sales charge) next determined after receipt by Waddell & Reed, Inc. of the amount clearly identified as a reinvestment. The reinvestment must be within 45 days after the payment.

TAXES

In order to continue to qualify for treatment as a regulated investment company ("RIC") under the Internal Revenue Code of 1986, as amended (the "Code"), the Fund must distribute to its shareholders for each taxable year at least 90% of the sum of its investment company taxable income (consisting generally of taxable net investment income and net short-term capital gains) plus its net interest income excludable from gross income under section 103(a) of the Code, and must meet several additional requirements. These requirements include the following: (1) the Fund must derive at least 90% of its gross income each taxable year from dividends, interest, payments with respect to securities loans and gains from the sale or other disposition of securities, or other income (including gains from options or futures) derived with respect to its business of investing in securities ("Income Requirement"); (2) the Fund must derive less than 30% of its gross income each taxable year from the sale or other disposition of securities, options or futures that were held for less than three months ("Short-Short Limitation"); and (3) at the close of each quarter of the Fund's taxable year, (a) at least 50% of the value of its total assets must be represented by cash and cash items, U.S. Government Securities, securities of other RICs and other securities that are limited, in respect of any one issuer, to an amount that does not exceed 5% of the value of the Fund's total assets, and (b) not more than 25% of the value of its total assets may be invested in securities (other than U.S. Government Securities or the securities of other RICs) of any one issuer.

Dividends paid by the Fund will qualify as "exempt-interest dividends," and thus will be excludable from your gross income, if the Fund satisfies the additional requirement that, at the close of each quarter of its taxable year, at least 50% of the value of its total assets consists of securities the interest on which is excludable from gross income under section 103(a); the Fund intends to continue to satisfy this requirement. The aggregate dividends excludable from all shareholders' gross income may not exceed the Fund's net tax-exempt income. The treatment of dividends from the Fund under local and state income tax laws may differ from the treatment thereof under the Code.

Up to 85% of social security and railroad retirement benefits may be included in taxable income for recipients whose adjusted gross income (including income from tax-exempt sources such as the Fund) plus 50% of their benefits exceeds certain base amounts. Exempt-interest dividends from the Fund still are tax-exempt to the extent described above; they are only included in the calculation of whether a recipient's income exceeds the established amounts.

If the Fund invests in any instruments that generate taxable income, under the circumstances described in the Prospectus, distributions of the interest earned thereon will be taxable to you as ordinary income to the extent of the Fund's earnings and profits. Moreover, if the Fund realizes capital gain as a result of market transactions, any distribution of that gain will be taxable to you. There also may be collateral federal income tax consequences regarding the receipt of tax-exempt dividends by shareholders such as S corporations, financial institutions and property and casualty insurance companies. Any shareholder that falls into any of these categories should consult its tax adviser concerning its investment in Fund shares.

Dividends and distributions declared by the Fund in October, November or December of any year and payable to shareholders of record on a date in any of those months are deemed to have been paid by the Fund and received by you on December 31 of that year if the Fund pays them during the following January.

If Fund shares are sold at a loss after being held for six months or less, the loss will be disallowed to the extent of any exempt-interest dividends received on those shares and any balance of the loss that is not disallowed will be treated as long-term, instead of short-term, capital loss to the extent of any distributions received on those shares. Investors also should be aware that if shares are purchased shortly before the record date for a taxable dividend or distribution, the purchaser will pay tax thereon, even though he is receiving some portion of the purchase price back.

The Fund will be subject to a nondeductible 4% excise tax to the extent it fails to distribute by the end of any calendar year substantially all of its ordinary income for that year and capital gain net income for the one-year period ending on October 31 of that year, plus certain other amounts.

The use of hedging strategies, such as writing (selling) and purchasing options and futures, involves complex rules that will determine for income tax purposes the character and timing of recognition of the gains and losses the Fund realizes in connection therewith. Income from transactions in options and futures derived by the Fund with respect to its business of investing in securities will qualify as permissible income under the Income Requirement. However, income from the disposition of options and futures will be subject to the Short-Short Limitation if they are held for less than three months.

If the Fund satisfies certain requirements, any increase in value of a position that is part of a "designated hedge" will be offset by any decrease in value (whether realized or not) of the offsetting hedging position during the period of the hedge for purposes of determining whether the Fund satisfies the Short-Short Limitation. Thus, only the net gain (if any) from the designated hedge will be included in gross income for purposes of that limitation. The Fund intends that, when it engages in hedging transactions, they will qualify for this treatment, but at the present time it is not clear whether this treatment will be available for all of the Funds' hedging transactions. To the extent this treatment is not available, the Fund may be forced to defer the closing out of certain options and futures beyond the time when it otherwise would be advantageous to do so, in order for the Fund to continue to qualify as a RIC.

PORTFOLIO TRANSACTIONS AND BROKERAGE

One of the duties undertaken by the Manager pursuant to the Management Agreement is to arrange the purchase and sale of securities for the portfolio of the Fund. Purchases are made directly from issuers or from underwriters, dealers or banks. Purchases from underwriters include a commission or concession paid by the issuer to the underwriter. Purchases from dealers will include the spread between the bid and the asked prices. Brokerage commissions are paid primarily for effecting transactions in securities traded on an exchange and otherwise only if it appears likely that a better price or execution can be obtained. The Fund has not effected transactions through brokers and does not anticipate doing do. When possible, concurrent orders to purchase or sell the same security by more than one of the funds or advisory accounts managed by the Manager or its affiliates are combined. Transactions effected pursuant to such combined orders are averaged as to price and allocated in accordance with the purchase or sale orders actually placed for each fund or advisory account.

To effect the portfolio transactions of the Fund, the Manager is authorized to engage broker-dealers ("brokers") which, in its best judgment based on all relevant factors, will implement the policy of the Fund to achieve "best execution" (prompt and reliable execution at the best price obtainable) for reasonable and competitive commissions. The Manager need not seek competitive commission bidding but is expected to minimize the commissions paid to the extent consistent with the interests and policies of the Fund. Subject to review by the Board of Directors, such policies include the selection of brokers which provide execution and/or research services and other services, including pricing or quotation services directly or through others ("brokerage services") considered by the Manager to be useful or desirable for its investment management of the Fund and/or the other funds and accounts over which the Manager or its affiliates have investment discretion.

Brokerage services are, in general, defined by reference to Section 28(e) of the Securities Exchange Act of 1934 as including (i) advice, either directly or through publications or writings, as to the value of securities, the advisability of investing in, purchasing or selling securities and the availability of securities and purchasers or sellers; (ii) furnishing analyses and reports; or (iii) effecting securities transactions and performing functions incidental thereto (such as clearance, settlement and custody). "Investment discretion" is, in general, defined as having authorization to determine what securities shall be purchased or sold for an account, or making those decisions even though someone else has responsibility.

The commissions paid to brokers that provide such brokerage services may be higher than another qualified broker would charge for effecting comparable transactions if a good faith determination is made by the Manager that the commission is reasonable in relation to the brokerage services provided. Subject to the foregoing considerations, the Manager may also consider the willingness of particular brokers and dealers to sell shares of the Fund and other funds managed by the Manager and its affiliates as a factor in its selection. No allocation of brokerage or principal business is made to provide any other benefits to the Manager or its affiliates.

The investment research provided by a particular broker may be useful only to one or more of the other advisory accounts of the Manager and its affiliates and investment research received for the commissions of those other accounts may be useful both to the Fund and one or more of such other accounts. To the extent that electronic or other products provided by such brokers to assist the Manager in making investment management decisions are used for administration or other non-research purposes, a reasonable allocation of the cost of the product attributable to its non-research use is made by the Manager.

Such investment research (which may be supplied by a third party at the instance of a broker) includes information on particular companies and industries as well as market, economic or institutional activity areas. It serves to broaden the scope and supplement the research activities of the Manager; serves to make available additional views for consideration and comparisons; and enables the Manager to obtain market information on the price of securities held in the Fund's portfolio or being considered for purchase.

In placing transactions for the Fund's portfolio, the Manager may consider sales of shares of the Fund and other funds managed by the Manager and its affiliates as a factor in the selection of brokers to execute portfolio transactions. The Manager intends to allocate brokerage on the basis of this factor only if the sale is $2 million or more and there is no sales charge. This results in the consideration only of sales which by their nature would not ordinarily be made by Waddell & Reed, Inc.'s direct sales force and is done in order to prevent the direct sales force from being disadvantaged by the fact that it cannot participate in Fund brokerage.

OTHER INFORMATION

The Shares of the Fund

The Fund presently has only one kind (class) of shares. Each share has the same rights to dividends, to vote and to receive assets if the Fund liquidates (winds up). Each fractional share has the same rights, in proportion, as a full share. Shares are fully paid and nonassessable when bought.