SECURITIES AND EXCHANGE COMMISSION

FORM 497

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FILER

PRICE T ROWE TAX EXEMPT MONEY FUND INC
CIK:**315748**| IRS No.: **521182186** | Fiscal Year End: **0228**
Type: **497** | Act: **33** | File No.: **002-67029** | Film No.: **94516586**

Business Address
100 EAST PRATT ST
BALTIMORE MD 21202
3015472000

PRICE T ROWE TAX FREE INCOME FUND INC
CIK:**202927**| IRS No.: **521067817** | Fiscal Year End: **0228**
Type: **497** | Act: **33** | File No.: **002-57265** | Film No.: **94516587**

Business Address
100 EAST PRATT STREET
BALTIMORE MD 21202
3015472000

PRICE T ROWE TAX FREE SHORT INTERMEDIATE FUND INC
CIK:**730200**| IRS No.: **521316470** | Fiscal Year End: **0228**
Type: **497** | Act: **33** | File No.: **002-87059** | Film No.: **94516588**

Business Address
100 EAST PRATT ST
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PRICE T ROWE TAX FREE HIGH YIELD FUND INC
CIK:**758003**| Fiscal Year End: **0228**
Type: **497** | Act: **33** | File No.: **002-94641** | Film No.: **94516589**

Business Address
100 E PRATT ST
BALTIMORE MD 21202
3016256685

PRICE T ROWE TAX FREE INSURED INTERMEDIATE BOND FUND INC
CIK:**892899**| State of Incorp.:**MD** | Fiscal Year End: **0228**
Type: **497** | Act: **33** | File No.: **033-49117** | Film No.: **94516590**

Business Address
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Prospectus for the T. Rowe Price Tax-Exempt Money Fund, Inc., T. Rowe Price Tax-Free Short-Intermediate Fund, Inc., T. Rowe Price Tax-Free Insured Intermediate Bond Fund, Inc., T. Rowe Price Tax-Free Income Fund, Inc., and T. Rowe Price Tax-Free High Yield Fund, Inc. Fund dated July 1, 1993, revised to March 9, 1994 should be inserted here.

T. Rowe Price
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PROSPECTUS

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INVESTOR SERVICES
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1-410-547-2308

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1-800-225-5132
1-410-625-6500

FOR YIELDS & PRICES
TELE*ACCESS(REGISTERED TRADEMARK)
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1-410-625-7676
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INVESTOR CENTERS
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BALTIMORE, MD

T. ROWE PRICE
FINANCIAL CENTER
FIRST FLOOR
10090 RED RUN BLVD.
OWINGS MILLS, MD

ARCO TOWER
31ST FLOOR
515 S. FLOWER ST.
LOS ANGELES, CA

FARRAGUT SQUARE
FIRST FLOOR
900 17TH STREET, N.W.
WASHINGTON, D.C.

TAX-FREE FUNDS

To help you achieve your financial goals, T. Rowe Price offers a wide range of stock, bond, and money market investments, as well as convenient services and timely, informative reports.

T. ROWE PRICE
TAX-FREE FUNDS, INC.
JULY 1, 1993
REVISED TO
MARCH 9, 1994

- ----------------------------------
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bond and
money funds
for investors
seeking income that is exempt from federal income taxes.

T. Rowe Price
Tax-Free Funds
July 1, 1993
Revised to
March 9, 1994

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This prospectus contains information you should know before investing. Please keep it for future reference. A Statement of Additional Information about the Funds, dated July 1, 1993, revised to March 9, 1994, has been filed with the Securities and Exchange Commission and is incorporated by reference in this prospectus. To obtain a free copy, call 1-800-638-5660.

FACTS AT A GLANCE

OBJECTIVES THE HIGHEST POSSIBLE LEVELS OF INCOME EXEMPT FROM FEDERAL INCOME TAXES, CONSISTENT WITH EACH FUND'S PRESCRIBED INVESTMENT PROGRAM. AS WITH ALL MUTUAL FUNDS, THESE FUNDS MAY NOT MEET THEIR OBJECTIVES.

STRATEGY AND RISK/REWARD POTENTIAL

TAX-EXEMPT MONEY FUND, INC.(REGISTERED TRADEMARK) INVESTS IN HIGH-QUALITY,

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SHORT-TERM MUNICIPAL SECURITIES, AND ITS AVERAGE MATURITY WILL NOT EXCEED 90 DAYS. THE FUND IS MANAGED TO MAINTAIN A STABLE SHARE PRICE OF $1.00, BUT THERE IS NO ASSURANCE THE PRICE WILL ALWAYS BE STABLE. YOUR INVESTMENT IN THE FUND IS NEITHER INSURED NOR GUARANTEED BY THE U.S. GOVERNMENT. RISK/REWARD: LOWEST POTENTIAL RISK AND REWARD.

TAX-FREE SHORT-INTERMEDIATE FUND, INC.(REGISTERED TRADEMARK) INVESTS PRIMARILY IN HIGHER-QUALITY SHORT- AND INTERMEDIATE-TERM MUNICIPAL BONDS RATED A OR ABOVE. ITS AVERAGE PORTFOLIO MATURITY WILL NOT EXCEED FIVE YEARS. RISK/REWARD: MODERATE INCOME LEVEL AND SHARE-PRICE FLUCTUATION.

TAX-FREE INSURED INTERMEDIATE BOND FUND, INC. INVESTS PRIMARILY IN INTERMEDIATE-TERM MUNICIPAL BONDS WHOSE INTEREST AND PRINCIPAL PAYMENTS ARE INSURED BY PRIVATE INSURANCE COMPANIES. INSURANCE DOES NOT APPLY TO THE FUND'S SHARE PRICE, WHICH WILL FLUCTUATE. AVERAGE MATURITY WILL RANGE BETWEEN 5 AND 10 YEARS. RISK/REWARD: SOMEWHAT HIGHER INCOME AND POTENTIAL SHARE-PRICE FLUCTUATION THAN THE SHORT-INTERMEDIATE FUND. (SEE DISCUSSION ON INSURANCE ON PAGES 17 AND 18.)

TAX-FREE INCOME FUND, INC.(REGISTERED TRADEMARK) INVESTS IN LONGER-TERM, INVESTMENT-GRADE MUNICIPAL BONDS WITH AN AVERAGE MATURITY GENERALLY EXCEEDING 15 YEARS. RISK/REWARD: HIGHER INCOME AND POTENTIAL SHARE-PRICE FLUCTUATION THAN THE SHORTER-TERM FUNDS.

TAX-FREE HIGH YIELD FUND, INC.(REGISTERED TRADEMARK) INVESTS IN LONG-TERM MUNICIPAL BONDS WHOSE CREDIT QUALITY RANGES FROM UPPER-MEDIUM TO LOWER, INCLUDING "JUNK" BONDS. THE AVERAGE MATURITY WILL GENERALLY EXCEED 15 YEARS. RISK/REWARD: HIGHEST INCOME, GREATEST CREDIT RISK, AND HIGHEST POTENTIAL SHARE-PRICE VOLATILITY.

INVESTOR PROFILE INVESTORS WHOSE INCOME TAX LEVEL ENABLES THEM TO BENEFIT FROM TAX-EXEMPT INCOME. NOT APPROPRIATE FOR TAX-DEFERRED RETIREMENT PLANS.

FEES AND CHARGES 100% NO LOAD. NO FEES OR CHARGES TO BUY OR SELL SHARES OR TO REINVEST DIVIDENDS; NO 12B-1 MARKETING FEES; FREE TELEPHONE EXCHANGE.

INVESTMENT MANAGER FOUNDED IN 1937 BY THE LATE THOMAS ROWE PRICE, JR., T. ROWE PRICE ASSOCIATES, INC. ("T. ROWE PRICE") AND ITS AFFILIATES CURRENTLY MANAGE OVER $40 BILLION, INCLUDING OVER $4 BILLION IN MUNICIPAL BOND ASSETS, FOR APPROXIMATELY TWO AND A HALF MILLION INDIVIDUAL AND INSTITUTIONAL INVESTORS.

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.

1   About the Tax-Free Funds

1   About the Tax-Free Funds

Transaction Costs and Fund Expenses

These tables should help you understand the kinds of expenses you will bear directly or indirectly as a Fund shareholder.

The first part of the table, "Shareholder Transaction Costs," shows that you pay no direct costs to buy, sell, or exchange shares in the Fund. All the money you invest in a Fund goes to work for you.

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

LIKE ALL T. ROWE PRICE FUNDS, THE TAX-FREE FUNDS ARE 100% NO LOAD.

- ---

Fund Expenses

Shareholder Transaction Costs

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	Money	Short-Intermediate	Insured Intermediate	Income	High Yield
Sales "Charge" (load) on purchases	None	None	None	None	None
Sales "Charge" (load) on reinvested dividends	None	None	None	None	None
Redemption fees*	None	None	None	None	None
Exchange fees	None	None	None	None	None

Annual Mutual Fund Expenses	Percentage of Fiscal 1993 Average Net Assets				
	Money	Short-Intermediate	Insured Intermediate (After Reduction)**	Income	High Yield
Management Fee	0.45%	0.45%	**0.00%	0.50%	0.65%
Distribution (12b-1) Fee	None	None	None	None	None
Other administrative and servicing costs	0.15%	0.18%	**0.45%	0.11%	0.16%
Total Fund Expenses*	0.60%	0.63%	**0.45%	0.61%	0.81%

* The Funds charge a $5 fee for wire redemptions under $5,000, subject to change without notice.

** To limit the Fund's expenses as it commenced operations, T. Rowe Price absorbed all expenses through June 30, 1993. Without this limitation, the Fund's management fee, other expenses, and total expense ratios would have been 0.40%, 1.81%, and 2.21%, respectively. From July 1, 1993, through February 28, 1994, T. Rowe Price will bear any expenses that would cause the Fund's ratio of expenses to average net assets to exceed 0.50%. Expenses paid or assumed under this agreement are subject to reimbursement to T. Rowe Price by the Fund whenever its expense ratio is below 0.50%. However, no reimbursement will be made after February 29, 1996, or if it would cause the Fund's expense ratio to exceed 0.50%. The 0.50% expense limitation will be phased in beginning with a 0.20% limitation on July 1, 1993; 0.30% on August 1, 1993; 0.40% on September 1, 1993; and 0.50% on October 1, 1993.

Table 1

The second half of the table, "Annual Mutual Fund Expenses," provides an estimate of how much it will cost to operate the Fund for a year, based on 1993 fiscal year expenses. These are costs you pay indirectly, because they are deducted from the Fund's total assets before the daily share price is calculated and before dividends and other distributions are made. In other words, you will not see these expenses on your account statement.

The main types of expenses, which all mutual funds may charge against fund assets, are:

o A management fee: the percent of Fund assets paid to the Fund's investment manager. Each Fund's fee comprises both a group fee, discussed later, and an individual fund fee, as follows: Money 0.10%; Short-Intermediate 0.10%; Insured Intermediate 0.05%; Income 0.15%; and High Yield 0.30%.

o "Other" administrative expenses: primarily the servicing of shareholder accounts, such as providing statements, reports, disbursing dividends, as well as custodial services. For the fiscal year ended February 28, 1993, the Funds paid the following fees to T. Rowe Price Services, Inc. for transfer and dividend disbursing functions and shareholder services, and

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to T. Rowe Price for Fund accounting services.

	Transfer Agent and Shareholder Services	Accounting
Money	$513,000	$ 93,000
Short-Intermediate	$262,000	$ 85,000
Insured Intermediate	$ 31,500	$ 7,500
Income	$613,000	$110,000
High Yield	$478,900	$110,100

Table 2A

- Marketing or distribution fees: an annual charge ("12b-1") to existing shareholders to defray the cost of selling shares to new shareholders. T. Rowe Price funds do not levy 12b-1 fees. For further details on Fund expenses, please see "The Funds' Organization and Management."

- Hypothetical example: Assume you invest at least $1,000, the Fund returns 5% annually, expense ratios remain as previously listed, and you close your account at the end of the time periods shown. Your expenses per $1,000 invested would be:

THE TABLE AT RIGHT IS JUST AN EXAMPLE. THE 5% RETURN DOES NOT REPRESENT THE FUNDS' PAST OR FUTURE PERFORMANCE, AND ACTUAL EXPENSES CAN BE HIGHER OR LOWER THAN THOSE SHOWN.

Example of Fund Expenses

	1 year	3 years	5 years	10 years
Money	$6	$19	$33	$ 75
Short-Intermediate	$6	$20	$35	$ 79
Insured Intermediate	$5	$16	$28	$ 63
Income	$6	$20	$34	$ 76
High Yield	$8	$26	$45	$100

Table 2B

Financial Highlights

Table 3 reflects the Funds' history in terms of a single share outstanding during each Fund's fiscal year. The information has been audited by the Funds' independent accountants, whose respective unqualified report for each Fund covers the periods shown and is included in each Fund's Annual Report to shareholders. The latter is incorporated by reference into the Statement of Additional Information, which is available to shareholders.

<TABLE>
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Investment Activities		Distributions
	Net Realized	

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Fiscal Year Ended Feb. 28	Net Asset Value Beginning of Period	Net Investment Income	and Unrealized Gain (Loss) on Investments	Total from Investment Activities	Net Investment Income	Net Realized Gain	Total Distributions
<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Money							
o1984	$1.000	$.051	$-	$.051	$(.051)	$-	$(.051)
1985	1.000	.058	-	.058	(.058)	-	(.058)
1986	1.000	.049	-	.049	(.049)	-	(.049)
1987	1.000	.042	-	.042	(.042)	-	(.042)
o1988	1.000	.044	-	.044	(.044)	-	(.044)
1989	1.000	.050	-	.050	(.050)	-	(.050)
1990	1.000	.057	-	.057	(.057)	-	(.057)
1991	1.000	.051	-	.051	(.051)	-	(.051)
o1992	1.000	.036	-	.036	(.036)	-	(.036)
1993	1.000	.023	-	.023	(.023)	-	(.023)
Short-Intermediate							
!1984	$5.00	$.06	$(.03)	$.03	$(.06)	-	$(.06)
1985	4.97	.32	.05	.37	(.32)	-	(.32)
1986	5.02	.32	.18	.50	(.32)	-	(.32)
1987	5.20	.29	.13	.42	(.29)	-	(.29)

<CAPTION>

	Investment Activities				Distributions		
Fiscal Year Ended Feb. 28	Net Asset Value Beginning of Period	Net Investment Income	Net Realized and Unrealized Gain (Loss) on Investments	Total from Investment Activities	Net Investment Income	Net Realized Gain	Total Distributions
<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Short-Intermediate (con't)							
o1988	5.33	27	(.16)	.11	(.27)	$(.02)	(.29)
1989	5.15	28	(.12)	.16	(.28)	-	(.28)
1990	5.03	.30	.06	.36	(.30)	-	(.30)
1991	5.09	.29	.06	.35	(.29)	-	(.29)
o1992	5.15	.28	.07	.35	(.28)	-	(.28)
1993	5.22	.24	.14	.38	(.24)	-	(.24)
Insured Intermediate							
*1993	$10.00	$.13	$(.55)	$.68	$(.13)	-	$(.13)

Table 3 (continued on next page)

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End of Period

	Net Asset Value	Total Return (Includes Reinvested Distributions)	Net Assets ($ Thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
	<C>	<C>	<C>	<C>	<C>	<C>
Money						
	$1.000	5.22%	$ 715,955	0.63%	5.12%	-%
	1.000	5.93%	948,941	0.61%	5.81%	-
	1.000	5.02%	872,040	0.61%	4.89%	-
	1.000	4.30%	1,131,755	0.60%	4.23%	-
	1.000	4.47%	1,247,256	0.60%	4.41%	-
	1.000	5.08%	1,157,246	0.60%	4.97%	-
	1.000	5.87%	1,064,141	0.60%	5.75%	-
	1.000	5.22%	977,638	0.60%	5.12%	-
	1.000	3.69%	801,846	0.61%	3.65%	-
	1.000	2.36%	695,699	0.60%	2.35%	-
Short-Intermediate						
	$4.97	!!!3.33%	$ 23,472	!!0.90%	7.11%	110.8%
	5.02	7.70%	68,015	!!0.90%	6.51%	300.7%
	5.20	10.30%	155,420	0.90%	6.26%	128.7%
	5.33	8.41%	405,092	0.73%	5.60%	119.5%
	5.15	2.25%	291,850	0.74%	5.29%	225.2%
	5.03	3.14%	249,489	0.74%	5.46%	53.4%

<CAPTION>

End of Period

	Net Asset Value	Total Return (Includes Reinvested Distributions)	Net Assets ($ Thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
	<C>	<C>	<C>	<C>	<C>	<C>
Short-Intermediate (con't)						
	5.09	7.36%	223,180	0.75%	5.93%	190.8%
	5.15	7.06%	232,923	0.74%	5.67%	190.1%
	5.22	6.94%	328,312	0.67%	5.34%	81.3%
	5.36	7.51%	454,162	0.63%	4.61%	38.5%
Insured Intermediate						
	$10.55	!!!27.23%	$ 38	**0.00%	5.08%	65.3%

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		Investment Activities			Distributions		
Fiscal Year Ended Feb. 28	Net Asset Value Beginning of Period	Net Investment Income	Net Realized and Unrealized Gain (Loss) on Investments	Total from Investment Activities	Net Investment Income	Net Realized Gain	Total Distributions
<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Income							
o1984	$ 8.85	$.72	$(.37)	$ .35	$(.72)	-	$(.72)
1985	8.48	.65	(.07)	.58	(.65)	-	(.65)
1986	8.41	.71	1.32	2.03	(.71)	-	(.71)
1987	9.73	.68	.54	1.22	(.68)	-	(.68)
o1988	10.27	.59	(.92)	(.33)	(.59)	$(.54)	(1.13)
1989	8.81	.59	(.24)	.35	(.59)	-	(.59)
1990	8.57	.59	.09	.68	(.59)	-	(.59)
1991	8.66	.57	.13	.70	(.57)	-	(.57)
o1992	8.79	.57	.30	.87	(.57)	-	(.57)
1993	9.09	.56	.75	1.31	(.56)	-	(.56)
High Yield							
#1986	$10.00	$.87	$1.43	$2.30	$(.87)	-	$(.87)
1987	11.43	.87	.78	1.65	(.87)	-	(.87)
o1988	12.21	.83	(.77)	.06	(.83)	$(.25)	(1.08)
1989	11.19	.83	.06	.89	(.83)	-	(.83)

<CAPTION>

		Investment Activities			Distributions		
Fiscal Year Ended Feb. 28	Net Asset Value Beginning of Period	Net Investment Income	Net Realized and Unrealized Gain (Loss) on Investments	Total from Investment Activities	Net Investment Income	Net Realized Gain	Total Distributions
<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
High Yield (con't)							
1990	11.25	.84	.20	1.04	(.84)	(.06)	(.90)
1991	11.39	.83	.04	.87	(.83)	(.03)	(.86)
o1992	11.40	.81	.35	1.16	(.81)	(.10)	(.91)
1993	11.65	.78	.78	1.56	(.78)	(.10)	(.88)

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End of Period

Net Asset Value	Total Return (Includes Reinvested Distributions)	Net Assets ($ Thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
<C>	<C>	<C>	<C>	<C>	<C>
Income					
$ 8.48	4.04%	$ 961,998	0.66%	8.25%	220.6%
8.41	7.24%	936,791	0.63%	7.84%	277.2%
9.73	25.37%	1,325,179	0.63%	8.07%	187.8%
10.27	13.07%	1,558,795	0.61%	6.94%	236.6%
8.81	(3.17)%	1,094,430	0.65%	6.72%	180.6%
8.57	4.11%	1,023,204	0.66%	6.81%	115.9%
8.66	8.15%	1,123,143	0.64%	6.80%	140.5%
8.79	8.40%	1,128,635	0.63%	6.59%	79.7%
9.09	10.17%	1,245,297	0.62%	6.34%	57.9%
9.84	14.88%	1,441,646	0.61%	5.98%	76.7%
High Yield					
$ 11.43	!!!24.24%	$ 168,308	oo1.00%	8.47%	156.8%
12.21	15.04%	324,094	0.98%	7.45%	111.4%
11.19	0.83%	280,580	0.96%	7.49%	127.6%
11.25	8.27%	331,329	0.92%	7.45%	61.8%
11.39	9.54%	443,372	0.88%	7.38%	72.4%
11.40	7.93%	505,025	0.85%	7.30%	51.2%

<CAPTION>

End of Period

Net Asset Value	Total Return (Includes Reinvested Distributions)	Net Assets ($ Thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
<C>	<C>	<C>	<C>	<C>	<C>
High Yield (con't)					
11.65	10.56%	623,877	0.83%	7.01%	51.0%
12.33	13.94%	853,185	0.81%	6.58%	34.7%

<FN>

! For the period December 23, 1983 (commencement of operations) to February 29, 1984.

!! Excludes investment management fees and Fund expenses in excess of a 0.90% voluntary expense limitation in effect through February 28, 1985.

!!! An annualized, not actual, return. The Fund's average monthly return from inception to fiscal

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year-end was multiplied by 12 to provide an annualized, not compounded, return.

* For the period November 30, 1992 (commencement of operations) to February 28, 1993.

** T. Rowe Price voluntarily agreed to bear all expenses of the Fund through June 30, 1993.

\# For the period March 1, 1985 (commencement of operations) to February 28, 1986.

o Year ended February 29.

oo Excludes investment management fees in excess of a 1.0% voluntary expense limitation in effect through February 28, 1986.

- ---

Table 3

</TABLE>

1 About the Tax-Free Funds

Fund and Market Characteristics: What to Expect

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

TO HELP YOU DECIDE WHETHER A TAX-FREE FUND IS APPROPRIATE FOR YOU, THIS SECTION TAKES A CLOSER LOOK AT THE T. ROWE PRICE FUNDS' INVESTMENT PROGRAMS AND THE SECURITIES IN WHICH THEY INVEST.

Who issues tax-exempt securities?

State and local governments and governmental authorities sell notes and bonds (usually called "municipals") to pay for public projects and services.

What is "tax-free" about municipal bonds and bond funds?

The regular income dividends you receive from the Funds are exempt from federal income taxes. In addition, your state may not tax that portion of the Funds' income earned on the state's own obligations (if any). However, capital gains distributed by the Funds are taxable to you. (See "Useful Information on Distributions and Taxes" for details.)

Is a fund's yield fixed or will it vary?

It will vary. The yield is calculated every day by dividing a fund's net income per share (expressed at annual rates) by the share price. Even if the income stays the same, the yield will vary as the fund's price fluctuates.

Is a fund's yield the same thing as the total return?

"No" for bond funds. Your total return is the net result of reinvested income and the net change in share price for a given time period. Since money funds are managed to maintain a stable share price, however, their yield and total return should be basically the same.

What are the main risks of municipal bond funds?

As with all fixed-income funds, the main risks are:

o interest rate or market risk, which refers to the fact that a fund's price will decline to some degree when general interest rate levels rise. (Although there is no guarantee, this should not apply to money funds, which seek to maintain a stable share price.)

o credit risk, which is the chance that any of a fund's holdings will default (fail to make scheduled interest and principal payments) and adversely affect the fund's income level and share price.

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

FOR FURTHER DETAILS ABOUT THE FUNDS' INVESTMENT PROGRAMS AND FUNDAMENTAL POLICIES, PLEASE SEE THE SECTION, "INVESTMENT POLICIES AND PRACTICES."

How do fund managers try to reduce risk?

Consistent with each Fund's objective, T. Rowe Price Municipal Bond Funds seek through active management to minimize risk and increase total return. Risk management tools include:

o maturity adjustments to reflect our interest rate outlook;

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- broad diversification of assets to reduce the impact of a single holding on the Fund's net asset value; and
- thorough credit research by our own analysts.

What is the relation between a bond fund's average maturity and its price?

As interest rate levels change, prices of outstanding bonds adjust so that their yields stay in line with those on newly issued securities. The bond's maturity affects the extent of the adjustment. (Please see Table 4.)

1 About the Tax-Free Funds

GENERALLY SPEAKING, THE LONGER THE BOND'S MATURITY, THE GREATER THE POTENTIAL PRICE MOVEMENT IN RESPONSE TO A GIVEN CHANGE IN INTEREST RATES, AS SHOWN IN THE TABLE AT RIGHT.

How Interest Rates Affect Bond Prices

Bond Maturity	Coupon	Principal Value of $1,000 Bond if Interest Rates:			
		Increase		Decrease	
		1%	2%	1%	2%
1 year	2.25%	$990	$981	$1,010	$1,020
5 years	4.00	$956	$915	$1,046	$1,095
10 years	4.70	$925	$856	$1,083	$1,174
20 years	5.40	$880	$793	$1,132	$1,289
30 years	5.50	$869	$763	$1,164	$1,370

Table 4 Coupons reflect yields on AAA-rated municipals as of 2/28/93. This is an illustration and does not represent expected share price changes of any T. Rowe Price fund.

How can I decide which investments are most appropriate for me?

Review your own financial objectives, time horizon, and risk tolerance. Use the table below, which summarizes the Funds' main characteristics, to choose a fund (or funds) suitable for your particular needs. For example, only the money fund provides principal stability, which makes it a good choice for money you may need for contingencies. However, if you are investing for the highest possible tax-free income and can tolerate some price volatility, you should consider a longer-term bond fund. Keep in mind that the share prices of the bond funds will fluctuate. The price you receive when you sell your shares may be higher or lower than the price you paid originally.

Differences Among Funds

Fund	Credit Quality Categories	Income	Risk of Share-Price Fluctuation	Expected Average Maturity
Money	Two highest	Low	Stable	No more than 90 days
Short-Intermediate	Three highest	Low to Moderate	Low to Moderate	Less than 5 years
Insured Intermediate	Two highest	Moderate	Moderate	5 to 10 years
Income	Predominately	Moderate	Greater	15+ years

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	four highest			
High Yield	Generally upper-medium to low quality	High	Highest	15+ years

Table 5

Is there additional information about the five funds to help me make a decision?

You should review the following investment objectives and other details about each Fund:

1 About the Tax-Free Funds

- ----------------------------------
THE FUND OR FUNDS YOU SELECT SHOULD REFLECT YOUR INDIVIDUAL INVESTMENT GOALS, BUT SHOULD NOT REPRESENT YOUR COMPLETE INVESTMENT PROGRAM. NO FUND SHOULD BE USED FOR SHORT-TERM TRADING PURPOSES.

Tax-Exempt Money Fund. The Fund's objectives are to provide preservation of capital, liquidity and, consistent with these objectives, the highest current income exempt from federal income tax. While the Fund's share price has been $1.00 since inception, there is no assurance this will always be so. The Fund's yield will fluctuate in response to changes in the general level of interest rates. Unlike a bank account or certificate of deposit, your investment is not insured or guaranteed by the U.S. Government.

The Fund generally purchases securities with maturities of 13 months or less, and its dollar-weighted average maturity will not exceed 90 days. All securities purchased will have ratings in the two highest categories established by well-known rating agencies, or, if unrated, will be of equivalent quality as determined by T. Rowe Price analysts.

The Fund was incorporated in Maryland in 1980.

Tax-Free Short-Intermediate Fund. The Fund's objective is to provide higher than money market yields with moderate price volatility by investing primarily in short- and intermediate-term, high- and upper-medium-quality municipal securities. The Fund will only purchase bonds which are rated at least A by a national rating agency (or if unrated, the T. Rowe Price equivalent). This is the most conservative of the four T. Rowe Price tax-free bond funds. With a dollar-weighted average maturity of five years or less, its price fluctuation should be modest in response to changes in interest rates. Its interest income should be above the money fund but lower than the other bond funds.

Incorporated in Maryland in 1983, the Fund has an Investment Advisory Committee composed of the following members: Mary J. Miller, Chairman, Janet G. Albright, Patrice L. Berchtenbreiter, Paul W. Boltz, Michael P. Buckley, Patricia S. Deford, John F. Flahive, Konstantine B. Mallas, and William T. Reynolds. The Chairman has day-to-day responsibility for managing the Fund and works with the Committee in developing and executing the Fund's investment program. Ms. Miller has been Chairman of the Committee since 1990. She joined T. Rowe Price in 1983 and has been managing investments since 1987.

Tax-Free Insured Intermediate Bond Fund. The Fund's objective is to provide a high level of income exempt from federal income taxes while minimizing credit risk and preserving principal. By maintaining a dollar-weighted average maturity between five and 10 years, this Fund should provide higher income and volatility than the Short-Intermediate Fund and lower income and volatility than the other bond funds.

- ----------------------------------
THE FUNDS ARE NOT
PROHIBITED FROM
RETAINING A HOLDING THAT IS SUBSEQUENTLY DOWNGRADED.

For extra credit-quality protection, the Fund will invest at least 65% of its total assets in municipals insured by companies carrying the highest credit rating from a national rating organization, e.g., AAA by Standard & Poor's or

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Aaa by Moody's Investors Service. (The insurer's rating determines the rating of the insured bond.) Up to 35% of assets may also be invested in other municipals which are rated at least AA or Aa by rating agencies at the time of purchase or, if unrated, are believed to be of comparable quality.

Incorporated in Maryland in 1992, the Fund has an Investment Advisory Committee composed of the following members: William T. Reynolds, Chairman, Paul W. Boltz, Patricia S. Deford, John F. Flahive, Charles B. Hill, Konstantine B. Mallas, and Mary J. Miller. The

Chairman has day-to-day responsibility for managing the Fund and works with the Committee in developing and executing the Fund's investment program. Mr. Reynolds has been Chairman of the Committee since 1992. He joined T. Rowe Price in 1981 and has been managing investments since 1981.

Tax-Free Income Fund. The Fund's objective is to provide a high level of income exempt from federal income tax by investing primarily in longer-term, investment-grade municipals. The Fund has no maturity restrictions, but normally its dollar-weighted average maturity will exceed 15 years. As such, the Fund is suitable for more aggressive investors than the Funds with shorter average maturities. It will be actively managed to seek capital appreciation and minimize losses due to interest rate movements. From time to time, the Fund may purchase below-investment-grade securities (including securities which have received the lowest rating or are unrated). However, no purchase will be made if it would cause the Fund's investments in noninvestment-grade bonds to exceed 5% of net assets.

Incorporated in Maryland in 1976, the Fund has an Investment Advisory Committee composed of the following members: William T. Reynolds, Chairman, Paul W. Boltz, Patricia S. Deford, John F. Flahive, Charles B. Hill, Mary J. Miller, Konstantine B. Mallas, and C. Stephen Wolfe II. The Chairman has day-to-day responsibility for managing the Fund and works with the Committee in developing and executing the Fund's investment program. Mr. Reynolds has been Chairman of the Committee since 1991. He joined T. Rowe Price in 1981 and has been managing investments since 1981.

- -----------------------------------
THE COMBINATION OF LONG MATURITY AND LOWER CREDIT QUALITY MAKES THE HIGH YIELD FUND POTENTIALLY THE MOST RISKY AS WELL AS POTENTIALLY THE MOST REWARDING OF THE TAX-FREE FUNDS.

Tax-Free High Yield Fund. The Fund's objective is to provide a high level of income exempt from federal income tax by investing primarily in long-term, upper-medium to low-quality municipals. This is the most aggressive of our bond funds and should provide the highest income, because the average credit quality of its holdings is lower than our other Funds. Less creditworthy borrowers must offer higher interest payments to compensate investors for taking greater risk. The Fund may invest a substantial portion of assets in noninvestment-grade municipal bonds, which have a higher risk of default than investment-grade bonds. Similar bonds in the taxable bond market are called "junk." The Fund may also purchase bonds that are in default, but such bonds are not expected to exceed 10% of total assets. Lower-quality municipals may be more vulnerable to real or perceived changes in the business climate than higher-quality bonds, and they may also be considerably less liquid and more volatile in price. As a result, we rely heavily on our proprietary research when selecting investments, and judgment may play a significant role in valuing securities. The Fund has no maturity restriction, but normally 80% of its holdings will have maturities over 15 years.

Incorporated in Maryland in 1984, the Fund has an Investment Advisory Committee composed of the following members: William T. Reynolds, Chairman, Patricia S. Deford, John F. Flahive, Charles O. Holland, and C. Stephen Wolfe II. The Committee Chairman has day-to-day responsibility for managing the Fund and works with the Committee in developing and executing the Fund's investment program. Mr. Reynolds has been Chairman of the Committee since 1987. He joined T. Rowe Price in 1981 and has been managing investments since 1981.

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Pricing Shares and Receiving Sale Proceeds

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

THE VARIOUS WAYS YOU CAN BUY, SELL, AND EXCHANGE SHARES ARE EXPLAINED AT THE END OF THIS PROSPECTUS AND ON THE NEW ACCOUNT FORM.

Here are some procedures you should know if you invest in a T. Rowe Price bond or money Fund.

How and when shares are priced

Bond and Money Funds. The share price (also called "net asset value" or NAV) for each Fund is calculated at 4 p.m. ET each day the New York Stock Exchange is open for business. To find the NAV, the Fund's assets are priced and totaled, the Fund's liabilities are subtracted from the asset total, and the balance, called net assets, is divided by the number of shares outstanding.

Money fund NAVs are calculated at noon ET each day as well as 4 p.m. Amortized cost or amortized market value is used to value money fund securities that mature in 60 days or less.

How your purchase, sale, or exchange price is determined

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

WHEN FILLING OUT THE NEW ACCOUNT FORM, YOU MAY WISH TO GIVE YOURSELF THE WIDEST RANGE OF OPTIONS FOR RECEIVING PROCEEDS FROM A SALE.

If we receive your request in correct form before 4 p.m. ET, your transaction will be priced at that day's NAV. If we receive it after 4 p.m., it will be priced at the next business day's NAV.

Sorry, but we cannot accept orders that request a particular day or price for your transaction or any other special conditions.

Note: The Fund reserves the right to change the time at which transactions are priced in case of an emergency or if the New York Stock Exchange closes at a time other than 4 p.m. ET.

How you can receive the proceeds from a sale

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

IF FOR SOME REASON WE CANNOT ACCEPT YOUR REQUEST TO SELL SHARES, WE WILL CONTACT YOU.

Proceeds can be sent to you by mail, or to your bank account by ACH or bank wire. Proceeds sent by bank wire should be credited to your bank account the next business day, and proceeds sent by ACH transfer should be credited the second day after the sale. If your request is received in correct form, proceeds are usually sent on the business day following the completion of the transaction.

Exception:

- Under unusual circumstances or when deemed to be in the Fund's best interests, the Fund can delay sending your proceeds for up to five business days after receiving your sale or exchange request. If you were exchanging into another bond or money market Fund, your new investment would not begin to earn dividends until the sixth business day.

Useful Information on Distributions and Taxes

Dividends and other distributions

Dividend and capital gain distributions are reinvested in additional Fund shares unless you select another option on your New Account Form. Dividends not reinvested are paid by check or transmitted to your bank account via ACH. If the U.S. Postal Service cannot deliver your check, or if your check remains

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uncashed for six months, the Fund reserves the right to reinvest your distribution check in your account at the then current NAV and to reinvest all subsequent distributions in shares of the fund.

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THE FUND DISTRIBUTES ALL NET INVESTMENT INCOME AND REALIZED CAPITAL GAINS TO SHAREHOLDERS.

Income Dividends

- Bond funds declare income dividends daily at 4 p.m. ET to shareholders of record on the previous business day.
- Money funds declare income dividends daily at noon ET to shareholders of record at that time.
- Bond and money funds pay dividends on the last business day of each month.

Capital Gains

- A capital gain or loss is the difference between the purchase and sale price of a security.
- If the Fund has net capital gains (after subtracting any capital losses) for the year, they are usually "declared" in December to shareholders of record on a specified date that month and usually paid in early January. If a second distribution is necessary, it is usually declared and paid during the first quarter of the following year.

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

T. ROWE PRICE SENDS TIMELY INFORMATION FOR YOUR TAX FILING NEEDS.

Tax Information

Although the income dividends you receive from municipal money market and bond funds are exempt from federal income taxes, you need to be aware of the possible tax consequences when:

- the Fund makes a capital gain distribution to your account, or
- you sell Fund shares, including an exchange from one Fund to another.

Taxes on Fund Distributions

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

CAPITAL GAIN DISTRIBUTIONS ARE TAXABLE WHETHER REINVESTED IN ADDITIONAL SHARES OR RECEIVED IN CASH.

In January, the T. Rowe Price Funds will send you and the IRS Form 1099-DIV indicating the tax status of any capital gain distribution made in each of your Fund accounts. Dividends are expected to be tax exempt, and if there were no capital gain distributions, a 1099-DIV is not sent. All capital gain distributions are taxable to you for the year in which they were paid. The only exception is that distributions declared during the last three months of the year and paid in January are taxed as though they were paid by December 31.

Short-term capital gains are taxable as ordinary income and long-term gains at the applicable rate for long-term gains. The gain is long or short term depending on how long the Fund held the securities, not how long you held shares in the Fund.

If the Funds invest in certain "private activity" bonds, shareholders who are subject to the alternative minimum tax (AMT) must include income generated by these bonds in their AMT computation. The portion of your Fund's income subject to the AMT, if any, will be reported to you in January.

Taxes on your Fund transactions. When you sell shares in any stock or bond

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fund, you may realize a gain or loss. An exchange from one fund to another is still a sale for tax purposes.

In January, T. Rowe Price will send you Form 1099-B, indicating the date and amount of each sale you made in a stock or bond fund during the prior year. A copy is filed with the IRS.

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T. ROWE PRICE
FURNISHES AVERAGE COST AND CAPITAL GAIN (LOSS) INFORMATION ON MOST SHARE REDEMPTIONS.

We will also tell you the average cost of the shares you sold, provided your account was opened by purchase or exchange after December 31, 1983. This information is not reported to the IRS, and you do not have to use it. You may calculate the cost basis using other methods acceptable to the IRS, such as "specific identification."

To help you maintain accurate records, we send you a confirmation immediately following each transaction you make and a year-end statement detailing all your transactions in each fund account during the year.

Tax effect of buying shares before a capital gain distribution. If you buy shares near or on the "record date"- the date that establishes you as the person to receive the upcoming distribution - you will receive in the form of a taxable distribution a portion of the money you just invested. Therefore, you may wish to find out a Fund's record date(s) before investing. Of course, a Fund's share price may reflect undistributed capital gains or unrealized appreciation at any time.

Transaction Procedures and Special Requirements

Purchase Conditions

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

FOLLOWING THESE
PROCEDURES HELPS ASSURE TIMELY AND
ACCURATE TRANSACTIONS.

Nonpayment. If your payment is not received or you pay with a check or ACH transfer that does not clear, your purchase will be cancelled. You will be responsible for any losses or expenses incurred by the Fund or transfer agent, and the Fund can redeem shares you own in this or another identically registered T. Rowe Price Fund as reimbursement. The Fund and its agents have the right to reject or cancel any purchase, exchange, or redemption due to nonpayment.

U.S. Dollars. All purchases must be paid for in U.S. dollars; checks must be drawn on U.S. banks.

Sale (Redemption) Conditions

10-day Hold. If you sell shares that you just purchased and paid for by check or ACH transfer, the Fund will process your redemption but will generally delay sending you the proceeds for up to 10 calendar days to allow the check or transfer to clear. If your redemption request was sent by mail or mailgram, proceeds will be mailed no later than the seventh day following receipt unless the check has not cleared. If, during the clearing period, we receive a check drawn against your bond or money market account, it will be returned marked "uncollected." (The hold does not apply to purchases paid for by bank wire; cashier's, certified, or treasurer's checks; or automatic purchases through your paycheck.)

Telephone Transactions. Telephone exchange and redemption are established automatically when you sign the New Account Form unless you check the box which states that you do not want these services. The Fund uses reasonable procedures (including a shareholder identity test) to confirm that instructions given by telephone are genuine. If these procedures are not followed, it is the opinion of certain regulatory agencies that the Fund may

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be liable for any losses that may result from acting on the instructions given. All conversations are recorded, and a confirmation is sent within five business days after the telephone transaction.

Redemptions over $250,000. Large sales could adversely affect the Fund. If you redeem (sell) more than $250,000, or your sales amount to more than 1% of the Fund's net assets in any 90-day period, the Fund has the right to delay sending your proceeds for up to five business days after receiving your request, or to pay the difference between the redemption amount and the lesser of the two previously mentioned figures with securities from the Fund.

Excessive Trading

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

T. ROWE PRICE MAY BAR EXCESSIVE TRADERS FROM PURCHASING SHARES.

Frequent trades involving either substantial Fund assets, or a substantial portion of your account or accounts controlled by you, can disrupt management of the Fund and raise its expenses. We define "excessive trading" as exceeding one purchase and sale involving the same fund within any 120-day period, excluding trades between money funds.

For example, you are in Fund A. You can move substantial assets from A to Fund B, and, within the next 120 days, sell your shares in Fund B to return to Fund A or move to Fund C.

If you exceed the number of trades described above, you may be barred from further purchases of T. Rowe Price funds.

Three types of transactions are exempt from excessive trading guidelines: (1) trades solely between money market funds, (2) redemptions that are not part of exchanges, and (3) systematic purchases or redemptions (See "Shareholder Services").

Keeping Your Account Open

Due to the relatively high cost of maintaining small accounts, we ask you to maintain an account balance of at least $1,000. If your balance is below $1,000 for three months or longer, the Fund has the right to close your account after giving you 60 days in which to increase your balance. (These conditions may vary for retirement plan accounts.)

Signature Guarantees

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

A SIGNATURE GUARANTEE IS DESIGNED TO PROTECT YOU AND THE FUND FROM FRAUD BY VERIFYING YOUR SIGNATURE.

You may need to have your signature guaranteed in certain situations, such as:

- Written requests for redemptions over $50,000 or to wire redemption proceeds.

- Remitting redemption proceeds to any person, address, or bank account not on record.

- Transferring redemption proceeds to a T. Rowe Price fund account with a different registration from yours.

- Establishing certain services after the account is opened.

You can obtain a signature guarantee from most banks, savings institutions, broker/dealers and other guarantors acceptable to T. Rowe Price. We cannot accept guarantees from notaries public or organizations that do not provide reimbursement in the case of fraud.

3 More About the Funds

The Funds' Organization and Management

How are the Funds organized?

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- ----------------------------------
SHAREHOLDERS BENEFIT FROM T. ROWE PRICE'S 56 YEARS OF INVESTMENT MANAGEMENT EXPERIENCE.

The Funds are "diversified, open-end investment companies," or mutual funds. Mutual funds pool money received from shareholders and invest it to try to achieve specified objectives.

What is meant by "shares"?

As with all mutual funds, investors receive "shares" when they put money in a Fund. These shares are part of the Fund's authorized capital stock. (The Funds do not issue share certificates to shareholders.)

Each share and fractional share entitles the shareholder to:

o receive a proportional interest in the Fund's income and capital gain distributions;

o cast one vote per share on certain Fund matters, including the election of Fund directors or trustees, changes in fundamental policies, or approval of changes in the Fund's management contract.

Does each Fund have an annual shareholder meeting?

The Funds are not required to hold meetings but will do so when certain matters, such as a change in a Fund's fundamental policies, are to be decided. In addition, shareholders representing at least 10% of all eligible votes may call a special meeting if they wish for the purpose of voting on the removal of any Fund director(s)/trustee(s). If a meeting is held and you cannot attend, you can vote by proxy. Well before the meeting, the Fund will send you proxy materials that explain the issues to be decided and include a voting card for you to mail back.

Who runs the Funds?

- ----------------------------------
ALL DECISIONS REGARDING THE PURCHASE AND SALE OF FUND INVESTMENTS ARE MADE BY T. ROWE PRICE ASSOCIATES-SPECIFICALLY BY THE FUNDS' PORTFOLIO MANAGERS.

General Oversight. Each Fund is governed by a Board of Directors or Trustees that meets regularly to review the Fund's investments, performance, expenses, and other business affairs. The Board elects the Fund's officers.

Marketing. T. Rowe Price Investment Services, Inc., a wholly-owned subsidiary of T. Rowe Price, distributes (sells) shares of this and all other T. Rowe Price funds.

Services. T. Rowe Price Services, Inc., another wholly-owned subsidiary, acts as the Funds' transfer and dividend disbursing agent and provides shareholder and administrative services. The address for T. Rowe Price Investment Services, Inc., and T. Rowe Price Services is 100 East Pratt St., Baltimore, MD 21202.

How are Fund expenses determined?

The management agreement spells out the expenses to be paid by each Fund. In addition to the management fee, the Fund pays for the following: shareholder service expenses; custodial, accounting, legal, and audit fees; costs of preparing and printing prospectuses and shareholder reports; registration fees and expenses; proxy and annual meeting expenses (if any); and director/trustee fees and expenses.

- ----------------------------------
PRICE FUNDS' ASSETS
AS OF FEBRUARY 28, 1993
$27 BILLION

The Management Fee. This fee has two parts - an "individual fund fee"

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(discussed on page 3), which reflects the Fund's particular investment management costs, and a "group fee." The group fee, which reflects the benefits each Price Fund derives from sharing the resources of the T. Rowe Price investment management complex, is calculated monthly based on the net combined assets of all T. Rowe Price funds (except Equity Index and the Spectrum Funds). The fee schedule (shown below) is graduated, declining as the asset total rises, so shareholders benefit from the overall growth in mutual fund assets.

0.48% of the first $1 billion	0.37% of the next $1 billion	0.33% of the next $10 billion
0.45% of the next $1 billion	0.36% of the next $2 billion	0.32% of the next $10 billion
0.42% of the next $1 billion	0.35% of the next $2 billion	0.31% thereafter
0.39% of the next $1 billion	0.34% of the next $5 billion	

Each Fund's portion of the group fee is determined by the ratio of its daily net assets to the daily net assets of all the Price funds as described above. Based on a February 28, 1993, asset total of approximately $27 billion, the group fee was 0.35%.

Understanding Performance Information

This section should help you understand the terms used to describe the Funds' performance. You will come across them in shareholder reports you receive from us four times a year, in our newsletter, "Insights" reports, in T. Rowe Price advertisements, and in the media.

Total Return

- -----------------------------------
TOTAL RETURN IS THE MOST WIDELY USED PERFORMANCE MEASURE. DETAILED PERFORMANCE INFORMATION IS INCLUDED IN THE FUNDS' ANNUAL REPORTS AND QUARTERLY SHAREHOLDER REPORTS.

This tells you how much an investment in a Fund has changed in value over a given time period. It reflects any net increase or decrease in the share price and assumes that all dividends and capital gains (if any) paid during the period were reinvested in additional shares. Reinvesting distributions means that total return numbers include the effect of compounding, i.e., you receive income and capital gain distributions on a rising number of shares.

Advertisements for a Fund may include cumulative or compound average annual total return figures, which may be compared with various indices, other performance measures, or other mutual funds.

Cumulative Total Return

This is the actual rate of return on an investment for a specified period. A cumulative return does not indicate how much the value of the investment may have fluctuated between the beginning and the end of the period specified.

Average Annual Total Return

This is always hypothetical. Working backward from the actual cumulative return, it tells you what constant year-by-year return would have been produced by the actual, cumulative return. By smoothing out all the variations in annual performance, it gives you an idea of the investment's annual contribution to your portfolio provided you held it for the entire period in question.

Yield

- -----------------------------------
YOU WILL SEE FREQUENT REFERENCES TO THE FUNDS' YIELDS AND TAX EQUIVALENT YIELDS IN

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OUR REPORTS, ADVERTISEMENTS, IN MEDIA
STORIES, AND SO ON.

The current or "dividend yield" on the Fund or any investment tells you the relationship between the investment's current level of annual income and its price on a particular day. For example, a Fund providing $5 of annual income per share and selling at $50 has a current yield of 10%. Yields can be calculated for any time period. The Money Fund may advertise a "current" yield, reflecting the latest 7-day income annualized, or an "effective" yield, which assumes the income has been reinvested in the Fund.

For the bond funds, the advertised or "SEC yield" is found by determining the net income per share (as defined by the SEC) earned by the Fund during a 30-day base period and dividing this amount by the per-share price on the last day of the base period. The "SEC yield" may differ from the dividend yield.

Investment Policies and Practices

- ------------------------------------
FUND MANAGERS HAVE CONSIDERABLE LEEWAY IN CHOOSING INVESTMENT STRATEGIES AND SELECTING SECURITIES THEY BELIEVE WILL HELP THE FUNDS ACHIEVE THEIR OBJECTIVES.

This section takes a detailed look at some of the types of securities the Funds may hold in their portfolios and the various kinds of investment practices that may be used in day-to-day portfolio management. The Funds' investment programs are subject to further restrictions and risks described in the "Statement of Additional Information."

Shareholder approval is required to substantively change a Fund's objectives and to change certain investment restrictions noted in the following section as "fundamental policies." The managers also follow certain "operating policies" which can be changed without shareholder approval. However, significant changes are discussed with shareholders in Fund reports.

Types of Portfolio Securities

Municipal Securities. The Funds' assets are invested in various types and maturities of interest-bearing, tax-free "municipal" securities. These are debt securities, which means the issuer has a contractual obligation to pay interest at a stated rate on specific dates and to repay principal (the bond's face value) on a specified date or dates. An issuer may have the right to redeem or "call" a bond before maturity, and the investor may have to reinvest the proceeds at lower rates.

- ------------------------------------
IN PURCHASING MUNICIPALS, THE FUNDS RELY ON THE OPINION OF THE ISSUER'S BOND COUNSEL REGARDING THE TAX-EXEMPT STATUS OF THE INVESTMENT.

There are two broad categories of municipal securities: general obligations, which are backed by the issuer's "full faith and credit," that is, its full taxing and revenue raising power; and revenue bonds, which usually rely exclusively on a specific revenue source, such as a bridge toll, to generate money for debt service.

Fundamental Policy. Money, Income, High Yield - The Funds will not purchase a security if, as a result, more than 5% of a Fund's total assets would be invested in securities of the issuer. Insured Intermediate, Short-Intermediate - - Neither Fund will purchase a security if, as a result with respect to 75% of the Fund's total assets, more than 5% of total assets would be invested in securities of the issuer.

As a fundamental policy, the Funds will not, under normal conditions, purchase any security if, as a result, less than 80% of a Fund's income would be exempt from federal income taxes. (Income from securities subject to the alternative minimum tax is excluded from the computation.)

Private Activity Bonds. While income from most municipals is exempt from federal income taxes, the income from certain types of so-called private activity bonds (a type of revenue bond) may be subject to the alternative minimum tax (AMT). Private activity bonds may be issued for housing, airport,

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or industrial revenue bonds. (Being subject to the AMT does not mean the investor necessarily pays this tax. For further information, please see "Distributions and Taxes.")

Fundamental Policy. No Fund will invest over 20% of net assets in bonds subject to the AMT.

In addition to general obligations and revenue bonds, the Funds may purchase but are not limited to the following types of securities:

Municipal Lease Obligations. A lease is not a full faith and credit obligation of the issuer, and is usually backed only by the borrowing government's unsecured pledge to make annual appropriation for lease payments. There have been challenges to the legality of lease financing in numerous states and, from time to time, certain municipalities have considered not appropriating funds to make lease payments. In deciding whether to purchase a lease obligation, the Fund would assess the financial condition of the borrower, the merits of the project, the level of public support for the project, and the legislative history of lease financing in the state. These securities may be less readily marketable than other municipals. The Funds may also purchase unrated lease-obligations. Based on information supplied by T. Rowe Price, each Fund's Board of Directors will periodically review the credit quality of non-rated leases and assess the likelihood of their being cancelled.

Securities with "Puts" or other Demand Features. Some longer-term municipals give the investor the right to "put" or sell the security at par (face value) within a specified number of days following the investor's request-usually one to seven days. This demand feature enhances a security's liquidity by dramatically shortening its effective maturity and enables it to trade at a price equal to or very close to par. If the demand feature were terminated prior to being exercised (for example, because the issuer defaulted), the Fund would hold the longer-term security.

Securities with Credit Enhancements.

- Letters of Credit. Letters of credit are issued by a third party, usually a bank, to ensure repayment of principal and any accrued interest if the underlying municipal security should default.

- Municipal Bond Insurance. This insurance, which is purchased from a private, nongovernmental insurance company, provides an unconditional and irrevocable guarantee that the insured bond's principal and interest will be paid when due. Insurance does not guarantee the price of a bond or the share price of any Fund. The credit rating of an insured bond reflects the credit rating of the insurer, based on its claims paying ability.

There are two types of bond insurance: new issue insurance, which is purchased by the issuer to improve the bond's credit rating; and secondary insurance, which is purchased by the investor after the bond's issuance. The Funds may invest in bonds with either type of insurance and may occasionally buy insurance on their own behalf.

The risk that a municipal bond insurance company may experience a claim extends over the life of each insured bond. Although defaults on insured municipal bonds have been low to date, there is no assurance this will continue. A higher than expected default rate could strain the insurer's loss reserves and adversely affect its ability to pay claims to bondholders, such as the Funds. The number of municipal bond insurers is relatively small, and not all of them have the highest rating.

While all the Funds may buy insured bonds from time to time, such bonds will compose at least 65% of the total assets of the Insured Intermediate Fund. The Insured Intermediate Fund's purchases of insured bonds will be limited to those which, at the time of purchase, have the highest credit rating from a national rating agency. There is no guarantee that this rating will be maintained.

Synthetic or Derivative Securities. These securities are created from existing municipal bonds:

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- Residual Interest Bonds (Bond Funds). The income stream provided by an underlying bond is divided to create two securities, one short-term and one long-term. The interest rate on the short-term component is reset by an index or auction process approximately every 35 days. After income is paid on the short-term securities at current rates, the residual income goes to the long-term securities. Therefore, rising short-term interest rates result in lower income for the longer-term portion, and vice versa. The longer-term bonds can be very volatile and may be less liquid than other municipals of comparable maturity.

- Participation Interests. This term covers various types of securities created by converting fixed-rate bonds into short-term, variable-rate certificates. These securities have been developed in the secondary market to meet the demand for short-term, tax-exempt securities. While the tax-exempt status of participations is affirmed by nationally recognized bond counsel, the IRS has not issued a definitive ruling on the matter. The Funds will invest only in securities deemed tax-exempt by bond counsel, but there is no guarantee the interest will be exempt.

Embedded Interest Rate Swaps and Caps (Bond Funds). A municipal bond with an embedded interest rate swap is usually a fixed-rate, long-term municipal bond with an interest rate swap attached to it. The bondholder receives the bond's fixed-coupon payment as well as a variable rate payment that represents the difference between a fixed rate for the term of the interest rate swap (which is typically shorter than the bond it is attached to) and a variable rate short-term municipal index. The bondholder receives excess income during any period of time that short-term rates remain below the fixed rate of the interest rate swap. If short-term rates rise above the fixed-income rate of the swap, the bondholder's income is reduced. At the end of the interest rate swap term, the bond reverts to a single fixed-coupon payment. An interest rate cap allows the bondholder to receive payments whenever short-term rates rise above a level established at the time of purchase.

Embedded interest rate swaps are a means of enhancing yields, but increase interest rate risk. Both instruments may be volatile and of limited liquidity and their use may adversely affect a Fund's total return.

The Funds may invest in other types of derivative instruments as they become available.

Repurchase Agreements. The Funds may enter into repurchase agreements (repos) with banks that are members of the Federal Reserve System or well-established securities dealers. If a seller of repos is unable to repurchase the securities, the Fund could experience extra costs, delays in recovering its securities, or possibly a capital loss.

Private Placements. These securities are sold through private negotiations, usually to institutions or mutual funds, and may have resale restrictions. Selling these securities may involve delays and additional costs.

Fundamental policy (for Money, Short-Intermediate, Income, High Yield, Operating policy for Insured Intermediate): A Fund may not invest more than 10% (15% for Insured Intermediate) of its net assets in illiquid securities, including unmarketable private placements and repos that do not provide for repayment within seven days.

Types of Fund Management Practices

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

CASH RESERVES PROVIDE FLEXIBILITY AND SERVE AS A SHORT-TERM DEFENSE DURING PERIODS OF UNUSUAL MARKET VOLATILITY.

Cash Reserves (Bond Funds). The Funds will hold a portion of their assets in short-term, tax-exempt money market securities maturing in one year or less. The reserve position provides flexibility in meeting redemptions, expenses, and the timing of new investments; can help in structuring a Fund's weighted average maturity; and serves as a short-term defense during periods of unusual market volatility. Each Fund's cash reserve position will be consistent with its investment objective, program, and quality standards.

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When-Issued Securities (All Funds) and Forwards (Bond Funds). New issues of municipals are often sold on a "when-issued" basis, that is, delivery and payment take place 15-45 days after the buyer has agreed to the purchase. Some bonds, called "forwards," have longer than standard settlement dates, in some cases exceeding one to three years. When buying these securities, the Funds establish a segregated account containing cash or high-grade marketable securities equal in value to their commitments for these securities. Funds do not earn interest on the securities until settlement, and the value of the securities may fluctuate between purchase and settlement. Municipal "forwards" typically carry a substantial yield premium to compensate the buyer for their greater credit, interest rate, market, and liquidity risks.

Interest Rate Futures (Bond Funds). Futures are often used to manage risk, because they enable the investor to buy or sell an asset in the future at a price agreed upon in the present. Specifically, the Funds may use futures (and options on futures) to hedge against a potentially unfavorable change in interest rates or to adjust their exposure to the municipal bond market. Although the Funds will not use futures for speculation, these investments may not always be successful hedges; their prices can be highly volatile; and using them could lower the Fund's total return.

Fundamental Policy (Short-Intermediate, Income, High Yield): The Funds will not use futures if initial margin deposits (or premiums on options) would equal more than 5% of a Fund's total assets, or if entering into a contract would cause such contracts to represent more than 30% of the Fund's total assets.

Operating Policy (Insured Intermediate): Futures will not be used if initial margin deposits (or premiums on options) equal more than 5% of the Fund's total assets.

Borrowing Money and Transferring Assets. The Funds can borrow money from banks as a temporary measure for extraordinary or emergency purposes or to facilitate redemption requests. Such borrowings may be collateralized with Fund assets, subject to restrictions.

Fundamental Policies: Money, Short-Intermediate, and Income Funds - bank borrowings may not exceed the lesser of 10% of Fund total assets valued at cost or 5% valued at market. Insured Intermediate Fund - borrowings may not exceed 30% of total assets to facilitate redemption requests or 5% for emergency, administrative, or other proper uses. High Yield Fund - bank borrowings to facilitate redemption requests may not exceed 15% of the Fund's total assets valued at cost and, as an operating policy, no more than 10% valued at market.

The Funds (other than Insured Intermediate) may not transfer as collateral any portfolio securities except as necessary in connection with permissible borrowings (or the use of futures), and then such transfers cannot exceed 15% of Fund total assets, valued at cost and, as an operating policy, 10% of net assets valued at market. For Insured Intermediate, such transfers are limited to permissible borrowings and investments and to no more than 30% of total assets valued at market. The Funds may not purchase additional securities when borrowings exceed 5% of total assets. For the Insured Intermediate Fund, the last two restrictions are not fundamental policies.

Portfolio Turnover (Bond Funds). Turnover is an indication of trading frequency. The Funds generally purchase securities with the intention of holding them for investment. However, market conditions or other circumstances may warrant a sale without regard to the length of time a security was held. Although the Funds do not expect to generate any taxable income, a high turnover rate may increase the possibility that a Fund will realize net short-term capital gains, which are taxable to shareholders when distributed. The Funds' portfolio turnover rates for the previous three fiscal years are shown in Table 6.

Portfolio Turnover Rates

	1991	1992	1993
Short-Intermediate	190.1%	81.3%	38.5%

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Insured Intermediate	*	*	65.3%
Income	79.7%	57.9%	76.7%
High Yield	51.2%	51.0%	34.7%

*Prior to Fund's inception.

Table 6

Taxable Money Market Securities. Although none of the Funds has found it necessary to purchase securities whose interest is taxable by the federal government, all are permitted to do so during periods of abnormal market conditions. The Money Fund can purchase U.S. Government securities maturing in 25 months or less.

Operating Policy: The Funds may invest up to 20% of their total assets in taxable securities comparable in quality and maturity to their tax-exempt holdings, and the Bond Funds may invest over 20% of their total assets in high-quality, short-term taxable securities for temporary, defensive purposes.

Credit Quality Considerations. The credit quality of most bond issues is evaluated by rating agencies such as Moody's and Standard & Poor's. Credit quality refers to the issuer's ability to meet all required interest and principal payments. The highest ratings are assigned to issuers perceived to be the best credit risks. T. Rowe Price research analysts also evaluate all portfolio holdings of the Tax-Free Funds, including those rated by outside agencies. The lower the rating on a bond, the higher the yield, other things being equal.

Table 7 shows the rating scale used by the major rating agencies. T. Rowe Price considers publicly available ratings, but emphasizes its own credit analysis when selecting investments.

<TABLE>

Ratings of Corporate Debt Securities

<CAPTION>

	Moody's Investors, Service, Inc.	Standard & Poor's Corporation	Fitch Investors Service, Inc.	Definition
<S>	<S>	<S>	<S>	<S>
Long-Term	Aaa	AAA	AAA	Highest quality
	Aa	AA	AA	High quality
	A	A	A	Upper medium grade
	Baa	BBB	BBB	Medium grade
	Ba	BB	BB	Low grade
	B	B	B	Speculative
	Caa, Ca	CCC, CC	CCC, CC	Submarginal
	Ca	C	C	Income bond, no interest paid
	C	D	DDD, DD, D	Probably in default
	Moody's		S&P	Fitch
Short-Term quality	MIG1/VMIG1	Best quality	SP1+ Very strong quality	F-1+ Exceptionally strong
	MIG2/VMIG2	High quality	SP1 Strong grade	F-1 Very strong quality

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	MIG3/VMIG3 Favorable quality	SP2 Satisfactory grade	F-2 Good credit quality
	MIG4/VMIG4 Adequate quality		F-3 Fair credit quality
	SG Speculative grade	SP3 Speculative grade	F-S Weak credit quality
Commercial Paper	P-1 Superior quality	A-1+ Extremely strong quality	F-1+Exceptionally strong quality
		A-1 Strong quality	F-1 Very strong quality
	P-2 Strong quality	A-2 Satisfactory quality	F-2 Good credit quality
	P-3 Acceptable quality	A-3 Adequate quality	F-3 Fair credit quality
		B Speculative quality	F-S Weak credit quality
		C Doubtful quality	

Table 7
</TABLE>

Explanation of Quality Ratings

	Bond Rating	Explanation
Moody's Investors Service, Inc.	Aaa	Highest quality, smallest degree of investment risk.
	Aa	High quality; together with Aaa bonds, they compose the high-grade bond group.
	A	Upper-medium grade obligations; many favorable investment attributes.
	Baa	Medium-grade obligations; neither highly protected nor poorly secured. Interest and principal appear adequate for the present but certain protective elements may be lacking or may be unreliable over any great length of time.
	Ba	More uncertain, with speculative elements. Protection of interest and principal payments not well safeguarded during good and bad times.
	B	Lack characteristics of desirable investment; potentially low assurance of timely interest and principal payments or maintenance of other contract terms over time.
	Caa	Poor standing, may be in default; elements of danger with respect to principal or interest payments.
	Ca	Speculative in a high degree; could be in default or have other marked shortcomings.
	C	Lowest-rated; extremely poor prospects of ever attaining investment standing.
Standard & Poor's Corporation	AAA	Highest rating; extremely strong capacity to pay principal and
	AA	High quality; very strong capacity to pay principal and interest.

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	A	Strong capacity to pay principal and interest; somewhat more susceptible to the adverse effects of changing circumstances and economic conditions.
	BBB	Adequate capacity to pay principal and interest; normally exhibit adequate protection parameters, but adverse economic conditions or changing circumstances more likely to lead to a weakened capacity to pay principal and interest than for higher-rated bonds.
	BB, B, CCC, CC	Predominantly speculative with respect to the issuer's capacity to meet required interest and principal payments. BB - lowest degree of speculation; CC - the highest degree of speculation. Quality and protective characteristics outweighed by large uncertainties or major risk exposure to adverse conditions.
	D	In default.
Fitch Investors Service, Inc.	AAA	Highest quality; obligor has exceptionally strong ability to pay interest and repay principal, Service, Inc.which is unlikely to be affected by reasonably foreseeable events.
	AA	Very high quality; obligor's ability to pay interest and repay principal is very strong. Because bonds rated in the AAA and AA categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is generally rated F-1+.
	A	High quality; obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than higher-rated bonds.
	BBB	Satisfactory credit quality; obligor's ability to pay interest and repay principal is considered adequate. Unfavorable changes in economic conditions and circumstances are more likely to adversely affect these bonds and impair timely payment. The likelihood that the ratings of these bonds will fall below investment grade is higher than for higher-rated bonds.
	BB, C, CCC CC, C	Not investment-grade; predominantly speculative with respect to the issuer's capacity to repay interest and repay principal in accordance with the terms of the obligation for bond issues not in default. BB is least speculative. C is the most speculative.

Table 8

PORTFOLIO MANAGERS DIVERSIFY FUND ASSETS TO LOWER RISK.

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Credit Quality and the High Yield Fund.

In seeking its primary objective of high income, the Tax-Free High Yield Fund invests a portion of its assets in bonds rated below-investment-grade (BB or lower). Such bonds are regarded as speculative with respect to the issuer's continuing ability to meet interest and principal payments.

For the fiscal year ended February 28, 1993, the High Yield Fund's assets were invested in the credit categories shown at right. Percentages are computed on a dollar-weighted basis and are an average of 12 monthly calculations.

Tax-Free High Yield Fund: Asset Composition

Standard & Poor's Rating*	Percentage of Total Assets	TRPA's Assessment of Not Rated Securities
AAA	6.8	0.1
AA	10.9	0.0
A	20.1	1.3
BBB	24.5	11.0
BB	2.4	13.3
B	0.4	1.7
CCC-D	0.0	1.2 (CCC and CC)
Not Rated	28.6	-
Reserves	6.3	-
	100.0%	28.6%

* Equivalent ratings by Moody's used in the absence of a S&P rating.

Table 9

Sector Concentration. It is possible that a Fund could have a considerable amount of assets (25% or more) in securities that would tend to respond similarly to particular economic or political developments. For example, securities of issuers related to a single industry, such as health care or nuclear energy. A Fund will not invest more than 25% of total assets in any single state or in industrial development bonds of similar-type projects.

Note: Although each Fund offers only its own shares, it is possible that a Fund might become liable for a misstatement in this prospectus about another Fund. The Board of each Fund has considered this factor in approving the use of a single combined prospectus.

4 Investing with T. Rowe Price

Meeting Requirements for New Accounts

CERTAIN INFORMATION IS REQUIRED BY LAW.

Tax Identification Number

We must have your correct social security or corporate tax identification number and a signed New Account Form or W-9 Form. Otherwise, federal law requires the Fund to withhold 31% (or such other percentage required by federal law) of your dividends, capital gain distributions, and redemptions,

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and may subject you to a fine. You will also be prohibited from opening another account by exchange. If this information is not received within 60 days after your account is established, your account may be redeemed, priced at the NAV on the date of redemption.

- ----------------------------------
ALWAYS VERIFY YOUR TRANSACTIONS BY CAREFULLY REVIEWING THE CONFIRMATION WE SEND YOU. REPORT ANY DISCREPANCIES TO SHAREHOLDER SERVICES.

Unless you request otherwise, one shareholder report will be mailed to multiple account owners with the same tax identification number and same zip code and to those shareholders who have requested that their account be combined with someone else's for financial reporting.

Opening a New Account: $2,500 minimum initial investment; $1,000 for gifts or transfers to minors (UGMA/UTMA accounts)

Account Registration

- ----------------------------------
REGULAR MAIL
T. ROWE PRICE
ACCOUNT SERVICES
P.O. BOX 17300
BALTIMORE, MD
21298-9353

If you own other T. Rowe Price funds, be sure to register any new account just like your existing accounts so you can exchange among them easily. (The name and account type would have to be identical.)

By Mail

MAILGRAM, EXPRESS, REGISTERED, OR CERTIFIED MAIL
T. ROWE PRICE
ACCOUNT SERVICES
10090 RED RUN BLVD.
OWINGS MILLS, MD
21117

Please make your check payable to T. Rowe Price Funds (otherwise it may be returned) and send it together with the New Account Form to the address at left.

By Wire

- o Call Investor Services for an account number and use wire address below.

- o Complete a New Account Form and mail it to one of the appropriate addresses listed at left.

- o Give the following wire address to your bank: Morgan Guaranty Trust Co. of New York, ABA# 021000238, T. Rowe Price [fund name], AC-00153938. Provide fund name, account name(s), and account number.

By Exchange

Call Shareholder Services. The new account will have the same registration as the account from which you are exchanging. Services for the new account may be carried over by telephone request if preauthorized on the existing account. (See explanation of "Excessive Trading and Exchange Limitations" under "Transaction Procedures.")

In Person

- ----------------------------------
DROP-OFF LOCATIONS
1ST FLOOR
101 EAST LOMBARD ST.
BALTIMORE, MD

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Drop off your New Account Form at any of the locations listed at left and obtain a receipt.

T. ROWE PRICE
FINANCIAL CENTER
1ST FLOOR
10090 RED RUN BLVD.
OWINGS MILLS, MD

Note: The Fund and its agents have the right to waive or lower investment minimums, to accept initial purchases by telephone or mailgram, to cancel or reject any purchase or exchange if the written confirmation has not been received by the shareholder, or to otherwise modify the conditions of purchase or any services at any time.

Purchasing Additional Shares: $100 minimum purchase;
$5,000 minimum for telephone purchases

ARCO TOWER
31ST FLOOR
515 S. FLOWER ST.
LOS ANGELES, CA

By ACH Transfer

Use Tele*Access(registered trademark), P.C.*Access(registered trademark) or call Shareholder Services if you have established elec-tronic transfers using the ACH network ($100 minimum).

By Automatic Asset Builder

Fill out the Automatic Asset Builder section on the New Account or Shareholder Services Form

By Wire

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

REGULAR MAIL
T. ROWE PRICE FUNDS
ACCOUNT SERVICES
P.O. BOX 89000
BALTIMORE, MD
21289-1500

Call Shareholder Services or use the wire address in "Opening a New Account."

By Mail

o Provide your account number and the fund name on your check.

o Mail the check to us at the address shown at left with a stub from a statement con_rming a prior transaction or a note stating that you want to purchase shares in that fund (provide account number).

By Phone

Call Investor or Shareholder Services to lock in that day's closing price; payment is due within five days ($5,000 minimum).

Exchanging and Redeeming Shares

By Phone

Call Shareholder Services. If you find our phones busy during unusually volatile markets, please consider placing your order by Tele*Access if you have authorized telephone services, by express mail, or by mailgram. For exchange policies, please see "Excessive Trading" under "Transaction Procedures."

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- ------------------------------------
REGULAR MAIL
T. ROWE PRICE
ACCOUNT SERVICES
P.O. BOX 89000
BALTIMORE, MD
21289-0220

Redemption proceeds can be mailed, sent by ACH transfer, or wired to your bank. (For charges, see "Electronic Transfers - By Wire" on the next page.

By Mail

Provide account name(s) and numbers, Fund name(s), and exchange or redemption amount. For exchanges, mail to the appropriate address at left, indicate the Fund you are exchanging from and the Fund(s) you are exchanging into. T. Rowe Price requires the signatures of all owners exactly as registered, and possibly a signature guarantee (see page 13).

- ------------------------------------
MAILGRAM, EXPRESS, REGISTERED, OR CERTIFIED MAIL
T. ROWE PRICE
ACCOUNT SERVICES
10090 RED RUN BLVD.
OWINGS MILLS, MD 21117

Note: Shareholders holding certificates must conduct transactions by mail. If you lose a stock certificate, there may be a charge to replace it. Call Shareholder Services for further information.

Shareholder Services

- ------------------------------------
INVESTOR SERVICES
1-800-638-5660
1-410-547-2308

SHAREHOLDER SERVICES
1-800-225-5132
1-410-625-6500

Many services are available to you as a T. Rowe Price shareholder; some you receive automatically and others you must authorize on the New Account Form. By signing up for services on the New Account Form rather than later on, you avoid having to complete a separate form and obtain a signature guarantee. This section reviews some of the principal services currently offered. Our Services Guide contains detailed descriptions of these and other services. If you are a new T. Rowe Price investor, you will receive a Services Guide with our Welcome Kit.

Exchange Service

You can move money from one account to an existing identically registered account, or open a new identically registered account. Remember, exchanges are purchases and sales for tax purposes. (Exchanges into a state tax-free fund are limited to investors living in states where the funds are registered.) Some of the T. Rowe Price funds may impose a redemption fee of .50%-2%, payable to such funds, on shares held for less than one year or in some funds, six months.

Telephone Services

Tele*Access. 24-hour service via toll-free number provides information such as yields, prices, dividends, account balances, and your latest transaction, as well as the ability to buy, sell, and exchange shares in your account (if you have established Telephone Services).

Shareholder Services. Buy, sell, or exchange shares by calling one of our service representatives.

P.C. *Access

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P.C.*Access offers the same services as Tele*Access, but on a personal computer.

Electronic Transfers

By ACH. With no charges to pay, you can move as little as $100 or as much as $100,000 between your bank account and fund account using the ACH network. Enter instructions via Tele*Access or call Shareholder Services.

By Wire. Electronic transfers can also be conducted via bank wire. There is currently a $5 fee for wire redemptions under $5,000, and your bank may charge for wire transfers regardless of size.

Checkwriting

You may write an unlimited number of free checks on bond and money market funds, with a minimum of $500 per check. Keep in mind, however that a check results in a redemption; a check written on a bond fund will create a taxable event which you and we must report to the IRS.

Automatic Investing

You can invest automatically in several different ways, including:

- o Automatic Asset Builder. You instruct us to move $50 or more once a month or less often from your bank account, or can instruct your employer to send all or a portion of your paycheck to the fund or funds you designate.

- o Automatic Exchange. Enables you to set up systematic investments from one fund account into another, such as from a money fund into a stock fund.

Discount Brokerage

You can trade stocks, bonds, options, precious metals and other securities at a substantial savings over regular commission rates. Call Investor Services for information.

Note: If you buy or sell T. Rowe Price funds through anyone other than T. Rowe Price, such as broker-dealers or banks, you may be charged transaction or service fees by those institutions. No such fees are charged by T. Rowe Price Investment Services or the Fund for transactions conducted directly with the Fund.

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Prospectus

Tax-Free Funds

T. Rowe Price
Tax-Free Funds,
Inc.
July 1, 1993
Revised to
March 9, 1994

A family of
bond and
money funds
for
investors
seeking
income that
is exempt

To Open an Account:
Investor Services
1-800-638-5660
547-2308 in Baltimore

Yields & Prices:
Tele*AccessR(registered trademark)
24 hours, 7 days a week
1-800-638-2587
625-7676 in Baltimore

Existing Account:

To help you achieve
your financial goals.
T. Rowe Price offers
a wide range of stock,
bond, and money

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Shareholder Services 1-800-225-5132 625-6500 in Baltimore	market investments, as well as convenient services and timely, informative reports.	from federal income taxes.

Investor Centers:

101 East Lombard Street
First Floor
Baltimore, Maryland

T. Rowe Price Financial Center
First Floor
10090 Red Run Boulevard
Owings Mills, Maryland

ARCO Tower
31st Floor
515 South Flower Street
Los Angeles, California

Farragut Square
First Floor
900 17th Street, N.W.
Washington, D.C.

T. ROWE PRICE
Invest With Confidence (registered trademark)

3

STATEMENT OF ADDITIONAL INFORMATION

T. Rowe Price Tax-Exempt Money Fund, Inc.

T. Rowe Price Tax-Free Short-Intermediate Fund, Inc.

T. Rowe Price Tax-Free Insured Intermediate Bond Fund, Inc.

T. Rowe Price Tax-Free Income Fund, Inc.

T. Rowe Price Tax-Free High Yield Fund, Inc.

(the "Funds")

This Statement of Additional Information is not a prospectus but should be read in conjunction with the Funds' prospectus dated July 1, 1993, revised to March 9, 1994, which may be obtained from T. Rowe Price Investment Services, Inc., 100 East Pratt Street, Baltimore, Maryland 21202.

The date of this Statement of Additional Information is July 1, 1993, revised to March 9, 1994.

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INVESTMENT OBJECTIVES AND POLICIES

The following information supplements the discussion of the Funds' investment objectives and policies discussed on pages 1 and 16, and 6 through 9 and 16 through 23 of the prospectus. The Funds will not make a material change in their investment objectives without obtaining shareholder approval. Unless otherwise specified, the investment programs and restrictions of the Funds are not fundamental policies. Each Fund's operating policies are subject to change by its Board of Directors without shareholder approval. However, shareholders will be notified of a material change in an operating policy. Each Fund's fundamental policies may not be changed without the approval of at least a majority of the outstanding shares of the Fund or, if it is less, 67% of the shares represented at a meeting of shareholders at which the holders of 50% or more of the shares are represented.

INVESTMENT OBJECTIVES

Money Fund -- The objectives of the Fund are to seek preservation of capital, liquidity, and, consistent with these objectives, the highest current income exempt from federal income taxes. An investment in the Fund is neither insured nor guaranteed by the U.S. government and there can be no assurance that the Fund will be able to maintain a stable net asset value of $1.00 per share. The Fund has a maximum weighted average maturity of 90 days and a minimum credit quality of AA.

Short-Intermediate Fund -- The objective of the Fund is to seek to provide higher than money market yields with moderate price volatility by investing primarily in short and intermediate-term, high and upper medium quality municipal securities which make interest payments exempt from federal income taxes. The Fund has a maximum weighted average maturity of five years and a minimum credit quality of A.

Insured Intermediate Bond Fund -- The Fund's investment objective is to provide a high level of income exempt from federal income taxes while minimizing credit risk and preserving principal.

The Fund will invest primarily (at least 65% of total assets) in municipal bonds that are insured as to the timely payment of principal and interest. The maturities of individual bonds will vary but the Fund will seek to reduce principal volatility by maintaining dollar weighted average maturity for the Fund's portfolio of between five to 10 years. By maintaining an intermediate maturity, the Fund can generally be expected to provide a higher level of income than short-term bond funds while experiencing less price

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volatility than long-term bond funds. The insurance on the Fund's portfolio securities is provided by private (non-governmental) insurers and does not guarantee the market value of the bonds in the portfolio or the value of the shares in the Fund.

Income Fund -- The objective of the Fund is to seek a high level of income exempt from federal income taxes by investing primarily in longer-term, investment-grade municipals. The Fund is actively managed to seek principal appreciation and the avoidance of principal losses due to interest rate movements. The weighted average maturity generally exceeds 15 years.

High Yield Fund -- The objective of the Fund is to seek a high level of income that is exempt from federal income tax by investing primarily in long-term, upper medium to low-quality municipals. The Fund is actively managed to seek principal appreciation and the avoidance of principal losses due to interest rate movements.

All Funds

The Funds are designed for investors who, because of their tax bracket, can benefit from investment in municipal bonds whose income is exempt from federal taxes. The Funds are not appropriate for qualified retirement plans where income is already tax deferred.

The Money Fund is managed to maintain a stable $1.00 share price, but its yield will vary. The share price and yield of the Bond Funds will fluctuate with changing market conditions and interest rate levels, and your investment may be worth more or less when redeemed than when purchased. The Funds should not be relied upon as a complete investment program, nor used for short-term trading purposes. The Funds cannot guarantee they will achieve their investment objectives.

After purchase by the Fund, a security may cease to be rated or its rating may be reduced below the minimum required for purchase by the Fund. Neither event will require a sale of such security by the Fund. However, T. Rowe Price Associates, Inc. ("T. Rowe Price") will consider such event in its determination of whether the Fund should continue to hold the security. To the extent that the ratings given by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Corporation ("S&P"), or Fitch Investors Service, Inc. ("Fitch") may change as a result of changes in such organizations or their rating systems, the Fund will attempt to use comparable ratings as standards for investments in accordance with the investment policies contained in the prospectus.

RISK FACTORS

All Funds

There can be no assurance that the Funds will achieve their investment objectives. Yields on municipal securities are dependent on a variety of factors, including the general conditions of the money market and the municipal bond market, the size of a particular offering, the maturity of the obligation, and the rating of the issue. Municipal securities with longer maturities tend to produce higher yields and are generally subject to potentially greater capital appreciation and depreciation than obligations with shorter maturities and lower yields. The market prices of municipal securities usually vary, depending upon available yields. An increase in interest rates will generally reduce the value of portfolio investments, and a decline in interest rates will generally increase the value of portfolio investments. The ability of the Insured Intermediate Bond Fund to achieve its investment objective is, in part, dependent on the ability of municipal bond insurers to pay principal and interest on insured municipal securities, should such securities default. There is, of course, no guarantee that these insurance companies would be able to meet their obligations. The ability of

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all the Funds to achieve their investment objectives is also dependent on the continuing ability of the issuers of municipal securities in which the Funds invest to meet their obligations for the payment of interest and principal when due. The ratings of Moody's, S&P, and Fitch represent their opinions as to the quality of municipal securities (and municipal insurers for the Insured Intermediate Bond Fund) which they undertake to rate. Ratings are not absolute standards of quality; consequently, municipal securities with the same maturity, coupon, and rating may have different yields. There are variations in municipal securities, both within a particular classification and between classifications, depending on numerous factors. It should also be pointed out that, unlike other types of investments, municipal securities have traditionally not been subject to regulation by, or registration with, the SEC, although there have been proposals which would provide for regulation in the future.

The federal bankruptcy statutes relating to the debts of political subdivisions and authorities of states of the United States provide that, in certain circumstances, such subdivisions or authorities may be authorized to initiate bankruptcy proceedings without prior notice to or consent of creditors, which proceedings could result in material and adverse changes in the rights of holders of their obligations.

Proposals have been introduced in Congress to restrict or eliminate the federal income tax exemption for interest on municipal securities, and similar proposals may be introduced in the future. Some of the past proposals would have applied to interest on municipal securities issued before the date of enactment, which would have adversely affected their value to a material degree. If such a proposal were enacted, the availability of municipal securities for investment by the Funds and the value of a Fund's portfolio would be affected and, in such an event, a Fund would reevaluate its investment objectives and policies.

Although the banks and securities dealers with which the Fund will transact business will be banks and securities dealers that T. Rowe Price believes to be financially sound, there can be no assurance that they will be able to honor their obligations to the Fund with respect to such securities.

While each of the Funds may invest in insured bonds, the Insured Intermediate Bond Fund will invest at least 65% of its assets in insured municipal bonds.

Municipal Bond Insurance. Municipal bond insurance provides an unconditional and irrevocable guarantee that the insured bond's principal and interest will be paid when due. The guarantee is purchased from a private, non-governmental insurance company. The insured bonds purchased by the Fund will at the time of purchase have the highest credit rating available from a national rating agency (e.g., S&P, Moody's, etc.). To receive the highest credit rating, the claims paying ability of the insurance company must be rated in the highest category. There is, of course, no guarantee that an insurance company's claims paying ability will continue to receive this highest credit rating.

There are two types of insured securities that may be purchased by the Fund, bonds carrying either (1) new issue insurance or (2) secondary insurance. New issue insurance is purchased by the issuer of a bond in order to improve the bond's credit rating. By meeting the insurer's standards and paying an insurance premium based on the bond's principal value, the issuer is able to obtain a higher credit rating for the bond. Once purchased, municipal bond insurance cannot be cancelled, and the protection it affords continues as long as the bonds are outstanding and the insurer remains solvent.

The Fund may also purchase bonds which carry secondary insurance purchased by an investor after a bond's original issuance. Such policies insure a security for the remainder of its term. Generally, the Fund expects that portfolio bonds carrying secondary insurance will have been insured by a prior investor. However, the Fund may, on occasion, purchase secondary insurance on its own behalf.

Each of the municipal bond insurance companies has established

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reserves to cover estimated losses. Both the method of establishing these reserves and the amount of the reserves vary from company to company. The risk that a municipal bond insurance company may experience a claim extends over the life of each insured bond. Municipal bond insurance companies are obligated to pay a bond's interest and principal when due if the issuing entity defaults on the insured bond. Although defaults on insured municipal bonds have been low to date, there is no assurance this low rate will continue in the future. A higher than expected default rate could deplete loss reserves and adversely affect the ability of a municipal bond insurer to pay claims to holders of insured bonds, such as the Fund.

Reference is also made to the sections entitled "Residual Interest Bonds," "Participation Interests," "When-Issued Securities," "Forwards," "Futures Contracts," and "Options" for discussions of the risks associated with these investments or investment practices.

Money Fund

There can be no assurance that the Money Fund will achieve its investment objectives or be able to maintain its net asset value per share at $1.00. The price stability and liquidity of the Money Fund may not be equal to that of a taxable money market fund which exclusively invests in short-term taxable money market securities. The taxable money market is a broader and more liquid market with a greater number of investors, issuers, and market makers than the short-term municipal securities market. The weighted average maturity of the Fund varies: the shorter the average maturity of a portfolio, the less its price will be impacted by interest rate fluctuations.

Short-Intermediate, Insured Intermediate Bond, and Income Funds

Because of their investment policies, the Short-Intermediate and Income Funds may or may not be suitable or appropriate for all investors. The Funds are designed for investors who wish to invest long-term funds for income, and who would benefit, because of their tax bracket, from receiving income that is exempt from federal income taxes. The Short-Intermediate and Income Funds' investment programs permit the purchase of investment grade securities that do not meet the high quality standards of the Money Fund. The value of the portfolio securities of the Short-Intermediate, Insured Intermediate Bond, and Income Funds will fluctuate based upon market conditions. Although these Funds seek to reduce credit risk by investing in a diversified portfolio, such diversification does not eliminate all risk. These Funds are also not intended to provide a vehicle for short-term trading purposes.

High Yield Fund

Because of its investment policy, the Fund may or may not be suitable or appropriate for all investors. The Fund is designed for long-term investors who can accept the risks entailed in seeking a high level of current income available from investments in long-term, high-yielding, upper medium to lower quality, fixed-income securities and who would benefit, because of their tax bracket, from receiving income that is exempt from federal income taxation. Since investors generally perceive that there are greater risks associated with investment in lower quality securities, the yields from such securities normally exceed those obtainable from higher quality securities. In addition, the principal value of long term lower-rated securities generally will fluctuate more widely than higher quality securities. Lower quality investments entail a higher risk of default--that is, the nonpayment of interest and principal by the issuer than higher quality investments. Consistent with a long-term investment approach, investors in the Fund should not rely on the Fund for their short-term financial needs. Although the Fund attempts to manage risk through portfolio diversification, extensive credit analysis, and attention to trends in the economy, geographic areas, industries and financial markets, such efforts will not eliminate all risk. There can, of course, be no assurance that the Fund will achieve these results.

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INVESTMENT PROGRAMS

Municipal Securities

Subject to the investment objectives and programs described in the prospectus and the additional investment restrictions described in this Statement of Additional Information, each Fund's portfolio may consist of any combination of the various types of municipal securities described below or other types of municipal securities that may be developed. The amount of each Fund's assets invested in any particular type of municipal security can be expected to vary.

The term "municipal securities" means obligations issued by or on behalf of states, territories, and possessions of the United States and the District of Columbia and their political subdivisions, agencies and instrumentalities, as well as certain other persons and entities, the interest from which is exempt from federal income tax. In determining the tax-exempt status of a municipal security, the Fund relies on the opinion of the issuer's bond counsel at the time of the issuance of the security. However, it is possible this opinion could be overturned, and as a result, the interest received by the Fund from such a security might not be exempt from federal income tax.

Municipal securities are classified by maturity as notes, bonds, or adjustable rate securities.

Municipal Notes. Municipal notes generally are used to provide for short-term operating or capital needs and generally have maturities of one year or less. Municipal notes include:

Tax Anticipation Notes. Tax anticipation notes are issued to finance working capital needs of municipalities. Generally, they are issued in anticipation of various seasonal tax revenue, such as income, property, use and business taxes, and are payable from these specific future taxes.

Revenue Anticipation Notes. Revenue anticipation notes are issued in expectation of receipt of other types of revenue, such as federal or state revenues available under the revenue sharing or grant programs.

Bond Anticipation Notes. Bond anticipation notes are issued to provide interim financing until long-term financing can be arranged. In most cases, the long-term bonds then provide the money for the repayment of the notes.

Tax-Exempt Commercial Paper. Tax-exempt commercial paper is a short-term obligation with a stated maturity of 270 days or less. It is issued by state and local governments or their agencies to finance seasonal working capital needs or as short-term financing in anticipation of longer term financing.

Municipal Bonds. Municipal bonds, which meet longer term capital needs and generally have maturities of more than one year when issued, have two principal classifications: general obligation bonds and revenue bonds. Two additional categories of potential purchases are lease revenue bonds and pre-refunded/escrowed to maturity bonds. Another type of municipal bond is referred to as an Industrial Development Bond.

General Obligation Bonds. Issuers of general obligation bonds include states, counties, cities, towns, and special districts. The proceeds of these obligations are used to fund a wide range of public projects, including construction or improvement of schools, public buildings, highways and roads, and general projects not supported by user fees or specifically identified revenues. The basic security behind general obligation bonds is the issuer's pledge of its full faith and credit and taxing power for the

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payment of principal and interest. The taxes that can be levied for the payment of debt service may be limited or unlimited as to the rate or amount of special assessments. In many cases voter approval is required before an issuer may sell this type of bond.

Revenue Bonds. The principal security for a revenue bond is generally the net revenues derived from a particular facility, or enterprise, or in some cases, the proceeds of a special charge or other pledged revenue source. Revenue bonds are issued to finance a wide variety of capital projects including: electric, gas, water and sewer systems; highways, bridges, and tunnels; port and airport facilities; colleges and universities; and hospitals. Revenue bonds are sometimes used to finance various privately operated facilities provided they meet certain tests established for tax-exempt status.

Although the principal security behind these bonds may vary, many provide additional security in the form of a mortgage or debt service reserve fund. Some authorities provide further security in the form of the state's ability (without obligation) to make up deficiencies in the debt service reserve fund. Revenue bonds usually do not require prior voter approval before they may be issued.

Lease Revenue Bonds. Municipal borrowers may also finance capital improvements or purchases with tax-exempt leases. The security for a lease is generally the borrower's pledge to make annual appropriations for lease payments. The lease payment is treated as an operating expense subject to appropriation risk and not a full faith and credit obligation of the issuer. Lease revenue bonds are generally considered less secure than a general obligation or revenue bond and often do not include a debt service reserve fund. To the extent a Fund's Board determines such securities are illiquid, they will be subject to the Fund's limit on illiquid securities. There have also been certain legal challenges to the use of lease revenue bonds in various states.

The liquidity of such securities will be determined based on a variety of factors which may include, among others: (1) the frequency of trades and quotes for the obligation; (2) the number of dealers willing to purchase or sell the security and the number of other potential buyers; (3) the willingness of dealers to undertake to make a market in the security; (4) the nature of the marketplace trades, including, the time needed to dispose of the security, the method of soliciting offers, and the mechanics of transfer; and (5) the rating assigned to the obligation by an established rating agency or T. Rowe Price.

Each Fund does not expect to invest more than 20% of its total assets in these securities.

Pre-refunded/Escrowed to Maturity Bonds. Certain municipal bonds have been refunded with a later bond issue from the same issuer. The proceeds from the later issue are used to defease the original issue. In many cases the original issue cannot be redeemed or repaid until the first call date or original maturity date. In these cases, the refunding bond proceeds typically are used to buy U.S. Treasury securities that are held in an escrow account until the original call date or maturity date. The original bonds then become "pre-refunded" or "escrowed to maturity" and are considered as high quality investments. While still tax-exempt, the security is the proceeds of the escrow account. To the extent permitted by the Securities and Exchange Commission and the Internal Revenue Service, a Fund's investment in such securities refunded with U.S. Treasury securities will, for purposes of diversification rules applicable to the Fund, be considered as an investment in the U.S. Treasury securities.

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Private Activity Bonds. Under current tax law all municipal debt is divided broadly into two groups: governmental purpose bonds and private activity bonds. Governmental purpose bonds are issued to finance traditional public purpose projects such as public buildings and roads. Private activity bonds may be issued by a state or local government or public authority but principally benefit private users and are considered taxable unless a specific exemption is provided.

The tax code currently provides exemptions for certain private activity bonds such as not-for-profit hospital bonds, small-issue industrial development revenue bonds and mortgage subsidy bonds, which may still be issued as tax-exempt bonds. Some, but not all, private activity bonds are subject to alternative minimum tax.

Industrial Development Bonds. Industrial development bonds are considered Municipal Bonds if the interest paid is exempt from federal income tax. They are issued by or on behalf of public authorities to raise money to finance various privately operated facilities for business and manufacturing, housing, sports, and pollution control. These bonds are also used to finance public facilities such as airports, mass transit systems, ports, and parking. The payment of the principal and interest on such bonds is dependent solely on the ability of the facility's user to meet its financial obligations and the pledge, if any, of real and personal property so financed as security for such payment.

Adjustable Rate Securities. Municipal securities may be issued with adjustable interest rates that are reset periodically by pre-determined formulas or indexes in order to minimize movements in the principal value of the investment. Such securities may have long-term maturities, but may be treated as a short-term investment under certain conditions. Generally, as interest rates decrease or increase, the potential for capital appreciation or depreciation on these securities is less than for fixed-rate obligations. These securities may take the following forms:

Variable Rate Securities. Variable rate instruments are those whose terms provide for the adjustment of their interest rates on set dates and which, upon such adjustment, can reasonably be expected to have a market value that approximates its par value. A variable rate instrument, the principal amount of which is scheduled to be paid in 397 days or less, is deemed to have a maturity equal to the period remaining until the next readjustment of the interest. A variable rate instrument which is subject to a demand feature which entitles the purchaser to receive the principal amount of the underlying security or securities either (i) upon notice of usually 30 days, or (ii), at specified intervals not exceeding 397 days and upon no more than 30 days notice is deemed to have a maturity equal to the longer of the period remaining until the next readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand.

An instrument that is issued or guaranteed by the U.S. government or any agency thereof which has a variable rate of interest readjusted no less frequently than every 762 days may be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate.

Floating Rate Securities. Floating rate instruments are those whose terms provide for the adjustment of their interest rates whenever a specified interest rate changes and which, at any time, can reasonably be expected to have a market value that approximates its par value. The maturity of a floating rate instrument is deemed to be the period remaining until the date (noted on the face of the instrument) on which the principal amount must be paid, or in the case of an instrument called for redemption, the date on which the redemption payment must be made.

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Floating rate instruments with demand features are deemed to have a maturity equal to the period remaining until the principal amount can be recovered through demand.

Put Option Bonds. Long-term obligations with maturities longer than one year may provide purchasers an optional or mandatory tender of the security at par value at predetermined intervals, often ranging from one month to several years (e.g., a 30-year bond with a five-year tender period). These instruments are deemed to have a maturity equal to the period remaining to the put date.

Residual Interest Bonds. The Funds (other than the Money Fund) may purchase municipal bond issues that are structured as two-part, residual interest bond and variable rate security offerings. The issuer is obligated only to pay a fixed amount of tax-free income that is to be divided among the holders of the two securities. The interest rate for the holders of the variable rate securities will be determined by an auction process held approximately every 35 days while the bond holders will receive all interest paid by the issuer minus the amount given to the variable rate security holders and a nominal auction fee. Therefore, the coupon of the residual interest bonds, and thus the income received, will move inversely with respect to short-term, 35 day tax-exempt interest rates. There is no assurance that the auction will be successful and that the variable rate security will provide short-term liquidity. The issuer is not obligated to provide such liquidity. In general, these securities offer a significant yield advantage over standard municipal securities, due to the uncertainty of the shape of the yield curve (i.e., short term versus long term rates) and consequent income flows.

Unlike many adjustable rate securities, residual interest bonds are not necessarily expected to trade at par and in fact present significant market risks. In certain market environments, residual interest bonds may carry substantial premiums or be at deep discounts. This is a relatively new product in the municipal market with limited liquidity to date.

Participation Interests. The Funds may purchase from third parties participation interests in all or part of specific holdings of municipal securities. The purchase may take different forms: in the case of short-term securities, the participation may be backed by a liquidity facility that allows the interest to be sold back to the third party (such as a trust, broker or bank) for a predetermined price of par at stated intervals. The seller may receive a fee from the Funds in connection with the arrangement.

In the case of longer term bonds, the Short-Intermediate, Insured Intermediate Bond, Income and High Yield Funds may purchase interests in a pool of municipal bonds or a single municipal bond or lease without the right to sell the interest back to the third party.

The Funds will not purchase participation interests unless a satisfactory opinion of counsel or ruling of the Internal Revenue Service has been issued that the interest earned from the municipal securities on which the Funds holds participation interests is exempt from federal income tax to the Funds. However, there is no guarantee the IRS would treat such interest income as tax-exempt.

There are, of course, other types of municipal securities that are, or may become, available, and the Funds reserve the right to invest in

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them.

For the purpose of the Funds' investment restrictions set forth beginning on page 23, the identification of the "issuer" of municipal securities which are not general obligation bonds is made by the Funds' investment manager, T. Rowe Price, on the basis of the characteristics of the obligation as described above, the most significant of which is the source of funds for the payment of principal and interest on such securities.

Tax-Exempt Money Fund

The Fund will limit its purchases of portfolio instruments to those U.S. dollar-denominated securities which the Fund's Board of Directors determines present minimal credit risk, and which are Eligible Securities as defined in Rule 2a-7 under the Investment Company Act of 1940 (1940 Act). Eligible Securities are generally securities which have been rated (or whose issuer has been rated or whose issuer has comparable securities rated) in one of the two highest rating categories by nationally recognized statistical rating organizations or, in the case of any instrument that is not so rated, is of comparable high quality as determined by the Fund's Board of Directors. In addition, the Funds may treat variable and floating rate instruments with demand features as short-term securities pursuant to Rule 2a-7 under the 1940 Act.

When-Issued Securities

All Funds

New issues of municipal securities are often offered on a when-issued basis; that is, delivery and payment for the securities normally takes place 15 to 45 days or more after the date of the commitment to purchase. The payment obligation and the interest rate that will be received on the securities are each fixed at the time the buyer enters into the commitment. A Fund will only make a commitment to purchase such securities with the intention of actually acquiring the securities. However, a Fund may sell these securities before the settlement date if it is deemed advisable as a matter of investment strategy. Each Fund will establish a segregated account in which it will maintain cash and high-grade marketable debt securities equal in value to commitments for when-issued securities. Such segregated securities either will mature or, if necessary, be sold on or before the settlement date. Securities purchased on a when-issued basis and the securities held in a Fund's portfolio are subject to changes in market value based upon the public perception of the creditworthiness of the issuer and changes in the level of interest rates (which will generally result in similar changes in value; i.e., both experiencing appreciation when interest rates decline and depreciation when interest rates rise). Therefore, to the extent a Fund remains substantially fully invested at the same time that it has purchased securities on a when-issued basis, there will be greater fluctuations in its net asset value than if it solely set aside cash to pay for when-issued securities. In the case of the Money Fund, this could increase the possibility that the market value of the Fund's assets could vary from $1.00 per share. In addition, there will be a greater potential for the realization of capital gains, which are not exempt from federal income tax. When the time comes to pay for when-issued securities, a Fund will meet its obligations from then-available cash flow, sale of securities or, although it would not normally expect to do so, from sale of the when-issued securities themselves (which may have a value greater or less than the payment obligation). The policies described in this paragraph are not fundamental and may be changed by a Fund upon notice to its shareholders.

Forwards

The Funds (other than the Money Fund) may purchase bonds on a when-issued basis with longer than standard settlement dates, in some cases exceeding one to two years. In such cases, the Funds must execute a receipt

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evidencing the obligation to purchase the bond on the specified issue date, and must segregate cash internally to meet that forward commitment. Municipal "forwards" typically carry a substantial yield premium to compensate the buyer for the risks associated with a long when-issued period, including: shifts in market interest rates that could materially impact the principal value of the bond, deterioration in the credit quality of the issuer, loss of alternative investment options during the when-issued period, changes in tax law or issuer actions that would affect the exempt interest status of the bonds and prevent delivery, failure of the issuer to complete various steps required to issue the bonds, and limited liquidity for the buyer to sell the escrow receipts during the when-issued period. The Tax-Free Insured Intermediate Bond Fund will not invest more than 10% of its total assets in Forwards.

Investment in Taxable Money Market Securities

Money Fund

Although the Money Fund has been, and expects to continue to be, solely invested in municipal securities, it may elect to invest up to 20% of its total assets in the taxable money market securities listed below when such action is deemed to be in the best interests of shareholders.

Short-Intermediate, Income and High Yield Funds

Although the Short-Intermediate, Income, and High Yield Funds expect to be invested primarily in municipal securities, it is anticipated that, when it is deemed to be in the best interests of shareholders to do so, these Funds may also invest a portion of their assets on a temporary basis in the taxable money market instruments set forth below. As a matter of fundamental policy, these Funds will not purchase any security if, as a result, less than 80% of the Funds' income would be exempt from federal income tax; except that these Funds may temporarily invest more than 20% of their respective total assets in taxable obligations during periods of abnormal market conditions, when it might be deemed advantageous to shareholders to do so because market conditions dictate a defensive posture in taxable obligations. In addition, as a matter of fundamental policy, at least 80% of these Funds' total assets (exclusive of cash) during any fiscal year will be invested in securities whose income is exempt from federal income taxes.

Tax-Free Insured Intermediate Bond Fund

Although the Fund expects to be invested solely in municipal securities, it is anticipated that, when it is deemed to be in the best interests of the Fund's shareholders to do so, the Fund may also invest a portion of its assets on a temporary basis, in the taxable money market instruments set forth below.

The taxable money market securities that the Funds may invest in are limited to those described below. The interest earned on these money market securities is not exempt from federal income tax and may be taxable to shareholders as ordinary income.

U.S. Government Obligations - direct obligations of the government and its agencies and instrumentalities;

U.S. Government Agency Securities - obligations issued or guaranteed by U.S. government sponsored enterprises, federal agencies, and international institutions. Some of these securities are supported by the full faith and credit of the U.S. Treasury; others are supported by the right of the issuer; and the remainder are supported only by the credit of the instrumentality;

Bank Obligations - certificates of deposit, bankers' acceptances, and other short-term obligations of U.S. and Canadian banks and their foreign branches with total assets of $1 billion or more;

Commercial Paper - paper rated A-2 or better by S&P, Prime-2 or better by Moody's, or F-2 or better by Fitch, or, if not rated, is issued by a corporation having an outstanding debt issue rated A or better by

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Moody's, S&P or Fitch and, with respect to the Money Fund, is of equivalent investment quality as determined by the Board of Directors; and

Short-Term Corporate Debt Securities - short-term corporate debt securities rated at least AA by S&P, Moody's or Fitch.

Portfolio Turnover

Tax-Exempt Money Fund

The Fund, in pursuing its objectives, may engage in short-term trading to take advantage of market variations. The Fund will seek to protect principal, improve liquidity of its securities, or enhance yield by purchasing and selling securities based upon existing or anticipated market discrepancies.

Determination of Maturity of Money Market Securities

The Money Fund may only purchase securities which at the time of investment have remaining maturities of 397 calendar days or less, or with respect to U.S. government securities, have remaining maturities of 762 calendar days or less. The other Funds may also purchase money-market securities. In determining the maturity of money market securities, the following rules apply: Generally, the maturity of a portfolio instrument shall be deemed to be the period remaining (calculated from the trade date or such other date on which the Fund's interest in the instrument is subject to market action) until the date noted on the face of the instrument as the date on which the principal amount must be paid, or in the case of an instrument called for redemption, the date on which the redemption payment must be made, except that:

(1)An instrument that is issued or guaranteed by the U.S. government or any agency thereof which has a variable rate of interest readjusted no less frequently than every 762 days shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate.

(2)A Variable Rate Instrument, the principal amount of which is scheduled on the face of the instrument to be paid in 397 calendar days or less shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate.

(3)A Variable Rate Instrument that is subject to a Demand Feature shall be deemed to have a maturity equal to the longer of the period remaining until the next readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand.

(4)A Floating Rate Instrument that is subject to a Demand Feature shall be deemed to have a maturity equal to the period remaining until the principal amount can be recovered through demand.

(5)A repurchase agreement shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur, or, where no date is specified, but the agreement is subject to a demand, the notice period applicable to a demand for the repurchase of the securities.

(6)A portfolio lending agreement shall be treated as having a maturity equal to the period remaining until the date on which the loaned securities are scheduled to be returned, or where no date is specified, but the agreement is subject to demand, the notice period applicable to a demand for the return of the loaned securities.

Futures Contracts

Short-Intermediate, Insured Intermediate Bond, Income and High Yield Funds (Throughout the discussion on Futures Contracts, the Funds are referred to as "the Fund")

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Transactions in Futures

The Fund may enter into interest rate futures contracts ("futures" or "futures contracts"). Interest rate futures contracts may be used as a hedge against changes in prevailing levels of interest rates in order to establish more definitely the effective return on securities held or intended to be acquired by the Fund. The Fund could sell interest rate futures as an offset against the effect of expected increases in interest rates and purchase such futures as an offset against the effect of expected declines in interest rates. Futures can also be used as an efficient means of regulating a Fund's exposure to the market.

The Fund will enter into futures contracts which are traded on national futures exchanges and are standardized as to maturity date and underlying financial instrument. A public market exists in futures contracts covering various taxable fixed income securities as well as municipal bonds. Futures exchanges and trading in the United States are regulated under the Commodity Exchange Act by the Commodity Futures Trading Commission ("CFTC"). Although techniques other than the sale and purchase of futures contracts could be used for the above-referenced purposes, futures contracts offer an effective and relatively low cost means of implementing the Fund's objectives in these areas.

Regulatory Limitations

The Fund will engage in futures contracts and options thereon only for bona fide hedging, yield enhancement, and risk management purposes, in each case in accordance with rules and regulations of the CFTC, and not for speculation.

Short-Intermediate, Income and High Yield Funds. The Fund will not enter into a futures contract or option thereon if, at the time of entering into the contract and as a result thereof, (i) the then current aggregate futures market prices of the securities required to be delivered under open futures contracts sales plus the then current aggregate purchase prices of the securities required to be purchased under open futures contract purchases would exceed 30% of the market value of such of the Fund's total assets or (ii) more than 5% of the market value of the Fund's total assets would be committed to margin deposits or premiums on options on such futures contracts; provided, however, that in the case of an option which is in-the-money at the time of purchase, the in-the-money amount may be excluded in calculating the 5% limitation.

Insured Intermediate Bond Fund. The Fund may not enter into futures contracts or options thereon if, immediately thereafter, the sum of the amounts of initial margin deposits on the Fund's existing futures and premiums paid for options on futures would exceed 5% of the market value of the Fund's total assets; provided, however, that in the case of an option that is in-the-money at the time of purchase, the in-the-money amount may be excluded in calculating the 5% limitation.

In instances involving the purchase of futures contracts or call options thereon or the writing of put options thereon by the Fund, an amount of cash, U.S. government securities or other liquid, high-grade debt obligations, equal to the market value of the futures contracts and options thereon (less any related margin deposits), will be deposited in a segregated account with the Fund's custodian to cover the position, or alternative cover will be employed thereby insuring that the use of such futures contracts is unleveraged.

In addition, CFTC regulations may impose limitations on the Fund's ability to engage in certain risk management strategies. If the CFTC or other regulatory authorities adopt different (including less stringent) or additional restrictions, the Fund would comply with such new restrictions.

Trading in Futures Contracts

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A futures contract provides for the future sale by one party and purchase by another party of a specified amount of a specific financial instrument (e.g., units of a debt security) for a specified price, date, time and place designated at the time the contract is made. Brokerage fees are incurred when a futures contract is bought or sold and margin deposits must be maintained. Entering into a contract to buy is commonly referred to as buying or purchasing a contract or holding a long position. Entering into a contract to sell is commonly referred to as selling a contract or holding a short position.

It is possible that the Fund's hedging activities will occur primarily through the use of municipal bond index futures contracts since the uniqueness of that index contract should better correlate with the Fund's portfolio and thereby be more effective. However, there may be times when it is deemed in the best interest of shareholders to engage in the use of Treasury bond futures, and the Fund reserves to right to use Treasury bond

futures at any time. Use of these futures could occur, as an example, when both the Treasury bond contract and municipal bond index futures contract are correlating well with municipal bond prices, but the Treasury bond contract is trading at a more advantageous price making the hedge less expensive with the Treasury bond contract than would be obtained with the municipal bond index futures contract. The Fund's activity in futures contracts will be limited to municipal bond index futures contracts and Treasury bond and note contracts.

Unlike when the Fund purchases or sells a security, no price would be paid or received by the Fund upon the purchase or sale of a futures contract. Upon entering into a futures contract, and to maintain the Fund's open positions in futures contracts, the Fund would be required to deposit with its custodian in a segregated account in the name of the futures broker an amount of cash, U.S. government securities, suitable money market instruments, or liquid, high-grade debt securities, known as "initial margin." The margin required for a particular futures contract is set by the exchange on which the contract is traded, and may be significantly modified from time to time by the exchange during the term of the contract. Futures contracts are customarily purchased and sold on margins that may range upward from less than 5% of the value of the contract being traded.

If the price of an open futures contract changes (by increase in the case of a sale or by decrease in the case of a purchase) so that the loss on the futures contract reaches a point at which the margin on deposit does not satisfy margin requirements, the broker will require an increase in the margin. However, if the value of a position increases because of favorable price changes in the futures contract so that the margin deposit exceeds the required margin, the broker will pay the excess to the Fund.

These subsequent payments, called "variation margin," to and from the futures broker, are made on a daily basis as the price of the underlying assets fluctuate making the long and short positions in the futures contract more or less valuable, a process known as "marking to the market." The Fund expects to earn interest income on its margin deposits.

Although certain futures contracts, by their terms, require actual future delivery of and payment for the underlying instruments in practice most futures contracts are usually closed out before the delivery date. Closing out an open futures contract purchase or sale is effected by entering into an offsetting futures contract purchase or sale, respectively, for the same aggregate amount of the identical securities and the same delivery date. If the offsetting purchase price is less than the original sale price, the Fund realizes a gain; if it is more, the Fund realizes a loss. Conversely, if the offsetting sale price is more than the original purchase price, the Fund realizes a gain; if it is less, the Fund realizes a loss. The transaction costs must also be included in these calculations. There can be no assurance, however, that the Fund will be able to enter into an offsetting transaction with respect to a particular futures contract at a particular time. If the Fund is not able to enter into an offsetting transaction, the Fund will continue to be required to maintain the margin deposits on the futures contract.

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As an example of an offsetting transaction in which the underlying instrument is not delivered, the contractual obligations arising from the sale of one contract of September municipal bond index futures on an exchange may be fulfilled at any time before delivery of the contract is required (i.e., on a specified date in September, the "delivery month") by the purchase of one contract of September municipal bond index futures on the same exchange. In such instance, the difference between the price at which the futures contract was sold and the price paid for the offsetting purchase, after allowance for transaction costs, represents the profit or loss to the Fund.

Special Risks of Transactions in Futures Contracts

Volatility and Leverage. The prices of futures contracts are volatile and are influenced, among other things, by actual and anticipated changes in the market and interest rates, which in turn are affected by fiscal and monetary policies and national and international political and economic events.

Most United States futures exchanges limit the amount of fluctuation permitted in futures contract prices during a single trading day. The daily limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price at the end of a trading session. Once the daily limit has been reached in a particular type of futures contract, no trades may be made on that day at a price beyond that limit. The daily limit governs only price movement during a particular trading day and therefore does not limit potential losses, because the limit may prevent the liquidation of unfavorable positions. Futures contract prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of futures positions and subjecting some futures traders to substantial losses.

Because of the low margin deposits required, futures trading involves an extremely high degree of leverage. As a result, a relatively small price movement in a futures contract may result in immediate and substantial loss, as well as gain, to the investor. For example, if at the time of purchase, 10% of the value of the futures contract is deposited as margin, a subsequent 10% decrease in the value of the futures contract would result in a total loss of the margin deposit, before any deduction for the transaction costs, if the account were then closed out. A 15% decrease would result in a loss equal to 150% of the original margin deposit, if the contract were closed out. Thus, a purchase or sale of a futures contract may result in losses in excess of the amount invested in the futures contract. However, the Fund would presumably have sustained comparable losses if, instead of the futures contract, it had invested in the underlying financial instrument and sold it after the decline. Furthermore, in the case of a futures contract purchase, in order to be certain that the Fund has sufficient assets to satisfy its obligations under a futures contract, the Fund earmarks to the futures contract money market instruments equal in value to the current value of the underlying instrument less the margin deposit.

Liquidity. The Fund may elect to close some or all of its futures positions at any time prior to their expiration. The Fund would do so to reduce exposure represented by long futures positions or increase exposure represented by short futures positions. The Fund may close its positions by taking opposite positions which would operate to terminate the Fund's position in the futures contracts. Final determinations of variation margin would then be made, additional cash would be required to be paid by or released to the Fund, and the Fund would realize a loss or a gain.

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Futures contracts may be closed out only on the exchange or board of trade where the contracts were initially traded. Although the Fund intends to purchase or sell futures contracts only on exchanges or boards of trade where there appears to be an active market, there is no assurance that a

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liquid market on an exchange or board of trade will exist for any particular contract at any particular time. In such event, it might not be possible to close a futures contract, and in the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin. However, in the event futures contracts have been used to hedge the underlying instruments, the Fund would continue to hold the underlying instruments subject to the hedge until the futures contracts could be terminated. In such circumstances, an increase in the price of underlying instruments, if any, might partially or completely offset losses on the futures contract. However, as described below, there is no guarantee that the price of the underlying instruments will, in fact, correlate with the price movements in the futures contract and thus provide an offset to losses on a futures contract.

Hedging Risk. A decision of whether, when, and how to hedge involves skill and judgment, and even a well-conceived hedge may be unsuccessful to some degree because of unexpected market behavior, market or interest rate trends. There are several risks in connection with the use by the Fund of futures contracts as a hedging device. One risk arises because of the imperfect correlation between movements in the prices of the futures contracts and movements in the prices of the underlying instruments which are the subject of the hedge. T. Rowe Price will, however, attempt to reduce this risk by entering into futures contracts whose movements, in its judgment, will have a significant correlation with movements in the prices of the Fund's underlying instruments sought to be hedged.

Successful use of futures contracts by the Fund for hedging purposes is also subject to T. Rowe Price's ability to correctly predict movements in the direction of the market. It is possible that, when the Fund has sold futures to hedge its portfolio against a decline in the market, the index, indices, or underlying instruments on which the futures are written might advance and the value of the underlying instruments held in the Fund's portfolio might decline. If this were to occur, the Fund would lose money on the futures and also would experience a decline in value in its underlying instruments. However, while this might occur to a certain degree, T. Rowe Price believes that over time the value of the Fund's portfolio will tend to move in the same direction as the market indices which are intended to correlate to the price movements of the underlying instruments sought to be hedged. It is also possible that if the Fund were to hedge against the possibility of a decline in the market (adversely affecting the underlying instruments held in its portfolio) and prices instead increased, the Fund would lose part or all of the benefit of increased value of those underlying instruments that it has hedged, because it would have offsetting losses in its futures positions. In addition, in such situations, if the Fund had insufficient cash, it might have to sell underlying instruments to meet daily variation margin requirements. Such sales of underlying instruments might be, but would not necessarily be, at increased prices (which would reflect the rising market). The Fund might have to sell underlying instruments at a time when it would be disadvantageous to do so.

In addition to the possibility that there might be an imperfect correlation, or no correlation at all, between price movements in the futures contracts and the portion of the portfolio being hedged, the price movements of futures contracts might not correlate perfectly with price movements in the underlying instruments due to certain market distortions. First, all participants in the futures market are subject to margin deposit and

maintenance requirements. Rather than meeting additional margin deposit requirements, investors might close futures contracts through offsetting transactions which could distort the normal relationship between the underlying instruments and futures markets. Second, the margin requirements in the futures market are less onerous than margin requirements in the securities markets, and as a result the futures market might attract more speculators than the securities markets do. Increased participation by speculators in the futures market might also cause temporary price distortions. Due to the possibility of price distortion in the futures market and also because of the imperfect correlation between price movements in the underlying instruments and movements in the prices of futures contracts, even a correct forecast of general market trends by T. Rowe Price might not result

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in a successful hedging transaction over a very short time period.

Options on Futures Contracts

The Fund might trade in municipal bond index option futures or similar options on futures developed in the future. In addition, the Fund may also trade in options on futures contracts on U.S. government securities and any U.S. government securities futures index contract which might be developed. In the opinion of T. Rowe Price, there is a high degree of correlation in the interest rate, and price movements of U.S. government securities and municipal securities. However, the U.S. government securities market and municipal securities markets are independent and may not move in tandem at any point in time.

The Fund will purchase put options on futures contracts to hedge its portfolio of municipal securities against the risk of rising interest rates, and the consequent decline in the prices of the municipal securities it owns. The Funds will also write call options on futures contracts as a hedge against a modest decline in prices of the municipal securities held in the Fund's portfolio. If the futures price at expiration of a written call option is below the exercise price, the Fund will retain the full amount of the option premium, thereby partially hedging against any decline that may have occurred in the Fund's holdings of debt securities. If the futures price when the option is exercised is above the exercise price, however, the Fund will incur a loss, which may be wholly or partially offset by the increase of the value of the securities in the Fund's portfolio which were being hedged.

Writing a put option on a futures contract serves as a partial hedge against an increase in the value of securities the Fund intends to acquire. If the futures price at expiration of the option is above the exercise price, the Fund will retain the full amount of the option premium which provides a partial hedge against any increase that may have occurred in the price of the debt securities the Fund intends to acquire. If the futures price when the option is exercised is below the exercise price, however, the Fund will incur a loss, which may be wholly or partially offset by the decrease in the price of the securities the Fund intends to acquire.

Options on futures are similar to options on underlying instruments except that options on futures give the purchaser the right, in return for the premium paid, to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put), rather than to purchase or sell the futures contract, at a specified exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer's futures margin account which represents the amount by which the market price of the futures contract, at exercise, exceeds (in the case of a call) or is less than (in the case of a put) the exercise price of the option on the futures contract. Alternatively, settlement may be made totally in cash. Purchasers of options who fail to exercise their options prior to the exercise date suffer a loss of the premium paid.

From time to time a single order to purchase or sell futures contracts (or options thereon) may be made on behalf of the Fund and other T. Rowe Price Funds. Such aggregated orders would be allocated among the Fund and the other T. Rowe Price Funds in a fair and non-discriminatory manner.

Special Risks of Transactions in Options on Futures Contracts

The Fund may seek to close out an option position by writing or buying an offsetting option covering the same index, underlying instrument or contract and having the same exercise price and expiration date. The ability to establish and close out positions on such options will be subject to the maintenance of a liquid secondary market. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed

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with respect to particular classes or series of options, or underlying instruments; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or a clearing corporation may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that exchange (or in the class or series of options) would cease to exist, although outstanding options on the exchange that had been issued by a clearing corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms. There is no assurance that higher than anticipated trading activity or other unforeseen events might not, at times, render certain of the facilities of any of the clearing corporations inadequate, and thereby result in the institution by an exchange of special procedures which may interfere with the timely execution of customers' orders. In the event no such market exists for a particular contract in which the Fund maintains a position, in the case of a written option, the Fund would have to wait to sell the underlying securities or futures positions until the option expires or is exercised. The Fund would be required to maintain margin deposits on payments until the contract is closed. Options on futures are treated for accounting purposes in the same way as the analogous option on securities are treated.

In addition, the correlation between movements in the price of options on futures contracts and movements in the price of the securities hedged can only be approximate. This risk is significantly increased when an option on a U.S. government securities future or an option on a municipal securities index future is used to hedge a municipal bond portfolio. Another risk is that the movements in the price of options on futures contracts may not move inversely with changes in interest rates. If the Fund has written a call option on a futures contract and the value of the call increases by more than the increase in the value of the securities held as cover, the Fund may realize a loss on the call which is not completely offset by the appreciation in the price of the securities held as cover and the premium received for writing the call.

The successful use of options on futures contracts requires special expertise and techniques different from those involved in portfolio securities transactions. A decision of whether, when and how to hedge involves skill and judgment, and even a well-conceived hedge may be unsuccessful to some degree because of unexpected market behavior or interest rate trends. During periods when municipal securities market prices are appreciating, the Fund may experience poorer overall performance than if it had not entered into any options on futures contracts.

General Considerations

Transactions by the Fund in options on futures will be subject to limitations established by each of the exchanges, boards of trade or other trading facilities governing the maximum number of options in each class which may be written or purchased by a single investor or group of investors acting in concert, regardless of whether the options are written on the same or different exchanges, boards of trade or other trading facilities or are held or written in one or more accounts or through one or more brokers. Thus, the number of contracts which the Fund may write or purchase may be affected by contracts written or purchased by other investment advisory clients of T. Rowe Price. An exchange, board of trade or other trading facility may order the liquidations of positions found to be in excess of these limits, and it may impose certain other sanctions.

Federal Tax Treatment of Futures Contracts

Although the Fund invests almost exclusively in securities which generate income which is exempt from federal income taxes, the instruments described above are not exempt from such taxes. Therefore, use of the investment techniques described above could result in taxable income to shareholders of the Fund.

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Generally, the Fund is required, for federal income tax purposes, to recognize as income for each taxable year its net unrealized gains and losses on futures contracts as of the end of the year as well as those actually realized during the year. Gain or loss recognized with respect to a futures contract will generally be 60% long-term capital gain or loss and 40% short-term capital gain or loss, without regard to the holding period of the contract.

Futures contracts which are intended to hedge against a change in the value of securities may be classified as "mixed straddles," in which case the recognition of losses may be deferred to a later year. In addition, sales of such futures contracts on securities may affect the holding period of the hedged security and, consequently, the nature of the gain or loss on such security on disposition.

In order for the Fund to continue to qualify for federal income tax treatment as a regulated investment company, at least 90% of its gross income for a taxable year must be derived from qualifying income; i.e., dividends, interest, income derived from loans of securities, and gains from the sale of securities. Gains realized on the sale or other disposition of securities, including futures contracts on securities held for less than three months, must be limited to less than 30% of the Fund's annual gross income. In order to avoid realizing excessive gains on securities held less than three months, the Fund may be required to defer the closing out of futures contracts beyond the time when it would otherwise be advantageous to do so. It is anticipated that unrealized gains on futures contracts, which have been open for less than three months as of the end of the Fund's fiscal year and which are recognized for tax purposes, will not be considered gains on securities held less than three months for purposes of the 30% test.

The Fund will distribute to shareholders annually any net gains which have been recognized for federal income tax purposes from futures transactions (including unrealized gains at the end of the Fund's fiscal year). Such distributions will be combined with distributions of ordinary income or capital gains realized on the Fund's other investments. Shareholders will be advised of the nature of the payments. The Fund's ability to enter into transactions in options on futures contracts may be limited by the Internal Revenue Code's requirements for qualification as a regulated investment company.

Options on Securities

Short-Intermediate, Insured Intermediate Bond, Income, and High Yield Funds

The Funds have no current intention of investing in options, although they reserve the right to do so. Appropriate disclosure would be added to the Funds' prospectus and Statement of Additional Information when and if the Funds decide to invest in options.

INVESTMENT RESTRICTIONS

All Funds

Fundamental policies may not be changed without the approval of the lesser of (1) 67% of a Fund's shares present at a meeting of shareholders if the holders of more than 50% of the outstanding shares are present in person or by proxy or (2) more than 50% of a Fund's outstanding shares. Other restrictions in the form of operating policies are subject to change by a Fund's Board of Directors without shareholder approval. Any investment restriction which involves a maximum percentage of securities or assets shall not be considered to be violated unless an excess over the percentage occurs immediately after, and is caused by, an acquisition of securities or assets of, or borrowings by, a Fund.

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Fundamental Policies

As a matter of fundamental policy, during periods of normal market conditions, none of the Funds will purchase any security if, as a result, less than 80% of the Fund's income would be exempt from federal income tax. Securities subject to the alternative minimum tax and the income derived therefrom are not included when computing this test.

As a matter of fundamental policy, the Funds may not:

(1) Alternative Minimum Tax. Invest more than 20% of a Fund's net assets in obligations which pay interest subject to the alternative minimum tax on individuals provided that such restriction may be modified as a result of changes in federal law;

(2) Borrowing. Borrow money, except (i) the Money, Short-Intermediate and Income Funds may borrow from banks as a temporary measure for extraordinary or emergency purposes, and then only from banks in amounts not exceeding the lesser of 10% of its total assets valued at cost or 5% of its total assets valued at market. The Insured Intermediate Bond Fund may borrow from banks or other Price Funds for non-leveraging, temporary purposes in amounts not exceeding (a) 30% of its total assets to meet redemption requests which might otherwise require the untimely disposition of portfolio securities or (b) 5% of its total assets for emergency, administrative or other proper purposes. Interest paid on any such borrowings will reduce net investment income. The High Yield may borrow from banks as a temporary measure for extraordinary or emergency purposes and then only from banks in amounts not exceeding 15% of its total assets. The High Yield Fund will not borrow to increase income (leveraging), but only to facilitate redemption requests which might otherwise require untimely disposition of portfolio securities; (ii) the Short-Intermediate, Insured Intermediate Bond, Money and High Yield Funds may enter into reverse repurchase agreements; (iii) the Short-Intermediate, Insured Intermediate Bond, Income and High Yield Funds may also enter into futures contracts as set forth in (6) below; and (iv) none of the Funds may purchase additional securities when money borrowed exceeds 5% of the Fund's total assets;

(3) Commodities. Purchase or sell commodities or commodity contracts; except that the Short-Intermediate, Insured Intermediate Bond, Income and High Yield Funds may enter into futures contracts and options on futures contracts, subject to (6) below, and the Insured Intermediate Bond Fund may invest in instruments which have the characteristics of both futures contracts and securities;

(4) Equity Securities. Purchase equity securities, or securities convertible into equity securities;

(5) Futures Contracts. Enter into a futures contract, although the Short-Intermediate, Income and High Yield Funds may enter into a futures contract or an option on a futures contract only if, as a result thereof, (i) the then current aggregate futures market prices of securities required to be delivered under open futures contract sales plus the then current aggregate purchase prices of securities required to be purchased under open futures contract purchases would not exceed 30% of each Fund's total assets (taken at market value at the time of entering into the contract) and (ii) no more than 5% of each Fund's total assets (taken at market value at the time of entering into the contract) would be

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committed to margin or premiums on options on such futures contracts; provided, however, that in the case of an option which is in-the-money at the time of purchase, the in-the-money amount as defined under certain CFTC regulations may be excluded in computing such 5%;

Futures Contracts (Insured Intermediate Bond Fund). Enter into a futures contract or an option thereon, although the Fund may enter into financial futures contracts or options on financial futures contracts;

(6) Industry Concentration (Money, Short-Intermediate, Income and High Yield Funds). Purchase any security if, as a result, 25% or more of the value of a Fund's total assets would be invested in the securities of issuers having their principal business activities in the same industry, except that this limitation does not apply to: (i) securities issued or guaranteed by the U.S. Government, or any of its agencies or instrumentalities; (ii) municipal securities; or (iii) certificates of deposit, or bankers' acceptances issued by domestic banks, however, as an operating policy, the Funds do not intend to concentrate in certificates of deposit or bankers' acceptances. For the purpose of this restriction, industrial development bonds issued by nongovernmental users shall not be deemed municipal securities;

Industry Concentration (Insured Intermediate Bond Fund). Purchase the securities of any issuer if, as a result, more than 25% of the value of the Fund's total assets would be invested in the securities of issuers having their principal business activities in the same industry (other than obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities or municipal securities). For the purpose of this restriction, industrial development bonds issued by nongovernmental users will not be considered to be municipal securities;

(7) Loans (Money, Short-Intermediate, Income and High Yield Funds). Make loans, although each Fund may (i) purchase issues of debt securities, acquire privately negotiated loans to municipal borrowers, and enter into repurchase agreements and (ii) lend portfolio securities provided that no such loan may be made if, as a result, the aggregate of such loans would exceed 30% of the value of the Fund's total assets;

Loans (Insured Intermediate Bond Fund). Make loans, although the Fund may (i) purchase money market securities and enter into repurchase agreements; (ii) acquire publicly-distributed bonds, debentures, notes and other debt securities and purchase debt securities at private placements; (iii) lend portfolio securities; and (iv) participate in an interfund lending program with other Price Funds provided that no such loan may be made if, as a result, the aggregate of such loans would exceed 30% of the value of the Fund's total assets;

(8) Percent Limit on Assets Invested in Any One Issuer. Purchase any security if, as a result, more than 5% of the value of the Money, Income and High Yield Funds' total assets would be invested in the securities of a single issuer (including repurchase agreements with any one entity), except securities issued or guaranteed by the U.S. Government or any of its agencies or instrumentalities or securities which are backed by the full faith and credit of the United States Government. Short-Intermediate. Purchase any security if, as a result, with respect to 75% of the

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value of the Fund's total assets, more than 5% of the value of its total assets would be invested in the securities of a single issuer, except securities issued or guaranteed by the U.S. government or any of its agencies or instrumentalities or securities which are backed by the full faith and credit of the United States. For purposes of this limitation and that set forth in (16) below, each Fund will regard the entity which has the ultimate responsibility for the payment of interest and principal as the issuer;

Percent Limit on Assets Invested in Any One Issuer (Insured Intermediate Bond Fund). Purchase a security if, as a result, with respect to 75% of its total assets, more than 5% of the value of the Fund's total assets would be invested in the securities of a single issuer (except securities issued or guaranteed by the U.S. Government or any of its agencies or instrumentalities or securities collateralized by any such securities);

(9) Percent Limit on Share Ownership of Any One Issuer (Money, Short-Intermediate, Income and High Yield Funds). Purchase any security if, as a result, more than 10% of the outstanding voting securities of any issuer would be held by the Fund, except securities issued or guaranteed by the U.S. Government or any of its agencies or instrumentalities;

Percent Limit on Share Ownership of Any One Issuer (Insured Intermediate Bond Fund). Purchase a security if, as a result, with respect to 75% of the value of the Fund's total assets, more than 10% of the outstanding voting securities of any issuer would be held by the Fund (other than obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities or securities collateralized by any such securities);

(10) Real Estate. Purchase or sell real estate (although it may purchase municipal securities and other debt securities secured by real estate or interests therein);

(11) Senior Securities (Money, Short-Intermediate, Income and High Yield Funds). Issue any class of securities senior to any other class of securities. (For the purpose of this restriction, the purchase and sale of futures contracts and options thereon and collateral arrangements with respect to margin for futures contracts and options thereon are not deemed to be the issuance of senior securities);

Senior Securities (Insured Intermediate Bond Fund). Issue senior securities except in compliance with the Investment Company Act of 1940; or

(12) Underwriting (Money, Short-Intermediate, Income and High Yield Funds). Underwrite any issue of securities, except to the extent that the purchase of municipal securities, or other permitted investments, directly from the issuer thereof (or from an underwriter for an issuer) and the later disposition of such securities in accordance with a Fund's investment program may be deemed to be an underwriting;

(13) Underwriting (Insured Intermediate Bond Fund). Underwrite securities issued by other persons, except to the extent that the Fund may be deemed to be an underwriting within the meaning of the Securities Act of 1933 in connection with the purchase and sale of its portfolio securities in the ordinary course of pursuing its investment program; and

As a matter of fundamental policy, the Money, Short-Intermediate, Income and High Yield Funds may not:

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(1) Control of Portfolio Companies. Invest in companies for the purpose of exercising management or control;

(2) Illiquid Securities. Purchase illiquid or unmarketable securities or invest in repurchase agreements which do not provide for payment within seven days if, as a result of such investment, more than 10% of a Fund's net assets would be invested in such securities;

(3) Investment Companies. Purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition, or reorganization;

(4) Mortgaging. Mortgage, pledge, hypothecate or, in any other manner, transfer as security for indebtedness any security owned by a Fund, except (i) as may be necessary in connection with permissible borrowings, in which event such mortgaging, pledging, or hypothecating may not exceed 15% of a Fund's assets, valued at cost; provided, however, that as a matter of operating policy, which may be changed without shareholder approval, each Fund will limit any such mortgaging, pledging, or hypothecating to 10% of its net assets, valued at market, in order to comply with certain state investment restrictions, and (ii) the Short-Intermediate, Income and High Yield Funds may enter into Futures Contracts;

(5) Oil and Gas Programs. Purchase participations or other direct interests or enter into leases with respect to oil, gas, other mineral exploration or development programs;

(6) Options, Etc. Invest in puts, calls, straddles, spreads, or any combination thereof, except that: (i) the Short-Intermediate, Income and High Yield Funds may write secured call and put options and purchase put and call options; and (ii) the Money, Short-Intermediate and High Yield Funds may purchase securities with rights to put securities to the seller in accordance with their investment programs. The Short-Intermediate, Income and High Yield Funds do not consider a security secured by a call to be "pledged" as that term is used in Investment Restriction (11);

(7) Ownership of Portfolio Securities by Officers and Directors. Purchase or retain the securities of any issuer if, to the knowledge of a Fund's management, those officers and directors of a Fund, and of its investment manager, who each owns beneficially more than .5% of the outstanding securities of such issuer, together own beneficially more than 5% of such securities;

(8) Restricted Securities. Purchase securities with legal or contractual restrictions on resale (except repurchase agreements), except that each Fund may acquire privately negotiated loans to tax-exempt borrowers as set forth in the prospectus;

(9) Short Sales and Purchase on Margin. Effect short sales of securities or purchase securities on margin, except for use of short-term credit necessary for clearance of purchases of portfolio securities; except that the Short-Intermediate, Income and High Yield Funds may make initial and maintenance margin deposits in connection with options contracts, futures contracts and options on futures contracts, subject to (6) above;

(10) Unseasoned Issuers. Purchase any security if, as a result, more than 5% of the value of a Fund's total assets would be

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invested in the securities of issuers which at the time of purchase had been in operation for less than three years, except obligations issued or guaranteed by the U.S. Government, or its agencies, and municipal securities (for this purpose, the period of operation of any issuer shall include the period of operation of any predecessor or unconditional guarantor of such issuer); provided, however, that for the purpose of this limitation, industrial development bonds issued by nongovernmental users shall not be deemed municipal securities.

Operating Policies

As a matter of operating policy, the Insured Intermediate Bond Fund may not:

(1) Control of Portfolio Companies. Invest in companies for the purpose of exercising management or control;

(2) Illiquid Securities. Purchase a security if, more than 15% of its net assets would be invested in illiquid securities, including repurchase agreements which do not provide for payment within seven days;

(3) Investment Companies. Purchase securities of open-end or closed-end investment companies except in compliance with the Investment Company Act of 1940 and applicable state law. Duplicate fees may result from such purchases;

(4) Margin. Purchase securities on margin, except for use of short-term credit necessary for clearance of purchases of portfolio securities; except that it may make margin deposits in connection with futures contracts or other permissible investments, subject to (5) above;

(5) Mortgaging. Mortgage, pledge, hypothecate or, in any manner, transfer any security owned by the Fund as security for indebtedness except as may be necessary in connection with permissible borrowings or investments and then such mortgaging, pledging, or hypothecating may not exceed 30% of the Fund's total assets, valued at market at the time of the borrowing or investment;

(6) Oil and Gas Programs. Purchase participations or other direct interests or enter into leases with respect to, oil, gas, other mineral exploration or development programs;

(7) Options, Etc. Invest in puts, calls, straddles, spreads, or any combination thereof, except that the Fund may invest in or commit its assets to purchasing and selling call and put options to the extent permitted by the prospectus and Statement of Additional Information;

(8) Ownership of Portfolio Securities by Officers and Directors. Purchase or retain the securities of any issuer if, to the knowledge of the Fund's management, those officers and directors of the Fund, and of its investment manager, who each owns beneficially more than .5% of the outstanding securities of such issuer, together own beneficially more than 5% of such securities.

(9) Short Sales. Effect short sales of securities; or

(10) Unseasoned Issuers. Purchase a security (other than obligations issued or guaranteed by the U.S. Government, their agencies or instrumentalities) if, as a result, more than 5% of the

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value of the Fund's total assets would be invested in the securities of issuers which at the time of purchase had been in operation for less than three years, (for this purpose, the period of operation of any issuer shall include the period of operation of any predecessor or unconditional guarantor of such issuer and industrial development bonds issued by nongovernmental users shall not be deemed municipal securities).

RATINGS OF MUNICIPAL DEBT SECURITIES

Moody's Investors Service, Inc.

Aaa - Bonds rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk.
Aa - Bonds 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.
A - Bonds rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations.
Baa - Bonds rated Baa are considered as medium-grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.
Ba - Bonds 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 both good and bad times over the future. Uncertainty of position characterize bonds in this class.
B - Bonds rated B generally lack the characteristics of a 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 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 rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked short-comings.

Standard & Poor's Corporation

AAA - This is the highest rating assigned by Standard & Poor's to a debt obligation and indicates an extremely strong capacity to pay principal and interest.
AA - Debt rated AA has a very strong capacity to pay principal and interest and differs from highest rated issues only in a small degree.
A - Bonds rated A have a strong capacity to pay principal and interest, although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions.

BBB - Bonds rated BBB are regarded as having an adequate capacity to pay principal and interest. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay principal and interest for bonds in this category than for bonds in the A category.
BB, B, CCC, CC - Bonds rated BB, B, CCC, and CC are regarded on balance, as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. BB indicates the lowest degree of speculation and CC the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

Fitch Investors Service, Inc.

AAA - Bonds rated AAA are considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.
AA - Bonds rated AA are considered to be investment grade and of very high

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credit quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated AAA. Because bonds rated in the AAA and AA categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is generally rate F-1+.
A - Bonds rated A are considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.
BBB - Bonds rated BBB are considered to be investment grade and of satisfactory credit quality. The obligor's ability to pay interest and repay principal is considered to be adequate. Adverse changes in economic conditions and circumstances, however, are more likely to have adverse impact on these bonds, and therefore impair timely payment. The likelihood that the ratings of these bonds will fall below investment grade is higher than for bonds with higher ratings.
BB, B, CCC, CC, and C are regarded on balance as predominantly speculative with respect to the issuer's capacity to repay interest and repay principal in accordance with the terms of the obligation for bond issues not in default. BB indicates the lowest degree of speculation and C the highest degree of speculation. The rating takes into consideration special features of the issue, its relationship to other obligations of the issuer, and the current and prospective financial condition and operating performance of the issuer.

RATINGS OF MUNICIPAL NOTES AND VARIABLE RATE SECURITIES

MOODY'S INVESTORS SERVICE, INC. VMIG1/MIG-1: the best quality. VMIG2/MIG-2: high quality, with margins of protection ample though not so large as in the preceding group. VMIG3/MIG-3: favorable quality, with all security elements accounted for, but lacking the undeniable strength of the preceding grades. Market access for refinancing, in particular, is likely to be less well established. VMIG4/MIG4: adequate quality but there is specific risk.

STANDARD & POOR'S CORPORATION. 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 interest and principal. SP-3: speculative capacity to pay principal and interest.

FITCH INVESTORS SERVICE. F-1+: exceptionally strong credit quality, strongest degree of assurance for timely payment. F-1: Very strong credit quality. F-2: Good credit quality, having a satisfactory degree of assurance for timely payment. F-3: Fair credit quality, assurance for timely payment is adequate but adverse changes could cause the securities to be rated below investment grade. F-5: Weak credit quality, having characteristics suggesting a minimal degree of assurance for timely payment.

RATINGS OF COMMERCIAL PAPER

MOODY'S INVESTORS SERVICES, INC. P-1: superior capacity for repayment. P-2: strong capacity for repayment. P-3: acceptable capacity for repayment of short-term promissory obligations.

STANDARD & POOR'S CORPORATION. A-1: highest category, degree of safety regarding timely payment is strong. Those issues determined to possess extremely strong safety characteristics are denoted with a plus sign (+) designation. A-2: satisfactory capacity to pay principal and interest. A-3: adequate capacity for timely payment, but are vulnerable to adverse effects of changes in circumstances than higher rated issues. B and C: speculative capacity to pay principal and interest.

FITCH INVESTORS SERVICE. F-1+: exceptionally strong credit quality, strongest degree of assurance for timely payment. F-1: Very strong credit quality. F-2: Good credit quality, having a satisfactory degree of assurance for timely payment. F-3: Fair credit quality, assurance for timely

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payment is adequate but adverse changes could cause the securities to be rated below investment grade. F-5: Weak credit quality, having characteristics suggesting a minimal degree of assurance for timely payment.

MANAGEMENT OF FUNDS

The officers and directors of each of the Funds are listed below. Unless otherwise noted, the address of each is 100 East Pratt Street, Baltimore, Maryland 21202. Except as indicated, each has been an employee of T. Rowe Price for more than five years. In the list below, the Funds' directors who are considered "interested persons" of T. Rowe Price as defined under Section 2(a)(19) of the Investment Company Act of 1940 are noted with an asterisk (*). These directors are referred to as inside directors by virtue of their officership, directorship, and/or employment with T. Rowe Price.

CALVIN W. BURNETT, PH.D., Director--President, Coppin State College; Director, Maryland Chamber of Commerce and Provident Bank of Maryland; President, Baltimore Area Council Boy Scouts of America; Vice President, Board of Directors, The Walters Art Gallery; Address: 2000 North Warwick Avenue, Baltimore, Maryland 21216

@*GEORGE J. COLLINS, Chairman of the Board--President, Managing Director, and Chief Executive Officer, T. Rowe Price; Director, Rowe Price-Fleming International, Inc., T. Rowe Price Trust Company and T. Rowe Price Retirement Plan Services, Inc., Chartered Investment Counselor

ANTHONY W. DEERING, Director--President and Chief Operating Officer, The Rouse Company, real estate developers, Columbia, Maryland; Advisory Director, Kleinwort, Benson (North America) Corporation, a registered broker-dealer; Address: 10275 Little Patuxent Parkway, Columbia, Maryland 21044

F. PIERCE LINAWEAVER, Director--President, F. Pierce Linaweaver & Associates, Inc.; formerly (1987-1991) Executive Vice President, EA Engineering, Science, and Technology, Inc., and (1987-1990) President, EA Engineering, Inc., Baltimore, Maryland; Address: The Legg Mason Tower, 111 South Calvert Street, Suite 2700, Baltimore, Maryland 21202

+*MARY J. MILLER, President and Director--Managing Director, T. Rowe Price

++*WILLIAM T. REYNOLDS, President and Director--Managing Director, T. Rowe Price

@@*JAMES S. RIEPE, Vice President and Director--Managing Director, T. Rowe Price; Chairman of the Board, T. Rowe Price Services, Inc., T. Rowe Price Retirement Plan Services, Inc. and T. Rowe Price Trust Company; President and Director, T. Rowe Price Investment Services, Inc.; Director, Rhone-Poulenc Rorer, Inc.

JOHN SAGAN, Director--President, John Sagan Associates; Director, Discount Corporation of New York (D.C.N.Y.), New York, New York, Chartwell Reinsurance Co., Stamford, Connecticut, Teledent, Inc., Minneapolis, Minnesota, and LEMNA Corp., St. Paul, Minnesota; Address: 22149 Long Boulevard, Dearborn, Michigan 48124

JOHN G. SCHREIBER, Director--President, Schreiber Investments, a real estate investment company; Director and formerly (1/80-12/90) Executive Vice President, JMB Realty Corporation, a national real estate investment manager and developer; Address: 1115 East Illinois Road, Lake Forest, Illinois 60045

JANET G. ALBRIGHT, Vice President--Vice President, T. Rowe Price

+++PATRICE L. BERCHTENBREITER, Executive Vice President--Vice President, T. Row Price

#C. STEPHEN WOLFE, II, Executive Vice President-- Vice President, T. Rowe Price

##PAUL W. BOLTZ, Vice President--Vice President and Financial Economist, T. Rowe Price

MICHAEL P. BUCKLEY, Vice President--Vice President, T. Rowe Price

PATRICIA S. DEFORD, Vice President--Vice President, T. Rowe Price

!CHARLES B. HILL, Vice President--Assistant Vice President, T. Rowe Price; formerly (9/86-11/91) managed municipal bonds at Riggs National Bank, Washington, D.C.

CHARLES O. HOLLAND, Vice President--Vice President, T. Rowe Price

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HENRY H. HOPKINS, Vice President--Managing Director, T. Rowe Price; Vice President and Director, T. Rowe Price Investment Services, Inc., T. Rowe Price Services, Inc., and T. Rowe Price Trust Company; Vice President, Rowe Price-Fleming International, Inc. and T. Rowe Price Retirement Plan Services, Inc.; Director, ICI Mutual Insurance Company
ALAN P. RICHMAN, Vice President--Vice President, T. Rowe Price; formerly (10/89-6/91) Manager, Public Finance, Credit Local de France, New York, New York and Public Finance, Tokai Bank, New York, New York
LENORA V. HORNUNG, Secretary--Vice President, T. Rowe Price
CARMEN F. DEYESU, Treasurer--Vice President, T. Rowe Price, T. Rowe Price Services, Inc., and T. Rowe Price Trust Company
DAVID S. MIDDLETON, Controller--Vice President, T. Rowe Price, T. Rowe Price Services, Inc., and T. Rowe Price Trust Company
ROGER L. FIERY, Assistant Vice President--Vice President, Rowe Price-Fleming International, Inc.
!!KONSTANTINE B. MALLAS, Assistant Vice President--Assistant Vice President, T. Rowe Price
!!!LAURA McAREE, Assistant Vice President--Assistant Vice President, T. Rowe Price; formerly (4/90-11/90) trader, Boeing Company, Seattle, Washington and (8/87-3/90) financial analyst, Harvard Management Company, Boston, Massachusetts
EDWARD T. SCHNEIDER, Assistant Vice President--Vice President, T. Rowe Price Services, Inc.

INGRID I. VORDEMBERGE, Assistant Vice President--Employee, T. Rowe Price

@ Mr. Collins is Chairman of the Board of the Money, Short-Intermediate, Income, and High Yield Funds and a Director of the Insured Intermediate Bond Fund.
@@ Mr. Riepe is a Vice President and Director of the Money, Short-Intermediate, Income, and High Yield Funds and a Director of Insured Intermediate Bond Fund.
+ Ms. Miller is President and Director of the Short-Intermediate Fund only and a Vice President of the Money, Insured Intermediate Bond, Income, and High Yield Funds.
++ Mr. Reynolds is President and Director of the Income and High Yield Funds, President of Insured Intermediate Bond Fund, a Vice President and Director of the Money Fund, and a Vice President of the Short-Intermediate Fund.
+++ Ms. Berchtenbreiter is President of the Money Fund only and a Vice President of the Short-Intermediate, Insured Intermediate Bond, Income, and High Yield Funds.
# Mr. Wolfe is Executive Vice President of the High Yield Fund only and a Vice President of the Money, Short-Intermediate, Insured Intermediate Bond, and Income Funds.
Mr. Boltz is a Vice President of the Money Fund only.
! Mr. Hill is a Vice President of the Short-Intermediate, Insured Intermediate Bond, Income, and High Yield Funds.
!! Mr. Mallas is an Assistant Vice President of the Short-Intermediate, Insured Intermediate Bond, Income, and High Yield Funds.
!!! Ms. McAree is an Assistant Vice President of the Money and Insured Intermediate Bond Funds only.
!!!! Mr. Snider is an Assistant Vice President of Insured Intermediate Bond Fund only.

The Executive Committee of the Money, Income, and High Yield Funds, comprised of Messrs. Collins, Reynolds, and Riepe, the Executive Committee of the Short-Intermediate Fund, comprised of Mrs. Miller and Messrs. Collins and Riepe, and the Executive Committee of the Insured Intermediate Bond Fund, comprised of Messrs. Collins and Riepe, have been authorized by their respective Board of Directors to exercise all powers of the Board to manage the Fund in the intervals between meetings of the Board, except the powers prohibited by statute from being delegated.

PRINCIPAL HOLDERS OF SECURITIES

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As of the date of the prospectus, the officers and directors of the Funds, as a group, owned less than 1% of the outstanding shares of each Fund.

INVESTMENT MANAGEMENT SERVICES

Services Provided by T. Rowe Price

Under each Fund's Management Agreement, T. Rowe Price provides each Fund with discretionary investment services. Specifically, T. Rowe Price is responsible for supervising and directing the investments of each Fund in accordance with its investment objectives, programs, and restrictions as provided in the prospectus and this Statement of Additional Information. T. Rowe Price is also responsible for effecting all security transactions on behalf of each Fund, including the allocation of principal business and portfolio brokerage and the negotiation of commissions. In addition to these services, T. Rowe Price provides each Fund with certain corporate administrative services, including: maintaining the Fund's corporate existence, corporate records, and registering and qualifying the Fund's shares under federal and state laws; monitoring the financial, accounting, and administrative functions of each Fund; maintaining liaison with the agents employed by each Fund such as the Fund's custodian and transfer agent; assisting each Fund in the coordination of such agents' activities; and permitting T. Rowe Price's employees to serve as officers, directors, and committee members of each Fund without cost to the Fund.

Each Fund's Management Agreement also provides that T. Rowe Price, its directors, officers, employees, and certain other persons performing specific functions for the Fund will only be liable to the Fund for losses resulting from willful misfeasance, bad faith, gross negligence, or reckless disregard of duty.

Management Fee

Each Fund pays T. Rowe Price a fee ("Fee") which consists of two components: a Group Management Fee ("Group Fee") and an Individual Fund Fee ("Fund Fee"). The Fee is paid monthly to the T. Rowe Price on the first business day of the next succeeding calendar month and is calculated as described below.

The monthly Group Fee ("Monthly Group Fee") is the sum of the daily Group Fee accruals ("Daily Group Fee Accruals") for each month. The Daily Group Fee Accrual for any particular day is computed by multiplying the Price Funds' group fee accrual as determined below ("Daily Price Funds' Group Fee Accrual") by the ratio of the Fund's net assets for that day to the sum of the aggregate net assets of the Price Funds for that day. The Daily Price Funds' Group Fee Accrual for any particular day is calculated by multiplying the fraction of one (1) over the number of calendar days in the year by the annualized Daily Price Funds' Group Fee Accrual for that day as determined in accordance with the following schedule:

Price Funds' Annual Group Base Fee Rate for Each Level of Assets	
0.480%	First $1 billion
0.450%	Next $1 billion
0.420%	Next $1 billion
0.390%	Next $1 billion
0.370%	Next $1 billion
0.360%	Next $2 billion
0.350%	Next $2 billion
0.340%	Next $5 billion
0.330%	Next $10 billion
0.320%	Next $10 billion
0.310%	Thereafter

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For the purpose of calculating the Group Fee, the Price Funds include all the mutual funds distributed by T. Rowe Price Investment Services, Inc. (excluding T. Rowe Price Spectrum Fund, Inc. and any institutional or any private label mutual funds). For the purpose of calculating the Daily Price Funds' Group Fee Accrual for any particular day, the net assets of each Price Fund are determined in accordance with the Fund's prospectus as of the close of business on the previous business day on which the Fund was open for business.

The monthly Fund Fee ("Monthly Fund Fee") is the sum of the daily Fund Fee accruals ("Daily Fund Fee Accruals") for each month. The Daily Fund Fee accrual for any particular day is computed by multiplying the fraction of one (1) over the number of calendar days in the year by the individual Fund Fee Rate of 0.30% for the High Yield Fund, .15% for the Income Fund, .10% each for the Money and Short-Intermediate Funds, and .05% for the Insured Intermediate Bond Fund and multiplying this product by the net assets of the Fund for that day, as determined in accordance with the Fund's prospectus as of the close of business on the previous business day on which the Fund was open for business.

Listed below are the total amounts paid to T. Rowe Price by the Money, Short-Intermediate, Income and High Yield Funds under the investment management contract which was in effect, for each of the last three fiscal years.

Year	Money Fund	Short-Intermediate Fund	Income Fund	High Yield Fund
1993	$ 3,404,149	$ 1,753,468	$ 6,608,982	$ 4,681,291
1992	$ 3,964,450	$ 1,307,666	$ 6,105,125	$ 3,808,537
1991	$ 4,701,168	$ 1,147,083	$ 5,727,320	$ 3,171,894

Due to the effect of the Insured Intermediate Bond Fund's expense limitation, for the fiscal period ended February 28, 1993, the Fund did not pay T. Rowe Price an investment management fee.

Limitation on Fund Expenses

The Management Agreement between each Fund and T. Rowe Price provides that each Fund will bear all expenses of its operations not specifically assumed by T. Rowe Price. However, in compliance with certain state regulations, T. Rowe Price will reimburse a Fund for any expenses (excluding interest, taxes, brokerage, other expenditures which are capitalized in accordance with generally accepted accounting principles, and extraordinary expenses) which in any year exceed the limits prescribed by any state in which a Fund's shares are qualified for sale. Presently, the most restrictive expense ratio limitation imposed by any state is 2.5% of the first $30 million of the Fund's average daily net assets, 2% of the next $70 million of such assets, and 1.5% of net assets in excess of $100 million.

Money, Short-Intermediate, Income, and High Yield Funds

For the purpose of determining whether a Fund is entitled to reimbursement, the expenses of a Fund are calculated on a monthly basis. If a Fund is entitled to reimbursement, that month's advisory fee will be reduced or postponed, with any adjustment made after the end of the year.

Insured Intermediate Bond Fund

Reimbursement by the Fund to T. Rowe Price of any expenses paid or assumed under a state expense limitation may not be made more than two years after the end of the fiscal year in which the expenses were paid or assumed.

In the interest of limiting the expenses of the Fund during its initial period of operations, T. Rowe Price agreed to bear all expenses of the Fund through June 30, 1993. Thereafter, T. Rowe Price has agreed to bear any expenses through February 28, 1994, which would cause the Fund's ratio of

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expenses to average daily net assets to exceed 0.50%. However, any amount paid or assumed by T. Rowe Price pursuant to this latter expense ratio limitation is subject to reimbursement by the Fund to T. Rowe Price whenever the Fund's expense ratio is below 0.50%, provided, that no such reimbursement shall be made to T. Rowe Price after February 29, 1996, and any such reimbursement shall only be made to the extent it does not result in the Fund's aggregate expenses exceeding an expense ratio limitation of 0.50%. The Management Agreement also provides that one or more additional expense limitation periods (of the same or different levels and time periods) may be implemented after the expiration of the current one on February 28, 1994, and that with respect to any such additional limitation period, the Fund may reimburse T. Rowe Price, provided the reimbursement does not result in the Fund's aggregate expenses exceeding the additional expense limitation.

DISTRIBUTOR FOR FUNDS

T. Rowe Price Investment Services, Inc. ("Investment Services"), a Maryland corporation formed in 1980 as a wholly-owned subsidiary of T. Rowe Price, serves as the distributor of the Funds. Investment Services is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. The offering of each Fund's shares is continuous.

Investment Services is located at the same address as the Funds and T. Rowe T. Rowe Price -- 100 East Pratt Street, Baltimore, Maryland 21202.

Investment Services serves as distributor to the Funds pursuant to individual Underwriting Agreements ("Underwriting Agreements"), which provide that each Fund will pay all fees and expenses in connection with: registering and qualifying its shares under the various state "blue sky" laws; preparing, setting in type, printing, and mailing its prospectuses and reports to shareholders; and issuing its shares, including expenses of confirming purchase orders.

The Underwriting Agreements provide that Investment Services will pay all fees and expenses in connection with: printing and distributing prospectuses and reports for use in offering and selling shares for each Fund; preparing, setting in type, printing, and mailing all sales literature and advertising; Investment Services' federal and state registrations as a broker-dealer; and offering and selling shares for each Fund, except for those fees and expenses specifically assumed by the Funds. Investment Services' expenses are paid by T. Rowe Price.

Investment Services acts as the agent of the Funds in connection with the sale of their shares in all states in which the shares are qualified and in which Investment Services is qualified as a broker-dealer. Under the Underwriting Agreement, Investment Services accepts orders for Fund shares at net asset value. No sales charges are paid by investors or the Funds.

CUSTODIAN

State Street Bank and Trust Company is the custodian for each Fund's securities and cash, but it does not participate in the Funds' investment decisions. The Funds have authorized the Bank to deposit certain portfolio securities in central depository systems as allowed by federal law. In addition, the Funds are authorized to maintain certain of their securities, in particular variable rate demand notes in uncertificated form in the proprietary deposit systems of various dealers in municipal securities. The Bank's main office is 225 Franklin Street, Boston, Massachusetts 02107.

PORTFOLIO TRANSACTIONS

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Investment or Brokerage Discretion

Decisions with respect to the purchase and sale of portfolio securities on behalf of the Fund are made by T. Rowe Price. T. Rowe Price is also responsible for implementing these decisions, including the negotiation of commissions and the allocation of portfolio brokerage and principal business. The Fund's purchases and sales of portfolio securities are normally done on a principal basis and do not involve the payment of a commission. Therefore, that part of the discussion below relating to brokerage commissions would not normally apply to the Funds. However, it is included because T. Rowe Price does manage a significant number of common stock portfolios which do engage in agency transactions and pay commission and because research and services resulting from the payment of such commissions may benefit the Fund.

How Brokers and Dealers are Selected

Fixed Income Securities

Fixed income securities are generally purchased from the issuer or a primary market-maker acting as principal for the securities on a net basis, with no brokerage commission being paid by the client, although the price usually includes an undisclosed compensation. Transactions placed through dealers serving as primary market-makers reflect the spread between the bid and asked prices. Securities may also be purchased from underwriters at prices which include underwriting fees.

T. Rowe Price may effect principal transactions on behalf of the Fund with a broker or dealer who furnishes brokerage and/or research services, designate any such broker or dealer to receive selling concessions, discounts or other allowances, or otherwise deal with any such broker or dealer in connection with the acquisition of securities in underwritings.

In purchasing and selling the Fund's portfolio securities, it is T. Rowe Price's policy to obtain quality execution at the most favorable prices through responsible brokers and dealers and, in the case of agency transactions (in which the Fund does not generally engage), at competitive commission rates. However, under certain conditions, the Fund may pay higher brokerage commissions in return for brokerage and research services. In selecting broker-dealers to execute the Fund's portfolio transactions, consideration is given to such factors as the price of the security, the rate of the commission, the size and difficulty of the order, the reliability, integrity, financial condition, general execution and operational capabilities of competing brokers and dealers, and brokerage and research services provided by them. It is not the policy of T. Rowe Price to seek the lowest available commission rate where it is believed that a broker or dealer charging a higher commission rate would offer greater reliability or provide better price or execution.

How Evaluations are Made of the Overall Reasonableness of Brokerage Commissions Paid

On a continuing basis, T. Rowe Price seeks to determine what levels of commission rates are reasonable in the marketplace for transactions executed on behalf of the Fund. In evaluating the reasonableness of commission rates, T. Rowe Price considers: (a) historical commission rates, both before and since rates have been fully negotiable; (b) rates which other institutional investors are paying, based on available public information; (c) rates quoted by brokers and dealers; (d) the size of a particular transaction, in terms of the number of shares, dollar amount, and number of clients involved; (e) the complexity of a particular transaction in terms of both execution and settlement; (f) the level and type of business done with a particular firm over a period of time; and (g) the extent to which the broker or dealer has capital at risk in the transaction.

Description of Research Services Received from Brokers and Dealers

T. Rowe Price receives a wide range of research services from brokers and dealers. These services include information on the economy,

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industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and analysis of corporate responsibility issues. These services provide both domestic and international perspective. Research services are received primarily in the form of written reports, computer generated services, telephone contacts and personal meetings with security analysts. In addition, such services may be provided in the form of meetings arranged with corporate and industry spokespersons, economists, academicians and government representatives. In some cases, research services are generated by third parties but are provided to T. Rowe Price by or through broker-dealers.

Research services received from brokers and dealers are supplemental to T. Rowe Price's own research effort and, when utilized, are subject to internal analysis before being incorporated by T. Rowe Price into its investment process. As a practical matter, it would not be possible for T. Rowe Price to generate all of the information presently provided by brokers and dealers. T. Rowe Price pays cash for certain research services received from external sources. T. Rowe Price also allocates brokerage for research services which are available for cash. While receipt of research services from brokerage firms has not reduced T. Rowe Price's normal research activities, the expenses of T. Rowe Price could be materially increased if it attempted to generate such additional information through its own staff. To the extent that research services of value are provided by brokers or dealers, T. Rowe Price may be relieved of expenses which it might otherwise bear.

T. Rowe Price has a policy of not allocating brokerage business in return for products or services other than brokerage or research services. In accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934, T. Rowe Price may from time to time receive services and products which serve both research and non-research functions. In such event, T. Rowe Price makes a good faith determination of the anticipated research and non-research use of the product or service and allocates brokerage only with respect to the research component.

Commissions to Brokers who Furnish Research Services

Certain brokers who provide quality execution services also furnish research services to T. Rowe Price. In order to be assured of continuing to receive research services considered of value to its clients, T. Rowe Price has adopted a brokerage allocation policy embodying the concepts of Section 28(e) of the Securities Exchange Act of 1934, which permits an investment adviser to cause an account to pay commission rates in excess of those another broker or dealer would have charged for effecting the same transaction, if the adviser determines in good faith that the commission paid is reasonable in relation to the value of the brokerage and research services provided. The determination may be viewed in terms of either the particular transaction involved or the overall responsibilities of the adviser with respect to the accounts over which it exercises investment discretion. Accordingly, while T. Rowe Price cannot readily determine the extent to which commission rates or net prices charged by broker-dealers reflect the value of their research services, T. Rowe Price would expect to assess the reasonableness of commissions in light of the total brokerage and research services provided by each particular broker.

Internal Allocation Procedures

T. Rowe Price has a policy of not precommitting a specific amount of business to any broker or dealer over any specific time period. Historically, the majority of brokerage placement has been determined by the needs of a specific transaction such as market-making, availability of a buyer or seller of a particular security, or specialized execution skills. However, T. Rowe Price does have an internal brokerage allocation procedure for that portion of its discretionary client brokerage business where special needs do not exist, or where the business may be allocated among several brokers which are able to meet the needs of the transaction.

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Each year, T. Rowe Price assesses the contribution of the brokerage and research services provided by brokers, and attempts to allocate a portion of its brokerage business in response to these assessments. Research analysts, counselors, various investment committees, and the Trading Department each seek to evaluate the brokerage and research services they receive from brokers and make judgments as to the level of business which would recognize such services. In addition, brokers sometimes suggest a level of business they would like to receive in return for the various brokerage and research services they provide. Actual brokerage received by any firm may be less than the suggested allocations but can, and often does, exceed the suggestions, because the total brokerage business is allocated on the basis of all the considerations described above. In no case is a broker excluded from receiving business from T. Rowe Price because it has not been identified as providing research services.

Miscellaneous

T. Rowe Price's brokerage allocation policy is consistently applied to all its fully discretionary accounts, which represent a substantial majority of all assets under management. Research services furnished by brokers through which T. Rowe Price effects securities transactions may be used in servicing all accounts (including non-Fund accounts) managed by T. Rowe Price. Conversely, research services received from brokers which execute transactions for the Fund are not necessarily used by T. Rowe Price exclusively in connection with the management of the Fund.

From time to time, orders for clients may be placed through a computerized transaction network.

The Fund does not allocate business to any broker-dealer on the basis of its sales of the Fund's shares. However, this does not mean that broker-dealers who purchase Fund shares for their clients will not receive business from the Fund.

Some of T. Rowe Price's other clients have investment objectives and programs similar to those of the Fund. T. Rowe Price may occasionally make recommendations to other clients which result in their purchasing or selling securities simultaneously with the Fund. As a result, the demand for securities being purchased or the supply of securities being sold may increase, and this could have an adverse effect on the price of those securities. It is T. Rowe Price's policy not to favor one client over another in making recommendations or in placing orders. T. Rowe Price frequently follows the practice of grouping orders of various clients for execution which generally results in lower commission rates being attained. In certain cases, where the aggregate order is executed in a series of transactions at various prices on a given day, each participating client's proportionate share of such order reflects the average price paid or received with respect to the total order. T. Rowe Price has established a general investment policy that it will ordinarily not make additional purchases of a common stock of a company for its clients (including the T. Rowe Price Funds) if, as a result of such purchases, 10% or more of the outstanding common stock of such company would be held by its clients in the aggregate.

To the extent possible, T. Rowe Price intends to recapture solicitation fees paid in connection with tender offers through T. Rowe Price Investment Services, Inc., the Fund's distributor. At the present time, T. Rowe Price does not recapture commissions or underwriting discounts or selling group concessions in connection with taxable securities acquired in underwritten offerings. T. Rowe Price does, however, attempt to negotiate elimination of all or a portion of the selling-group concession or underwriting discount when purchasing tax-exempt municipal securities on behalf of its clients in underwritten offerings.

Other

For the fiscal years ended February 28, 1993, February 29, 1992, and February 28, 1991, the Money Fund engaged in portfolio transactions

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involving broker-dealers totaling $3,848,865,486, $4,251,498,766, and $5,545,314,861, respectively. For the fiscal years ended February 28, 1993, February 29, 1992, and February 28, 1991, $3,832,043,696, $4,231,418,766 and $5,531,996,687, respectively, consisted of principal transactions as to which the Money Fund has no knowledge of the profits or losses realized by the respective broker-dealers. For the fiscal years ending February 28, 1993, February 29, 1992, and February 28, 1991, $16,821,790, $20,081,000 and $13,318,174, respectively, involved trades with brokers acting as agents or underwriters, in which such brokers received total commission, including discounts received in connection with underwritings, of $22,695, $15,000 and $11,650, respectively. Of all such portfolio transactions, none were placed with firms which provided research, statistical, or other services to T. Rowe Price in connection with the management of the Money Fund, or in some cases, to the Money Fund.

For the fiscal years ended February 28, 1993, February 29, 1992, and February 28, 1991, the Short-Intermediate Fund engaged in portfolio transactions involving broker-dealers totaling $1,111,763,067, $1,080,195,909, and $1,457,736,829, respectively. For the fiscal years ended February 28, 1993, February 29, 1992 and February 28, 1991, $1,038,796,621, $1,056,759,892, and $1,438,739,929, respectively, consisted of principal transactions as to which the Short-Intermediate Fund had no knowledge of the profits or losses realized by the respective broker-dealers. For the fiscal years ended February 28, 1993, February 29, 1992, and February 28, 1991, $72,966,445, $23,436,017, and $19,005,900, respectively, involved trades with brokers acting as agents or underwriters, in which such brokers received total commissions, including discounts received in connection with underwritings, of $367,470, $123,414, and $140,625, respectively. Of all such portfolio transactions, none were placed with firms which provided research, statistical, or other services to T. Rowe Price in connection with the management of the Short-Intermediate Fund, or in some cases, to the Short-Intermediate Fund.

The portfolio turnover rate of the Short-Intermediate Fund for the fiscal years ended February 28, 1993, February 29, 1992, and February 28, 1991 was: 1993--38.5%; 1992--81.3%; and 1991--190.1%.

For the fiscal period ended February 28, 1993, Insured Intermediate Bond Fund in portfolio transactions involving broker-dealers totaling $75,345,466, respectively. For the fiscal period ended February 28, 1993, $70,657,019 consisted of principal transactions as to which the Insured Intermediate Bond Fund had no knowledge of the profits or losses realized by the respective broker-dealers. For the fiscal period ended February 28, 1993, $4,688,447 involved trades with brokers acting as agents or underwriters, in which such brokers received total commissions, including discounts received in connection with underwritings, of $25,094. Of all such portfolio transactions, none were placed with firms which provided research, statistical, or other services to T. Rowe Price in connection with the management of the Insured Intermediate Bond Fund, or in some cases, to the Insured Intermediate Bond Fund.

The portfolio turnover rate of the Insured Intermediate Bond Fund for the fiscal period ended February 28, 1993 was 65.3%.

For the fiscal years ended February 28, 1993, February 29, 1992, and February 28, 1991, the Income Fund engaged in portfolio transactions involving broker-dealers totaling $3,328,250,640, $2,593,636,961, and $3,849,531,577, respectively. For the fiscal years ended February 28, 1993, February 29, 1992 and February 28, 1991, $2,897,792,677, $2,457,259,547 and $3,837,301,577, respectively, consisted of principal transactions as to which the Income Fund had no knowledge of the profits or losses realized by the respective broker-dealers. For the fiscal years ended February 28, 1993, February 29, 1992, and February 28, 1991, $430,457,963, $136,376,415, and $12,230,000, respectively, involved trades with brokers acting as agents or underwriters, in which such brokers received total commissions, including discounts received in connection with underwritings, of $3,068,760, $970,894, and $91,913, respectively. Of all such portfolio transactions, none were placed with firms which provided research, statistical, or other services to

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T. Rowe Price in connection with the management of the Income Fund or, in some cases, to the Income Fund.

The portfolio turnover rate of the Income Fund for the fiscal years ended February 28, 1993, February 29, 1992, and February 28, 1991 was: 1993--76.7%; 1992--57.9%; and 1991--79.7%.

For the fiscal years ended February 28, 1993, February 29, 1992, and February 28, 1991, the High Yield Fund engaged in portfolio transactions involving broker-dealers totaling $1,408,187,092, $1,322,907,667, and $2,556,897,177, respectively. For the fiscal years ended February 28, 1993, February 29, 1992 and February 28, 1991, $1,235,779,960, $1,271,081,772 and $2,551,942,177, respectively, consisted of principal transactions as to which the High Yield Fund had no knowledge of the profits or losses realized by the respective broker-dealers. For the fiscal years ended February 28, 1993, February 29, 1992, and February 28, 1991 $172,407,132, $51,825,895, and $4,995,000, respectively, involved trades with brokers acting as agents or underwriters, in which such brokers received total commissions, including discounts received in connection with underwritings, of $1,281,863, $398,343, and $81,852, respectively. Of all such portfolio transactions, none were placed with firms which provided research, statistical, or other services to T. Rowe Price in connection with the management of the High Yield Fund, or in some cases, to the High Yield Fund.

The portfolio turnover rate of the High Yield Fund for the fiscal years ended February 28, 1993, February 29, 1992, and February 28, 1991 was: 1993--34.7%; 1992--51.0%; and 1991--51.2%.

PRICING OF SECURITIES

Fixed income securities are generally traded in the over-the-counter market. Investments in securities with remaining maturities of one year or more are stated at fair value using a bid-side valuation as furnished by dealers who make markets in such securities or by an independent pricing service, which considers yield or price of bonds of comparable quality, coupon, maturity, and type, as well as prices quoted by dealers who make markets in such securities.

Except with respect to certain securities held by the Money Fund, securities with remaining maturities less than one year are stated at fair value which is determined by using a matrix system that establishes a value for each security based on bid-side money market yields. Securities originally purchased by the Money Fund with remaining maturities of 60 days or less are valued at amortized cost. In addition, securities purchased by the Money Fund with maturities in excess of 60 days, but which currently have maturities of 60 days or less, are valued at their amortized cost for the 60 days prior to maturity--such amortization being based on the fair value of the securities on the 61st day prior to maturity.

There are a number of pricing services available, and the Directors of the Short-Intermediate, Income and High Yield Funds, on the basis of ongoing evaluation of these services, may use or may discontinue the use of any pricing service in whole or in part.

Securities or other assets for which the above valuation procedures are deemed not to reflect fair value will be appraised at prices deemed best to reflect their fair value. Such determinations will be made in good faith by or under the supervision of officers of each Fund as authorized by the Board of Directors.

Maintenance of Money Fund's Net Asset Value Per Share at $1.00

It is the policy of the Fund to attempt to maintain a net asset value of $1.00 per share by rounding to the nearest one cent. This method of

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valuation is commonly referred to as "penny rounding" and is permitted by Rule 2a-7 under the Investment Company Act of 1940. Under Rule 2a-7:

(a) The Board of Directors of the Fund must undertake to assure, to the extent reasonably practical taking into account current market conditions affecting the Fund's investment objectives, that the Fund's net asset value will not deviate from $1.00 per share;

(b) The Fund must (i) maintain a dollar-weighted average portfolio maturity appropriate to its objective of maintaining a stable price per share, (ii) not purchase any instrument with a remaining maturity greater than 397 days (or in the case of U.S. government securities greater than 762 days), and (iii) maintain a dollar-weighted average portfolio maturity of 90 days or less;

(c) The Fund must limit its purchase of portfolio instruments, including repurchase agreements, to those U.S. dollar-denominated instruments which the Fund's Board of Directors determines present minimal credit risks, and which are eligible securities as defined by Rule 2a-7 (eligible Securities are generally securities which have been rated or whose issuer has been rated or whose issuer has comparable securities rated in one of the two highest rating categories by nationally recognized statistical rating organizations or, in the case of any instrument that is not so rated, is of comparable quality as determined by procedures adopted by the Fund's Board of Directors); and

(d) The Board of Directors must determine that (i) it is in the best interest of the Fund and its shareholders to maintain a stable net asset value per share or stable price per share under the penny rounding method; and (ii) the Fund will continue to use the penny rounding method only so long as the Board of Directors believes that it fairly reflects the market based net asset value per share.

Although the Fund believes that it will be able to maintain its net asset value at $1.00 per share under most conditions, there can be no absolute assurance that it will be able to do so on a continuous basis. If the Fund's net asset value per share declined, or was expected to decline, below $1.00 (rounded to the nearest one cent), the Board of Directors of the Fund might temporarily reduce or suspend dividend payments in an effort to maintain the net asset value at $1.00 per share. As a result of such reduction or suspension of dividends, an investor would receive less income during a given period than if such a reduction or suspension had not taken place. Such action could result in an investor receiving no dividend for the period during which he holds his shares and in his receiving, upon redemption, a price per share lower than that which he paid. On the other hand, if the Fund's net asset value per share were to increase, or were anticipated to increase above $1.00 (rounded to the nearest one cent), the Board of Directors of the Fund might supplement dividends in an effort to maintain the net asset value at $1.00 per share.

NET ASSET VALUE PER SHARE

The purchase and redemption price of the Funds' shares is equal to the Funds' net asset value per share or share price. Each Fund determines its net asset value per share by subtracting the Funds' liabilities (including accrued expenses and dividends payable) from its total assets (the market value of the securities the Fund holds plus cash and other assets, including income accrued but not yet received) and dividing the result by the total number of shares outstanding. The net asset value per share of each Fund is calculated as of the close of trading on the New York Stock Exchange ("NYSE") every day the NYSE is open for trading. The net asset value of the Money Fund is also calculated as of 12:00 noon (Eastern time) every day the NYSE is open for trading. The NYSE is closed on the following days: New Year's Day, Washington's Birthday, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.

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Determination of net asset value (and the offering, sale redemption and repurchase of shares) for a Fund may be suspended at times (a) during which the NYSE is closed, other than customary weekend and holiday closings, (b) during which trading on the NYSE is restricted, (c) during which an emergency exists as a result of which disposal by a Fund of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Fund fairly to determine the value of its net assets, or (d) during which a governmental body having jurisdiction over the Fund may by order permit such a suspension for the protection of the Fund's shareholders; provided that applicable rules and regulations of the Securities and Exchange Commission (or any succeeding governmental authority) shall given as to whether the conditions prescribed in (b), (c), or (d) exist.

DIVIDENDS

Unless you elect otherwise, the Fund's annual capital gain distributions, if any, will be reinvested on the reinvestment date using the NAV per share of that date. The reinvestment date normally precedes the payment date by about 10 days although the exact timing is subject to change.

TAX STATUS

Each Fund intends to qualify as a "regulated investment company" under Subchapter M of the Internal Revenue Code of 1986, as amended ("Code").

Dividends and distributions paid by any of the Funds are not eligible for the dividends-received deduction for corporate shareholders. For tax purposes, it does not make any difference whether dividends and capital gain distributions are paid in cash or in additional shares. Each Fund must declare dividends equal to at least 90% of net tax-exempt income (as of its year-end) to permit pass-through of tax-exempt income to shareholders, and 98% of capital gains (as of October 31) in order to avoid a federal excise tax and 100% of capital gains (as of its tax year-end) to avoid federal income tax.

At the time of your purchase, a Fund's net asset value may reflect undistributed capital gains or net unrealized appreciation of securities held by the Fund. A subsequent distribution to you of such amounts, although constituting a return of your investment, would be taxable as a capital gain distribution. For federal income tax purposes, a Fund is permitted to carry forward its net realized capital losses, if any, for eight years and realize net capital gains up to the amount of such losses without being required to pay taxes on, or distribute such gains. On May 31, 1993, the books of the Money Fund indicated that the Fund's aggregate net assets included realized capital losses of $1,360,277 and unrealized appreciation of $24,267. On May 31, 1993, the books of the Short-Intermediate Fund indicated that the Fund's aggregate net assets included realized capital losses of $5,016,367 and unrealized appreciation of $11,553,093. On May 31, 1993, the books of the Insured Intermediate Bond Fund indicated that the Fund's aggregate net assets included realized capital gains of $148,088 and unrealized appreciation of $631,785. On May 31, 1993, the books of the Income Fund indicated that the Fund's aggregate net assets included realized capital gains of $11,780,397 and unrealized appreciation of $98,502,912. On May 31, 1993, the books of the High Yield Fund indicated that the Fund's aggregate net assets included realized capital gains of $8,688,140 and unrealized appreciation of $57,402,279.

If, in any taxable year, the Funds should not qualify as regulated investment companies under the Code: (i) each Fund would be taxed at normal corporate rates on the entire amount of its taxable income, if any, without deduction for dividends or other distributions to shareholders; and (ii) each Fund's distributions to the extent made out of the Fund's current or accumulated earnings and profits would be taxable to shareholders as ordinary dividends (regardless of whether they would otherwise have been considered capital gain dividends).

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Each year, the Funds will mail you information on the tax status of dividends and distributions. The Funds anticipate that substantially all of the dividends to be paid by each Fund will be exempt from federal income taxes. If any portion of a Fund's dividends is not exempt from federal income taxes, you will receive a Form 1099 stating the taxable portion. The Funds will also advise you of the percentage of your dividends, if any, which should be included in the computation of alternative minimum tax.

Because the interest on municipal securities is tax exempt, any interest on money you borrow that is directly or indirectly used to purchase Fund shares is not deductible. (See Section 265(2) of the Internal Revenue Code.) Further, entities or persons who are "substantial users" (or persons related to "substantial users") of facilities financed by industrial development bonds should consult their tax advisers before purchasing shares of a Fund. The income from such bonds may not be tax exempt for such substantial users.

YIELD INFORMATION

Money Fund

The Fund's current and historical yield for a period is calculated by dividing the net change in value of an account (including all dividends accrued and dividends reinvested in additional shares) by the account value at the beginning of the period to obtain the base period return. This base period return is divided by the number of days in the period then multiplied by 365 to arrive at the annualized yield for that period. The Fund's annualized compound yield for such period is compounded by dividing the base period return by the number of days in the period, and compounding that figure over 365 days.

The seven-day yield ending May 31, 1993, for the Fund was 2.17%. and the Fund's compound yield for the same period was 2.19%.

Short-Intermediate, Insured Intermediate Bond, Income, and High Yield Funds

From time to time, a Fund may advertise a yield figure calculated in the following manner:

An income factor is calculated for each security in the portfolio based upon the security's market value at the beginning of the period and yield as determined in conformity with regulations of the Securities and Exchange Commission. The income factors are then totalled for all securities in the portfolio. Next, expenses of the Fund for the period net of expected reimbursements are deducted from the income to arrive at net income, which is then converted to a per-share amount by dividing net income by the average number of shares outstanding during the period. The net income per share is divided by the net asset value on the last day of the period to produce a monthly yield which is then annualized. A taxable equivalent yield is calculated by dividing this yield by one minus the effective federal income tax rate. Quoted yield factors are for comparison purposes only, and are not intended to indicate future performance or forecast the dividend per share of the Fund.

The yield of each Funds calculated under the above-described method for the month ended May 31, 1993 was:

Tax-Free Short-Intermediate	3.74%
Tax-Free Insured Intermediate Bond	4.92%
Tax-Free Income	4.83%
Tax-Free High Yield	5.71%

The tax equivalent yields for these funds for the same period were 5.42% (Short-Intermediate), 7.13% (Insured Intermediate) 7.00% (Income), and 8.28% (High Yield). This assumes a federal tax bracket of 31.0%. Assuming a federal tax bracket of 28.0%, the tax-equivalent yields for the period would be 5.19% (Short-Intermediate), 6.83% (Insured Intermediate),

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6.71% (Income), and 7.93% (High Yield).

From time to time, a Fund may also illustrate the effect of tax equivalent yields using information such as that set forth below:

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TAX-EXEMPT VS. TAXABLE YIELDS

Your Taxable Income (1993)+

Joint Return		Single Return		Federal Tax Rates
$36,901-	$89,150	$22,101	-$53,500	28.0
89,151	and above++	53,501	and above+	31.0

A Tax-Exempt Yield Of:

3%	4%	5%	6%	7%	8%	9%	10%	11%
Is Equivalent to a Taxable Yield of:								
4.2	5.6	6.9	8.3	9.7	11.1	12.5	13.9	15.3
4.3	5.8	7.2	8.7	10.1	11.6	13.0	14.5	15.9

\+ Net amount subject to federal income tax after deductions and exemptions.
++ Federal rates may vary depending on family size and nature and amount of itemized deductions.

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INVESTMENT PERFORMANCE

Total Return Performance

Each Fund's calculation of total return performance includes the reinvestment of all capital gain distributions and income dividends for the period or periods indicated, without regard to tax consequences to a shareholder in the Fund. Total return is calculated as the percentage change between the beginning value of a static account in the Fund and the ending value of that account measured by the then current net asset value, including all shares acquired through reinvestment of income and capital gains dividends. The results shown are historical and should not be considered indicative of the future performance of the Fund. Each average annual compound rate of return is derived from the cumulative performance of the Fund over the time period specified. The annual compound rate of return for the Fund over any other period of time will vary from the average.

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Short-Intermediate Fund
Cumulative Performance Percentage Change

1 Year Ended 2/28/93+	5 Years Ended 2/28/93	Since Inception 12/23/83-2/28/93++
7.51%	36.29%	80.58%

Average Annual Compound Rates of Return

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1 Year Ended 2/28/93+	5 Years Ended 2/28/93	Since Inception 12/23/83-2/28/93++
7.51%	6.39%	6.65%

+ If you invested $1,000 on 2/29/92, the total return on 2/28/93 would be $75.10 ($1,000 x .0751).
++ Assumes purchase of one share of the Tax-Free Short-Intermediate Fund at the inception price of $5.00 on 12/23/83.

Insured Intermediate Bond Fund
Cumulative Performance Percentage Change

Since Inception+ 11/30/92-2/28/93++
6.81%

Average Annual Compound Rates of Return

Since Inception 11/30/92-2/28/93++
6.81%

+ If you invested $1,000 at inception, the total return on 2/28/93 would be $68.10 ($1,000 x .0681).
++ Assumes purchase of one share of the Tax-Free Insured Intermediate Bond Fund at the inception price of $10.00 on 11/30/92.

Income Fund
Cumulative Performance Percentage Change

1 Year Ended 2/28/93+	5 Years Ended 2/28/93	10 Years Ended 2/28/93	Since Inception 10/26/76-2/28/93++
14.88%	54.47%	136.54%	231.57%

Average Annual Compound Rates of Return

1 Year Ended 2/28/93+	5 Years Ended 2/28/93	10 Years Ended 2/28/93	Since Inception 10/26/76-2/28/93++
14.88%	9.09%	8.99%	7.61%

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+ If you invested $1,000 on 2/29/92, the total return on 2/28/93 would be $148.80 ($1,000 x .1488).

++ Assumes purchase of one share of the Tax-Free Income Fund at the inception price of $10.00 on 10/26/76.

High Yield Fund
Cumulative Performance Percentage Change

1 Year Ended 2/28/93+	5 Years Ended 2/28/93	Since Inception 3/01/85 - 2/28/93++
13.94%	61.27%	132.42%

Average Annual Compound Rates of Return

1 Year Ended 2/28/93+	5 Years Ended 2/28/93	Since Inception 3/01/85 - 2/28/93++
13.94%	10.03%	11.12%

+ If you invested $1,000 on 2/29/92, the total return on 2/28/93 would be $139.40 ($1,000 x .1394).

++ Assumes purchase of one share of the Tax-Free High Yield Fund at the inception price of $10.00 on 3/01/85.

All Funds

From time to time, in reports and promotional literature, the Funds' performance will be compared to (1) indices of broad groups of managed and unmanaged securities considered to be representative of or similar to Fund portfolio holdings (2) other mutual funds, or (3) other measures of performance set forth in publications such as:

Bond Buyer 20 - an estimation of the yield which would be offered on 20-year general obligation bonds with a composite rating of approximately "A." Published weekly by The Bond Buyer, a trade paper of the municipal securities industry;

Shearson Lehman/American Express Municipal Bond Index - a composite measure of the total return performance of the municipal bond market. Based upon approximately 1500 bonds;

Lipper General Purpose Municipal Bond Avg. - an average of municipal mutual funds which invest 60% or more of their assets in the top four tax-exempt credit ratings;

Lipper Analytical Services, Inc. - a widely used independent research firm which ranks mutual funds by overall performance, investment objectives, and assets;

Lipper Intermediate Municipal Avg. - an average of municipal mutual funds which restrict their holdings to bonds with maturities between 5 and 10 years;

Lipper Insured Municipal Avg. - an average of municipal mutual

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funds which utilize insured municipal securities for 65% of their portfolios.

Lipper High-Yield Municipal Bond Avg. - an average of municipal mutual funds which may utilize lower rated bonds for 50% of their portfolio;

Lipper Insured Municipal Avg. - an average of municipal mutual funds which utilize insured municipal securities for 65% of their portfolios.

Donoghue's Tax-Exempt Money Fund Avg. - an average of municipal money market funds as reported in Donoghue's Money Fund Report, which tracks the performance of all money market mutual funds;

Prime General Obligations - bonds with maturities from 1-30 years which are secured by the full faith and credit of issuers with taxing power;

MIG 1 - Moody's Investment Grade 1 - a short-term note with a top quality rating from Moody's Investors Service, Inc.; and

Morningstar, Inc. - a widely used independent research firm which rates mutual funds by overall performance, investment objectives, and assets.

Indices prepared by the research departments of such financial organizations as Merrill Lynch, Pierce, Fenner & Smith, Inc., will be used, as well as information provided by the Federal Reserve Board.

Information reported in the Bank Rate Monitor, an independent publication which tracks the performance of certain bank products, such as money market deposit accounts and certificates of deposit, will also be used. Bank certificates of deposit differ from mutual funds in several ways: the interest rate established by the sponsoring bank is fixed for the term of a CD; there are penalties for early withdrawal from CDs; and the principal on a CD is insured.

Performance rankings and ratings reported periodically in national financial publications such as MONEY, FORBES, BUSINESS WEEK, BARRON'S, etc. may also be used.

GENERAL INFORMATION AND HISTORY

Money Fund

The Money Fund, which commenced operation under the name Rowe Price Prime Reserve Fund II, Inc., was organized as a money market mutual fund with an investment objective and program substantially identical to that of the T. Rowe Price Prime Reserve Fund, Inc. ("Prime Reserve Fund"), another T. Rowe Price Fund. The Fund was initially established to make available shares of a money market fund to those investors who were not eligible to invest in the Prime Reserve Fund because of the restrictions placed by the Board of the Prime Reserve Fund on the sale of its shares as a result of the Credit Control Program adopted by the Federal Reserve Board on March 14, 1980. When that program was discontinued on July 28, 1980, the Board of Directors concluded that the continued operation of the Fund as a general purpose money market fund was unnecessary. On August 11, 1980, the sale of the Fund's shares was suspended and the shares of all shareholders of the Fund (except T. Rowe Price) were exchanged for shares in the Prime Reserve Fund. Subsequently, T. Rowe Price, the sole shareholder of the Fund, recommended to the Board of Directors of the Fund that the Fund's name be changed to T. Rowe Price Tax-Exempt Money Fund, Inc. and that its investment objective and investment program be amended for the purpose of changing the Fund from a money market fund to a tax-exempt money market fund. Such changes were approved by the Fund's sole shareholder, T. Rowe Price, on January 8, 1981. The Fund commenced operation as a tax-exempt money market fund on March 30, 1981.

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Other Features and Benefits

Each Fund is a member of the T. Rowe Price Family of Funds and may help investors achieve various long-term investment goals, such as saving for a down payment on a home or paying college costs. To explain how a Fund could be used to assist investors in planning for these goals and to illustrate basic principles of investing, various worksheets and guides prepared by T. Rowe Price and/or T. Rowe Price Investment Services, Inc. may be made available. These currently include: the Asset Mix Worksheet which is designed to show shareholders how to reduce their investment risk by developing a diversified investment plan and the College Planning Guide which discusses various aspects of financial planning to meet college expenses and assists parents in projecting the costs of a college education for their children. From time to time, other worksheets and guides may be made available as well. Of course, an investment in a Fund cannot guarantee that such goals will be met.

From time to time, Insights, a T. Rowe Price publication of reports on specific investment topics and strategies, may be included in the Fund's fulfillment kit. Such reports may include information concerning: calculating taxable gains and losses on mutual fund transactions, coping with stock market volatility, benefiting from dollar cost averaging, understanding international markets, investing in high-yield "junk" bonds, growth stock investing, conservative stock investing, value investing, investing in small companies, tax-free investing, fixed income investing, investing in mortgage-backed securities, as well as other topics and strategies.

CAPITAL STOCK

All Funds

Shareholders are entitled to one vote for each full share held (and fractional votes for fractional shares held) and will vote in the election of or removal of directors (to the extent hereinafter provided) and on other matters submitted to the vote of shareholders. There will normally be no meetings of shareholders for the purpose of electing directors unless and until such time as less than a majority of the 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. Except as set forth above, the directors shall continue to hold office and may appoint successor directors. Voting rights are not cumulative, so that the holders of more than 50% of the shares voting in the election of directors can, if they choose to do so, elect all the directors of the Fund, in which event the holders of the remaining shares will be unable to elect any person as director. The Board of Directors of each Fund may increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series authorized to be issued without shareholder approval.

As set forth in the By-Laws of each Fund, a special meeting of shareholders of a Fund shall be called by the Secretary of the Fund on the written request of shareholders entitled to cast at least 10% of all the votes of the Fund entitled to be cast at such meeting. Shareholders requesting such a meeting must pay to the Fund the reasonably estimated costs of preparing and mailing the notice of the meeting. Each Fund, however, will otherwise assist the shareholders seeking to hold the special meeting in communicating to the other shareholders of the Fund to the extent required by Section 16(c) of the Investment Company Act of 1940.

Short-Intermediate, Income and High Yield Funds

The Charters of the Short-Intermediate, Income and High Yield Funds authorize the Board of Directors to classify and reclassify any and all shares which are then unissued, including unissued shares of capital stock into any number of classes, each class consisting of such number of shares and having such designations, such powers, preferences, rights, qualifications, limitations and restrictions, as shall be determined by the Board subject to the Investment Company Act and other applicable law, and provided that the

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authorized shares of any class shall not be decreased below the number then outstanding and the authorized shares of all classes shall not exceed 1,000,000,000, 500,000,000, and 1,000,000,000, respectively. The shares of any such additional classes might therefore differ from the shares of the present class of capital stock and from each other as to preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption, subject to applicable law, and might thus be superior or inferior to the capital stock or to other classes in various characteristics.

Insured Intermediate Bond Fund

The Fund's Charter authorizes the Board of Directors to classify and reclassify any and all shares which are then unissued, including unissued shares of capital stock into any number of classes or series, each class or series consisting of such number of shares and having such designations, such powers, preferences, rights, qualifications, limitations, and restrictions, as shall be determined by the Board subject to the Investment Company Act and other applicable law. The shares of any such additional classes or series might therefore differ from the shares of the present class and series of capital stock and from each other as to preferences, conversions or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption, subject to applicable law, and might thus be superior or inferior to the capital stock or to other classes or series in various characteristics. The Board of Directors may increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that the Fund has authorized to issue without shareholder approval.

Short-Intermediate, Insured Intermediate Bond, Income, and High Yield Funds

Except to the extent that the Boards of Directors of these three Funds might provide by resolution that holders of shares of a particular class are entitled to vote as a class on specified matters presented for a vote of the holders of all shares entitled to vote on such matters, there would be no right of class vote unless and to the extent that such a right might be construed to exist under Maryland law. Their Charters contain no provision entitling the holders of the present class of capital stock to a vote as a class on any matter. Accordingly, the preferences, rights, and other characteristics attaching to any class of shares, including the present class of capital stock, might be altered or eliminated, or the class might be combined with another class or classes, by action approved by the vote of the holders of a majority of all the shares of all classes entitled to be voted on the proposal, without any additional right of vote as a class by the holders of the capital stock or of another affected class or classes.

Redemptions in Kind

In the unlikely event a shareholder were to receive an in kind redemption of portfolio securities of the Funds, brokerage fees could be incurred by the shareholder in a subsequent sale of such securities.

Issuance of Fund Shares for Securities

Transactions involving issuance of Fund shares for securities or assets other than cash will be limited to (1) bona fide reorganizations; (2) statutory mergers; or (3) other acquisitions of portfolio securities that: (a) meet the investment objectives and policies of the Funds; (b) are acquired for investment and not for resale except in accordance with applicable law; (c) have a value that is readily ascertainable via listing on or trading in a recognized United States or international exchange or market; and (d) are not illiquid.

FEDERAL AND STATE REGISTRATION OF SHARES

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The Funds' shares are registered for sale under the Securities Act of 1933 and the Fund or their shares are registered under the laws of all states which require registration, as well as the District of Columbia and Puerto Rico.

LEGAL COUNSEL

Shereff, Friedman, Hoffman & Goodman, whose address is 919 Third Avenue, New York, New York 10022, is legal counsel to each of the Funds.

INDEPENDENT ACCOUNTANTS

Money, Insured Intermediate Bond, and High Yield Funds. Coopers & Lybrand, 217 East Redwood Street, Baltimore, Maryland 21202, are independent accountants to the Funds. The financial statements of the Funds for the fiscal year ended February 28, 1993 and the report of independent accountants are included in each Fund's Annual Report on pages 2 - 12, pages 1-11, and pages 2 - 18, respectively. A copy of each Annual Report accompanies this Statement of Additional Information. The following financial statements and the report of independent accountants appearing in each Annual Report for the fiscal year ended February 28, 1993, are incorporated into this Statement of Additional Information by reference:

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Short-Intermediate and Income Funds. Price Waterhouse, 7 St. Paul Street, Suite 1700, Baltimore, Maryland 21202, are independent accountants to each Fund. The financial statements of the Funds for the fiscal year ended February 28, 1993, and the report of independent accountants are included in each Fund's Annual Report for the year ended February 28, 1993, on pages 2-14 and 2-16, respectively. A copy of each Annual Report accompanies this Statement of Additional Information. The following financial statements and the report of independent accountants appearing in each Annual Report for the fiscal year ended February 28, 1993 are incorporated into this Statement of

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