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UNITED MUNICIPAL HIGH INCOME FUND INC
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Business Address
6300 LAMAR AVE
P O BOX 29217
SHAWNEE MISSION KS 66201
9132362000

UNITED MUNICIPAL HIGH INCOME FUND, INC.

6300 Lamar Avenue

P.O. Box 29217

Shawnee Mission, Kansas 66201-9217

(913) 236-2000

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December 31, 1993

PROSPECTUS

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United Municipal High Income Fund, Inc. (the "Fund") is an open-end diversified management investment company. Its goal is to provide a high level of income to shareholders which is not subject to Federal income taxation. There is no assurance that the Fund will achieve its goal. The securities offering the high income sought by the Fund are ordinarily in the medium and lower rating categories of recognized rating agencies or are unrated but if unrated are, in the opinion of the Manager, Waddell & Reed Investment Management Company, of similar quality to rated municipal bonds in these categories. They generally are subject to greater risks than securities in the higher rating categories. Accordingly, investment in the Fund is not suitable for all investors.

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

Investments in high-yield, high-risk securities (sometimes referred to as "junk bonds") may entail risks that are different or more pronounced than those involved in higher-rated securities. See "Risk Factors" included in this Prospectus for a discussion of the risks associated with non-investment grade securities.

Retain This Prospectus For Future Reference.

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

This supplement is required by the Securities Division of the State of Washington

This fund invests primarily in lower rated bonds commonly known as "junk bonds." Investments of this type are subject to a greater risk of loss of principal and interest than higher rated bonds. Purchasers should carefully assess the risks associated with an investment in this fund.

To be attached to the cover page of the Prospectus of
United Municipal High Income Fund, Inc.

This supplement is dated June 1, 1992

NUS1128
Supplement to Prospectus

This supplement is required by the Securities Division of the State of Arizona

This fund invests primarily in high-yield, high-risk securities and therefore may not be suitable for all investors.

To be attached to the cover page of the Prospectus of
United High Income Fund, Inc.
United High Income Fund II, Inc.
United Municipal High Income Fund, Inc.

This supplement is dated July 8, 1992

NUS1129

UNITED MUNICIPAL HIGH INCOME FUND, INC.
Summary of Expenses

Shareholder Transaction Expenses

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

Annual Fund Operating Expenses
(as a percentage of average net assets)

Management Fees	0.52%
12b-1 Service Fees*	0.25%
Other Expenses** (Includes, among other expenses, transfer agency, accounting, custodian, audit and legal fees)	0.18%
Total Fund Operating Expenses***	0.95%

Example	1 year	3 years	5 years	10 years
You would pay the following expenses on a $1,000 investment, assuming (1) 5% annual return and (2) redemption at the end of each time period:	$52	$71	$93	$154

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

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

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

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

UNITED MUNICIPAL HIGH INCOME FUND, INC.
FINANCIAL HIGHLIGHTS

(Audited)

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

For a Share of Capital Stock Outstanding Throughout Each Period:

<TABLE>
<CAPTION>

	For the fiscal year ended September 30,							For the period from 1/21/86 through 9/30/86*
	1993	1992	1991	1990	1989	1988	1987	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period	$5.23	$5.05	$4.85	$4.96	$4.84	$4.96	$5.22	$5.00
Income from investment operations:								
Net investment income ..	.35	.36	.38	.39	.41	.43	.43	.30
Net realized and unrealized gain (loss) on investments	.34	.18	.20	(0.11)	.12	(0.09)	(0.24)	.22
Total from investment operations	.69	.54	.58	.28	.53	.34	.19	.52
Less distributions:								
Dividends declared from net investment income	(0.35)	(0.36)	(0.38)	(0.39)	(0.41)	(0.43)	(0.43)	(0.30)
Distribution from capital gains	(0.04)	.00	.00	.00	.00	(0.03)	(0.02)	.00
Total distributions	(0.39)	(0.36)	(0.38)	(0.39)	(0.41)	(0.46)	(0.45)	(0.30)
End of period	$5.53	$5.23	$5.05	$4.85	$4.96	$4.84	$4.96	$5.22
Total return**	13.77%	11.08%	12.35%	5.89%	11.38%	7.27%	3.57%	15.86%***
Net assets, end of period (000 omitted)	$329,373	$260,777	$224,945	$192,440	$168,838	$117,838	$72,403	$27,918
Ratio of expenses to average net assets	0.70%	0.72%	0.77%	0.75%	0.75%	0.80%	0.86%	0.52%****
Ratio of net investment income to average net assets ..	6.49%	7.08%	7.63%	7.97%	8.36%	8.76%	8.42%	5.97%
Portfolio turnover rate ..	26.13%	54.18%	60.83%	27.31%	38.94%	44.49%	56.93%	115.91%

*The Fund's inception date is September 9, 1985; however, since the Fund did not have investment activity or incur expenses prior to the date of public offering, the per-share data and ratios are for a capital share outstanding for the period from January 21, 1986 (initial public offering) through September 30, 1986. On an annual basis, the ratios of expenses and net investment income to average net assets would have been approximately 0.75% and 8.65%, respectively.

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

***Annualized.

****Waddell & Reed, Inc. ("W&R"), the then investment manager, for the period from January 6, 1986 through September 30, 1986, voluntarily waived any management and shareholder service fees and paid Fund expenses to the extent necessary to assure that on each day the Fund's total expenses did not exceed 1/365th of 0.75 of 1% of the Fund's net assets. The ratio of expenses to average net assets shown in the table would have been 0.70% without this assumption of expenses.

</TABLE>

What is United Municipal High Income Fund, Inc.?

United Municipal High Income Fund, Inc. is a corporation organized under Maryland law on September 9, 1985. It is an open-end diversified management investment company commonly called a "mutual fund." The Fund has a Board of Directors which has overall responsibility for the management of its affairs. For the names of the Directors and other information about them, see the SAI. The Fund has only one class of shares. Each share has the same rights to dividends and to vote. Shares are fully paid and nonassessable when bought. The Fund does not hold annual meetings of shareholders; however, certain significant corporate matters, such as the approval of a new investment advisory agreement or a change in a fundamental investment policy, which require shareholder approval, will be presented to shareholders at an annual or special meeting called by the Board of Directors for such purpose.

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

Performance Information

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

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

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

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

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

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

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

Goal and Investment Policies of the Fund

The goal of the Fund is to provide a high level of income which is not subject to Federal income tax by investing in the medium and lower quality "municipal bonds" which provide higher yields than bonds of higher quality. This goal is a fundamental policy of the Fund and may not be changed without the approval of shareholders. Municipal bonds are debt securities issued by or on behalf of states, territories and possessions of the United States and the District of Columbia and their political subdivisions, agencies or instrumentalities the interest on which is exempt from Federal income tax. See "Dividends, Distributions and Taxes" concerning the alternative minimum tax

("AMT"). The Fund anticipates that not more than one-half of the dividends it will pay to shareholders will be subject to treatment as a preference item for AMT purposes. It is also a fundamental policy of the Fund that during normal market conditions the Fund will not purchase any securities unless thereafter at least 80% of its assets will be invested in municipal bonds.

It is anticipated that during normal market conditions at least 75% of the Fund's assets will be invested in medium and lower quality municipal bonds which are bonds rated in the medium and lower categories of recognized rating agencies or if unrated are, in the opinion of the Fund's Manager, Waddell & Reed Investment Management Company (the "Manager"), of similar quality to rated municipal bonds in these categories. Medium and lower categories are Baa through C by Moody's Investors Services, Inc. or BBB through D by Standard & Poor's Corporation. See Appendix A to this Prospectus for a description of these rating categories. To varying degrees, bonds within these rating categories may be considered speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. See "Risk Factors" for a discussion of the risks associated with non-investment grade debt securities. This is not a fundamental policy, however, and the Fund may invest in higher quality municipal bonds and have less than 75% of its assets in medium and lower quality municipal bonds at times when yield spreads are narrow and the higher yields do not justify the increased risk and when there is a lack of medium and lower quality issues in which to invest. This might result in a decrease in the Fund's yield.

During normal market conditions, up to 20% of the Fund's assets may be invested in a combination of debt securities other than municipal bonds (referred to as "taxable obligations") and Debt Futures and Municipal Bond Index Futures (defined below). The Manager may choose to invest in taxable obligations under normal conditions in order to keep assets invested until appropriate investments in municipal bonds may be made and may hold such obligations in connection with investment in futures. Income from taxable obligations and capital gains from Debt Futures and Municipal Bond Index Futures will be subject to Federal income tax.

Municipal bonds are issued by a wide range of governments, agencies and authorities for various public purposes. The types of municipal bonds in which the Fund may invest are "general obligation" bonds and "revenue" bonds and certain "industrial development" bonds. Industrial development bonds are revenue bonds issued by or on behalf of public authorities to obtain funds to finance privately operated facilities. Their credit quality is generally dependent on the credit standing of the company involved.

Municipal obligations in which the Fund may invest also include municipal lease obligations and participations in these obligations (collectively, "lease obligations") of municipal authorities or entities. The Manager determines liquidity of lease obligations in accordance with guidelines established by the Fund's Board of Directors. Unrated municipal lease obligations will be considered to be illiquid. In determining the credit quality of unrated municipal lease obligations, one of the factors, among others, to be considered will be the likelihood that the lease will not be canceled. Certain "non-appropriation" lease obligations may present special risks because the municipality's obligation to make future lease or installment payments depends on money being appropriated each year for this purpose. See the SAI for further information about lease obligations.

Municipal bonds vary widely as to interest rates, degree of security and maturity. Factors which affect the yield on municipal bonds include general money market conditions, municipal bond market conditions, the size of a particular offering, the maturity of the obligation and the nature of the issue.

The municipal bonds and taxable obligations which the Fund may purchase are debt securities which go up and down in value depending in large part on changes in prevailing interest rates. If interest rates go up after the Fund buys a debt security, the value of that security may go down; if interest rates go down the security value may go up. Debt securities with longer maturities, which may produce higher yields, may go up or down more than debt securities which have shorter maturities. The Fund holds securities with varying maturities but under normal market conditions will be substantially invested in bonds with maturities of 10 to 30 years. Changes in the values of the debt securities which the Fund owns will affect its net asset value per share, but will not affect the income the Fund receives.

The ability of the governments, agencies, companies or others to pay principal and interest on debt securities held by the Fund may change. Such changes, actual or expected, may also affect the value of these debt securities.

If interest is not in fact paid, the level of income the Fund receives and the value of Fund shares may be affected; if principal is not paid, only the value of Fund shares would be affected.

The Fund may invest 25% or more of its assets in industrial development bonds. Certain risks are associated with industrial development bonds as discussed further in the SAI. When market conditions dictate, the Fund may have 25% or more of its assets in securities the interest upon which is paid from revenues of similar type projects. As a fundamental policy, it will not, however, have more than 25% of its assets in industrial development bonds issued for any one industry or in any one state. The Fund will not purchase an industrial development bond if it would then have more than 5% of its assets invested in industrial development bonds of companies with less than three years operating history. Economic, business or political development or change affecting such securities could have a greater effect than if a smaller percentage were invested in such projects or in different types of projects. See the SAI for examples of the types of projects in which the Fund may invest from time to time and for a discussion of the risks associated with such projects.

The only taxable obligations which the Fund may purchase are (i) obligations issued or guaranteed by the U.S. Government or its agencies or instrumentalities; (ii) bank obligations of domestic banks or savings and loan associations which are subject to regulation by the U.S. Government, including certificates of deposit and acceptances; (iii) commercial paper; and (iv) repurchase agreements.

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

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

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

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

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

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

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

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

From time to time during unusual market conditions the Manager may believe that a temporary defensive position is desirable due to present or anticipated market or economic conditions which are affecting or could adversely affect the values of municipal bonds. During such periods, the Fund may have substantially more than 20% of its assets invested in taxable obligations which would result in a higher proportion of the Fund's income being subject to Federal income taxes.

The Fund may also purchase municipal bonds on a when-issued basis and will do so in order to secure an advantageous price and yield at the time of entering into the transaction. These bonds are subject to market value fluctuation until delivery and payment is completed so it is possible that their value when delivered may be less than the price paid. See the SAI for additional information on the characteristics of these bonds.

For the purpose of increasing income the Fund may purchase securities subject to repurchase agreements which can be considered as collateralized loans by the Fund. The income earned on repurchase agreements is subject to Federal income tax. The majority of the repurchase transactions in which the Fund would engage run from day to day and delivery pursuant to the resale typically will occur within one to five days of the purchase. The Fund's risk is limited to the ability of the vendor to pay the agreed-upon sum upon the delivery date.

The Fund may buy shares of other investment companies which do not redeem their shares, subject to the conditions stated in the SAI. It may also have up to 10% of its net assets invested in certain illiquid securities.

The Fund may invest in zero coupon securities. Although the Manager does not believe that investing in such securities results in material risks, such investing may affect the Fund's ability to meet its investment objective or meet the requirements of Subchapter M of the Internal Revenue Code.

Risk Factors

The market for high-yield, high-risk debt securities rated in the medium and lower rating categories or unrated is relatively new and much of its growth paralleled a long economic expansion, during which this market involved a significant increase in the use of high-yield debt securities to fund highly leveraged corporate acquisitions and restructurings. Thereafter, this market was affected by a relatively high percentage of defaults with respect to high-yield securities as compared with higher rated securities. An economic downturn or increase in interest rates is likely to have a greater negative effect on this market, the value of high-yield debt securities in the Fund's portfolio, the Fund's net asset value and the ability of the bonds' issuers to repay principal and interest, meet projected business goals and obtain additional financing than on higher rated securities. Yields on lower-rated municipal bonds may not currently fully reflect the higher risks of such bonds. Therefore, the risk of negative effect on their market value should interest rates increase or credit quality concerns develop may be higher than has historically been experienced. An investment in this Fund may be considered more speculative than investment in shares of a fund which invests primarily in higher rated debt securities.

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

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

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

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

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

Rated by S&P	Percentage of Fund Assets
AAA	0.5%
AA	0.4
A	3.2
BBB	30.8
BB	1.7
B	1.1
CCC	0.0
Unrated	58.3

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

The Fund's ability to invest more than 25% of its assets in municipal bonds, the payment of principal and interest on which is derived from revenue of similar projects, or in municipal bonds of issuers located in the same geographic area may make the Fund more susceptible to the risks associated with economic, political or regulatory occurrences which might adversely affect particular projects or areas. The Fund's ability to invest up to 25% of its assets in industrial revenue bonds issued for any one industry may make the Fund susceptible to the risks associated with a particular industry. See the SAI for further information concerning these risks.

The primary risks associated with the use of futures contracts are: (i) imperfect correlation between the change in the market value of the securities held in the Fund's portfolio and the prices of futures contracts purchased or sold by the Fund; (ii) incorrect forecasts by the Manager concerning interest rate changes which may result in the hedge being ineffective; and (iii) possible lack of a liquid secondary market for a futures contract; the resulting inability to close a futures position could adversely impact the Fund's hedging ability. For a hedge to be completely effective, the price change of the hedging instrument should equal the price change of the security being hedged. The risk of imperfect correlation of these price changes increases as the composition of the Fund's portfolio diverges from the debt securities underlying the future or included in the index.

Management and Services

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

Subject to authority of the Fund's Board of Directors, the Manager provides investment advice and supervises investments for which it is paid a fee consisting of two elements: (i) a "Specific" fee computed on the Fund's net asset value as of the close of business each day at the annual rate of .10 of 1% of net assets and (ii) a pro rata participation based on the relative net asset size of the Fund in a "Group" fee computed each day on the combined net asset values of all of the funds in the United Group at the annual rates shown in the following table. The fee is accrued and paid daily. Prior to the above-described assignment to the Manager on January 8, 1992, the fees were paid to Waddell & Reed, Inc.

Group Fee Rate

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

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

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

Accounting Services Fee

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

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

The combined net asset values of all of the funds in the United Group were approximately $11.3 billion on September 30, 1993. Management fees for the fiscal year ended September 30, 1993 were 0.52% of the Fund's average net assets. The Fund's total expenses for that year were 0.70% of the average net assets.

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

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

Dividends, Distributions and Taxes

Dividends are declared daily from net investment income, which includes accrued interest, earned discount (both original issue discount and, if the Fund so elects, market discount on municipal securities purchased after April 30, 1993) and other income earned on portfolio securities less expenses. Ordinarily, dividends are paid on the 27th day of each month or on the last business day prior to the 27th if the 27th falls on a weekend or a holiday. When shares are redeemed, any declared but unpaid dividends on those shares will be paid with the next regular dividend payment and not at the time of redemption. The Fund also distributes substantially all of its net capital gains (the excess of net long-term capital gains over net short-term capital losses) and net short-term capital gains, if any, after deducting any available capital loss carryovers, with its regular dividend at the end of the calendar year. The Fund may make additional distributions if necessary to avoid Federal income or excise taxes on certain undistributed income and capital gains.

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

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

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

Dividends exempt from Federal income tax may be subject to income taxation under state and local tax laws.

The Tax Reform Act of 1986 eliminated the availability of tax-exempt financing for certain functions and limited the availability of such financing for certain other functions. This has resulted in a decrease in the number of tax-exempt issues in which the Fund may invest. Interest on indebtedness incurred or continued to purchase or carry Fund shares will not be deductible for Federal income tax purposes to the extent the Fund's distributions consist of exempt-interest dividends.

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

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

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

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

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

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

Purchase of Shares

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

Size of Purchase	Sales Charge as Percent of Offering Price	Sales Charge as Approximate Percent of Amount Invested

Under $100,000	4.25%	4.44%
$ 100,000 to less than $ 300,000 ..	3.25	3.36
300,000 to less than 500,000 ..	2.50	2.56
500,000 to less than 1,000,000 ..	1.75	1.78
1,000,000 to less than 2,000,000 ..	1.00	1.01
2,000,000 and over	0.00	0.00

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

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

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

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

Redemption

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

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

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

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

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

APPENDIX A

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

DESCRIPTION OF BOND RATINGS

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

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

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

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

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

2. Nature of and provisions of the obligation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DESCRIPTION OF MUNICIPAL NOTE RATINGS

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

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

Note rating symbols are as follows:

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

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

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

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

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

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

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

	Principal Amount in Thousands	Value
MUNICIPAL BONDS		
ALABAMA - 2.68%		
The Medical Clinic Board of the City of Birmingham-North, Revenue Bonds, Series 1991-A (Carraway Methodist Hospitals Project), 7.5%, 7-1-2015	$ 2,000	$ 2,205,000
Shelby County, Alabama, Sewer Revenue Warrants, Series 1988, 7.0%, 9-1-2010	1,965	1,965,000
The Industrial Development Board of the Town of Courtland (Alabama), Industrial Development Refunding Revenue Bonds (Champion International Corporation Project), Series A, 7.2%, 12-1-2013	1,250	1,392,188
The Colbert County-Northwest Alabama Health Care Authority, Hospital Revenue Bonds, Helen Keller Hospital, Series 1990, 8.75%, 6-1-2009	1,000	1,156,250
The Medical Clinic Board of the City of Ozark, Alabama, First Mortgage Revenue Bonds (United States Health & Housing Foundation, Inc. Project), Series A, 10.0%, 10-1-2015	1,000	1,073,750
The Marshall County Health Care Authority, Hospital Revenue Refunding Bonds, Series 1992 (Guntersville-Arab Medical Center), 7.0%, 10-1-2013	1,000	1,048,750
Total		8,840,938
ALASKA - 1.32%		
Alaska Industrial Development and Export Authority, Refunding Revenue Bonds, Series 1989 (American President Lines Project), 8.0%, 11-1-2009	2,500	2,721,875
Anchorage Parking Authority, Lease Revenue Refunding Bonds, Series 1993 (5th Avenue Garage Project), 6.75%, 12-1-2008	1,500	1,620,000
Total		4,341,875

See Notes to Schedule of Investments on page 40.

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

Principal Amount in Thousands	Value

MUNICIPAL BONDS (Continued)

ARIZONA - 2.84%

Student Loan Acquisition Authority of Arizona (A nonprofit corporation organized pursuant to the laws of the State of Arizona), Student Loan Revenue Bonds, Senior Series 1993A-1, 3.15%, 12-1-2004	$ 5,585	$ 5,585,000
Hayden-Winkelman Unified School District No. 41 of Gila County, Arizona, School Improvement Bonds, Project of 1992 (Series A), 8.7%, 7-1-2011	1,675	1,903,219
The Industrial Development Authorities of the City of Tucson, Arizona, and the County of Pima, Subordinated Mortgage Revenue Bonds, Series 1983B, 0.0%, 12-1-2016	7,215	1,857,863
Total		9,346,082

ARKANSAS - 1.13%

Baxter County, Arkansas, Industrial Development Revenue Refunding Bonds (Aeroquip Corporation Project), Series 1993, 5.8%, 10-1-2013	2,000	1,980,000
The Fayetteville Public Facilities Board, Refunding and Improvement Revenue Bonds, Series 1989A (Butterfield Trail Village Project), 9.5%, 9-1-2014	1,600	1,730,000
Total		3,710,000

CALIFORNIA - 2.76%

Series A of 1992, Special Tax Bonds of Community Facilities District No. 88-1 of the County of Orange (Aliso Viejo), 7.35%, 8-15-2018	2,000	2,117,500
Certificates of Participation (1991 Capital Improvement Project), Bella Vista Water District (California), 7.375%, 10-1-2017	1,500	1,642,500
San Joaquin Hills Transportation Corridor Agency (Orange County, California), Senior Lien Toll Road Revenue Bonds, 0.0%, 1-1-2002	2,755	1,628,894

See Notes to Schedule of Investments on page 40.

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

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
CALIFORNIA (Continued)		
Huntington Beach Public Financing Authority (Orange County, California), 1992 Revenue Bonds (Huntington Beach Redevelopment Projects), 7.0%, 8-1-2024	$ 1,000	$ 1,085,000
Central Valley Financing Authority, Cogeneration Project Revenue Bonds (Carson Ice-Gen Project), 1993 Series, 6.1%, 7-1-2013	1,000	1,026,250
Inglewood Public Financing Authority, 1992 Revenue Bonds, Series C (In-Town, Manchester-Prairie and North Inglewood Industrial Park Redevelopment Projects-Housing Set-Aside Loans), 7.0%, 5-1-2022	910	985,075

Carson Redevelopment Agency (California), Redevelopment Project Area No. 2, Refunding Tax Allocation Bonds, Series 1993,		
6.0%, 10-1-2013	500	498,750
Madera-Chowchilla Power Authority, California, Floating Rate Bond,		
2.7%, 9-1-2009	95	95,000
Total		9,078,969
COLORADO - 8.33%		
Colorado Health Facilities Authority:		
Hospital Revenue Bonds (PSL Healthcare System Project), Series 1991B,		
8.5%, 2-15-2021	3,000	3,487,500
Retirement Housing Revenue Bonds (Liberty Heights Project), 1990 Series A Term Bonds,		
10.0%, 7-1-2019 (A)	1,500	1,153,125
City and County of Denver, Colorado, Airport System Revenue Bonds, Series 1991A,		
8.75%, 11-15-2023	3,000	3,573,750
Town of Avon, Colorado, Fixed Rate Industrial Development Revenue Bonds (Dillon Real Estate Co., Inc. Project),		
8.05%, 2-15-2015	2,245	2,528,431
City of Colorado Springs, Colorado, Airport System Revenue Bonds, Series 1992A,		
7.0%, 1-1-2022	2,200	2,398,000

See Notes to Schedule of Investments on page 40.

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
COLORADO (Continued)		
Dove Valley Metropolitan District, Arapahoe County, Colorado, General Obligation Refunding and Improvement Bonds, Series 1988,		
9.5%, 12-1-2008	$ 2,000	$ 2,102,500
Central City, Gilpin County, Colorado:		
General Obligation Water Bonds, Series 1992,		
7.5%, 12-1-2012	1,500	1,569,375
Water Revenue Bonds, Series 1991,		
8.625%, 9-15-2011	500	531,250
Town of Snowmass Village, Colorado, Multifamily Housing Refunding Revenue Bonds, Series 1992A,		
8.0%, 9-1-2014	2,000	2,060,000
Brush Creek Village Water District, Pitkin County, Colorado, General Obligation Water Bonds, Series 1990,		
8.875%, 11-15-2009	1,500	1,719,375
Pitkin County, Colorado, Lease Purchase Agreement, Certificates of Participation (County Administration Building Project), Series 1991,		
7.4%, 10-1-2011	1,500	1,665,000
Mountain Village Metropolitan District, San Miguel County, Colorado, General Obligation Refunding Bonds, Series 1992,		
8.1%, 12-1-2011	1,435	1,607,200
Columbia Metropolitan District, Arapahoe County, Colorado, General Obligation Bonds, Series 1986,		
9.5%, 12-1-2005	1,165	1,202,863
Arapahoe Water and Sanitation District, Arapahoe County, Colorado, General		

Obligation Refunding Bonds, Series 1988B, 9.25%, 12-1-2013	1,000	1,070,000
La Plata County, Colorado, Recreational Facilities Refunding Revenue Bonds (Durango Ski Corporation Project), Series 1989A, 9.0%, 2-1-2010	1,000	760,000
Total		27,428,369

See Notes to Schedule of Investments on page 40.

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

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
CONNECTICUT - 1.34%		
Connecticut Development Authority, First Mortgage Gross Revenue Health Care Project Bonds, Church Homes, Inc.:		
Congregational Avery Heights Project - 1990 Series, 9.0%, 4-1-2020	$ 2,500	$ 2,809,375
Congregational Avery Nursing Facilities Project - 1991 Series, 8.5%, 4-1-2021	1,490	1,614,788
Total		4,424,163
DISTRICT OF COLUMBIA - 0.66%		
District of Columbia Revenue Bonds (National Public Radio Issue), Series 1992, 7.625%, 1-1-2013	2,000	2,170,000
FLORIDA - 1.61%		
Highlands County (Florida), Industrial Development Authority, Industrial Development Revenue Refunding Bonds (Beverly Enterprises - Florida, Inc. Project), Series 1991, 9.25%, 7-1-2007	1,500	1,702,500
City of Fort Walton Beach, First Mortgage Industrial Development Revenue Bonds, Series 1986 (Ft. Walton Beach Ventures, Inc. Project), 10.5%, 12-1-2016	1,350	1,452,938
City of Winter Garden, Florida, Industrial Development Revenue Refunding Bonds (Beverly Enterprises-Florida, Inc. Project), Series 1991, 8.75%, 7-1-2012	1,000	1,097,500
The Lee County (Florida) Industrial Development Authority, Economic Development Revenue Refunding Bonds (Encore Nursing Center Partners, Ltd.-85 Project), Series 1992, 8.125%, 12-1-2007	1,000	1,045,000
Total		5,297,938

See Notes to Schedule of Investments on page 40.

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

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
GEORGIA - 1.45%		

	Principal Amount in Thousands	Value
Hospital Authority of Savannah, Revenue Refunding and Improvement Bonds (Candler Hospital), Series 1992:		
7.0%, 1-1-2011	$ 1,680	$ 1,803,900
7.0%, 1-1-2023	1,250	1,331,250
City of Atlanta, Special Purpose Facilities Revenue Bonds, Series 1989B (Delta Air Lines, Inc. Project),		
7.9%, 12-1-2018	1,500	1,629,375
Total		4,764,525
GUAM - 1.00%		
Guam Airport Authority, General Revenue Bonds, 1993 Series B,		
6.6%, 10-1-2010	3,000	3,285,000
IDAHO - 0.74%		
Idaho Health Facilities Authority, Hospital Revenue Refunding Bonds, Series 1992 (IHC Hospitals, Inc.), Indexed Inverse Floating Rate Securities,		
8.85%, 2-15-2021	2,000	2,430,000
ILLINOIS - 5.63%		
Illinois Health Facilities Authority, Revenue Bonds:		
Series 1992A (Fairview Obligated Group Project),		
8.75%, 10-1-2002	2,500	2,700,000
Series 1992 (Mercy Center for Health Care Services),		
6.65%, 10-1-2022	1,000	1,068,750
City of Hillsboro, Montgomery County, Illinois, General Obligation Bonds (Alternate Revenue Source), Series 1991,		
7.5%, 12-1-2021	2,640	2,953,500
City of Quincy, Adams County, Illinois, Revenue Bonds, Series 1993 (Blessing Hospital),		
6.0%, 11-15-2018	2,250	2,283,750
Village of Hanover Park, Cook and DuPage Counties, Illinois, First Mortgage Revenue Bonds, Series 1989 (Windsor Park Manor Project),		
9.5%, 12-1-2014	2,000	2,142,500

See Notes to Schedule of Investments on page 40.

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
ILLINOIS (Continued)		
Village of Lansing, Illinois, Landings Redevelopment Project Area, Tax Increment Refunding Revenue Bonds (Limited Sales Tax Pledge), Series 1992,		
7.0%, 12-1-2008	$ 2,000	$ 2,122,500
City of Blue Island, Cook County, Illinois, Golf Course Revenue Bonds (Utility Tax Pledge), Series 1992,		
7.375%, 5-1-2014	2,000	2,040,000
Village of Bourbonnais, Kankakee County, Illinois, Sewerage Revenue Bonds, Series 1993,		
7.25%, 12-1-2012	1,085	1,147,388
City of Loves Park, Illinois, First Mortgage Revenue Bonds, Series 1989A (Hoosier Care, Inc. Project),		
9.75%, 8-1-2019	1,025	1,078,813

City of Eureka, Woodford County, Illinois, General Obligation Refunding Bonds (Alternate Revenue Source), Series 1993, 6.25%, 7-1-2013	1,000	1,020,000
Total		18,557,201
INDIANA - 2.26%		
City of East Chicago, Indiana, Pollution Control Revenue Bonds:		
Inland Steel Company Project No. 10, Series 1993, 6.8%, 6-1-2013	2,000	2,060,000
Inland Steel Company Project No. 5, Series 1977, 5.75%, 2-1-2007	1,000	931,250
City of Carmel, Indiana, Retirement Rental Housing Revenue Refunding Bonds (Beverly Enterprises - Indiana, Inc. Project), Series 1992, 8.75%, 12-1-2008	1,500	1,663,125
Indiana Health Facility Financing Authority, Hospital Revenue Bonds, Series 1992 (Fayette Memorial Hospital Project), 7.2%, 10-1-2022	1,000	1,085,000

See Notes to Schedule of Investments on page 40.

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
INDIANA (Continued)		
City of Columbus, Indiana, Economic Development Revenue Refunding Bonds (PCL Packaging (Mid-West), Inc. Project), Series 1988, 10.5%, 12-1-2000 (A)	$ 1,375	$ `1,031,250
Indiana Housing Finance Authority, Residential Mortgage Bonds, 1988 Series R-A, 0.0%, 1-1-2013	3,375	666,563
Total		7,437,188
KANSAS - 2.18%		
Kansas Development Finance Authority, Community Provider Loan Program (Community Living Opportunities, Inc.), Series 1992A Revenue Bonds, 8.875%, 9-1-2011	2,790	3,030,638
Baldwin City, Kansas, Educational Facilities Revenue Bonds (Baker University Project), Series 1988, 9.5%, 10-1-2008	2,000	2,180,000
City of Prairie Village, Kansas, Claridge Court Project Revenue Bonds, Series 1993A:		
8.75%, 8-15-2023	1,000	990,000
8.5%, 8-15-2004	1,000	986,250
Total		7,186,888
KENTUCKY - 0.32%		
County of Jefferson, Kentucky, Health Facilities Revenue Refunding Bonds (Beverly Enterprises Project), Series 1985B, 9.75%, 8-1-2007	930	1,059,038
LOUISIANA - 3.08%		
Parish of St. Charles, State of Louisiana, Pollution Control Revenue Bonds:		
Union Carbide Project,		

Series 1992, 7.35%, 11-1-2022	2,000	2,232,500
Louisiana Power & Light Company Project, Series 1991, 7.5%, 6-1-2021	1,750	1,984,063

See Notes to Schedule of Investments on page 40.

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
LOUISIANA (Continued)		
Board of Commissioners of the Port of New Orleans, Industrial Development Revenue Refunding Bonds (Continental Grain Company Project), Series 1993, 7.5%, 7-1-2013	$ 2,000	$ 2,117,500
Parish of West Feliciana, State of Louisiana, Pollution Control Revenue Bonds (Gulf States Utilities Company Project), Series 1984-II, 7.7%, 12-1-2014	1,500	1,734,375
Louisiana Public Facilities Authority, Hospital Revenue Bonds (Woman's Hospital Foundation Project), Series 1992, 7.25%, 10-1-2022	800	876,000
LaFourche Parish Home Mortgage Authority, Tax-Exempt Capital Appreciation Refunding Bonds, Series 1990-B, Class B-2, 0.0%, 5-20-2014	3,300	655,875
Parish of Pointe Coupee, Louisiana, Pollution Control Revenue Refunding Bonds (Gulf States Utilities Company Project), Series 1993, 6.7%, 3-1-2013	500	546,250
Total		10,146,563
MARYLAND - 1.08%		
Baltimore County, Maryland, Pollution Control Revenue Bonds (Bethlehem Steel Project), 1972 Series, 5.25%, 12-1-97	2,000	1,925,000
Prince George's County, Maryland, Revenue Bonds (Greater Southeast Healthcare System Issue), Series 1993, 6.375%, 1-1-2023	1,100	1,139,875
Maryland Health and Higher Educational Facilities Authority, Project and Refunding Revenue Bonds, Doctors Community Hospital Issue, Series 1993, 5.75%, 7-1-2013	500	500,625
Total		3,565,500

See Notes to Schedule of Investments on page 40.

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
MASSACHUSETTS - 3.15%		
Massachusetts Industrial Finance Agency:		
Resource Recovery Revenue Bonds (SEMASS Project), Series 1991B,		

	Principal Amount in Thousands	Value
9.25%, 7-1-2015	$ 3,000	$ 3,435,000
Revenue Bonds, Cape Cod Health Systems Issue, Series 1990,		
8.5%, 11-15-2020	1,500	1,905,000
Revenue Bonds, Beaver Country Day School Issue, Series 1992, Subseries A,		
8.1%, 3-1-2008	1,665	1,696,219
Industrial Development Revenue Refunding Bonds (Beverly Enterprises-Mass./Gloucester and Lexington Projects), Series 1992,		
8.375%, 5-1-2009	500	549,375
City of Lynn, Massachusetts, General Obligation Bonds,		
7.85%, 1-15-2011......................	1,500	1,773,750
Massachusetts Health and Educational Facilities Authority, Revenue Bonds, Faulkner Hospital Issue, Series C,		
6.0%, 7-1-2013	1,000	1,016,250
Total		10,375,594
MICHIGAN - 1.96%		
Portage Lake Water and Sewage Authority, Houghton County, Michigan, General Obligation Limited Tax Bonds:		
Series II,		
7.625%, 10-1-2020	1,000	1,116,250
Series III,		
7.75%, 10-1-2020	1,000	1,112,500
Michigan Strategic Fund, Limited Obligation Revenue Bonds:		
Mercy Services for Aging Project, Series 1990,		
9.4%, 5-15-2020	995	1,096,988
Knollwood Corporation Project, Series A,		
10.5%, 10-1-2016 (B)	1,300	1,040,000
The Economic Development Corporation of the Charter Township of Waterford (Michigan), Limited Obligation Revenue Bonds, Series 1993 (Canterbury Health Care, Inc. Project),		
8.375%, 7-1-2023	2,000	2,082,500
Total		6,448,238

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

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
MINNESOTA - 1.46%		
City of St. Anthony, Minnesota, Housing Development Refunding Revenue Bonds (Autumn Woods Project), Series 1992,		
6.875%, 7-1-2022	$ 2,500	$ 2,646,875
City of Fergus Falls, Minnesota, Health Care Facilities Refunding Revenue Bonds (Lake Region Hospital Corporation Project), Series 1993-A,		
6.5%, 9-1-2018	1,175	1,211,719
Housing and Redevelopment Authority of the City of Saint Paul, Minnesota, Nursing Home Development Revenue Bonds, Series 1988 (St. Mary's Home Project),		
10.0%, 12-1-2018	880	939,400
Total		4,797,994
MISSISSIPPI - 1.12%		
Lowndes County, Mississippi, Solid Waste Disposal and Pollution Control Refunding Revenue Bonds (Weyerhaeuser Company Project), Series 1992B, Indexed Inverse		

Floating/Fixed Term Bonds, 8.85%, 4-1-2022	2,000	2,327,500
Adams County, Mississippi, Hospital Revenue Bonds, Series 1991 (Jefferson Davis Memorial Hospital Project), 8.0%, 10-1-2016	1,200	1,363,500
Total		3,691,000
MISSOURI - 8.92%		
Bi-State Development Agency of the Missouri-Illinois Metropolitan District, Adjustable Rate Terminal Facilities, Revenue Refunding Bonds (American Commercial Terminals, Inc. Project), Series 1985, 7.75%, 6-1-2010	3,000	3,408,750
The Industrial Development Authority of the County of Jackson, State of Missouri, Health Care System Revenue Bonds, Saint Joseph Health Center Issue, Series 1992, 6.5%, 7-1-2012	3,000	3,168,750

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

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
MISSOURI (Continued)		
State Environmental Improvement and Energy Resources Authority (State of Missouri), Water Facilities Revenue Bonds (Tri-County Water Authority Project), Series 1992, 8.75%, 4-1-2022	$ 3,000	$ 3,052,500
The Industrial Development Authority of the City of Hannibal, Missouri, Health Facilities Revenue Bonds (Hannibal Regional Healthcare System - Medical Center of Northeast Missouri Project), Series 1992, 9.5%, 3-1-2022	2,500	3,025,000
The Industrial Development Authority of the City of Independence, Missouri, Health Facilities Refunding and Improvement Revenue Bonds (Independence Regional Health Center), Series 1993, 6.375%, 11-15-2018	2,000	2,077,500
The City of Lake Saint Louis, Missouri, Public Facilities Authority, Certificates of Participation (Municipal Golf Course Project), Series 1993, 7.55%, 12-1-2014	2,000	2,010,000
Health and Educational Facilities Authority of the State of Missouri, Health Facilities Revenue Bonds (Heartland Health System's Project), Series 1989, 8.125%, 10-1-2010	1,500	1,751,250
The Industrial Development Authority of the City of St. Louis, Missouri, Industrial Revenue Refunding Bonds (Kiel Center Multipurpose Arena Project), Series 1992, 7.75%, 12-1-2013	1,500	1,636,875
The Industrial Development Authority of the City of Lee's Summit, Missouri, Health Facilities Refunding and Improvement Revenue Bonds (John Knox Village Project), Series 1992, 7.125%, 8-15-2012	1,500	1,631,250
Regional Convention and Sports Complex		

Authority, Convention and Sports Facility Project Bonds, Series C 1991 (The City of St. Louis, Missouri, Sponsor), 7.9%, 8-15-2021	1,500	1,629,375

See Notes to Schedule of Investments on page 40.

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
MISSOURI (Continued)		
Citizens Memorial Hospital District of Polk County, Missouri, Hospital Refunding and Improvement Revenue Bonds, Series 1993, 6.5%, 8-1-2012	$ 1,500	$ 1,522,500
The Industrial Development Authority of the City of Springfield, Missouri, Industrial Development Refunding Revenue Bonds (Health Care Realty of Springfield, Ltd. Project), Series 1988, 10.25%, 12-1-2010	1,280	1,366,400
East Central Missouri Water and Sewer Authority, St. Charles County, Missouri, Water System Refunding Revenue Bonds, Series 1992 (St. Charles County Public Water Supply District No. 2 Project), 7.0%, 8-1-2011	1,000	1,048,750
The Industrial Development Authority of Callaway County, Missouri, Industrial Development Revenue Bonds (A.P. Green Refractories Co. Project), Series 1984, 8.6%, 11-1-2014	900	937,125
The Industrial Development Authority of the County of St. Louis, Missouri, Industrial Development Revenue Bonds, Series 1985 (Eagle Golf Enterprises, Inc. Project), 10.0%, 12-1-2005	550	631,125
City of Valley Park, Missouri, Tax Increment Revenue Bonds, Series 1993, 6.5%, 3-1-2011	500	496,250
Total		29,393,400
MONTANA - 1.59%		
Montana Board of Investments, Resource Recovery Revenue Bonds, Series 1993 (Yellowstone Energy Limited Partnership Project), 7.0%, 12-31-2019	3,000	3,067,500
City of Billings, Montana, Tax Increment Urban Renewal Bonds, Refunding Series 1992, 7.1%, 3-1-2008	2,000	2,160,000
Total		5,227,500

See Notes to Schedule of Investments on page 40.

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
NEVADA - 1.01%		
Clark County, Nevada:		
Industrial Development Refunding Revenue		

Bonds (Nevada Power Company Project), Series 1992C, 7.2%, 10-1-2022	$ 2,000	$ 2,217,500
Industrial Development Revenue Bonds (Southwest Gas Corporation), 1992 Series B, 7.5%, 9-1-2032	1,000	1,113,750
Total		3,331,250
NEW HAMPSHIRE - 4.44%		
New Hampshire Higher Educational and Health Facilities Authority:		
Hospital Revenue Bonds, Catholic Medical Center Issue, Series 1989, 8.25%, 7-1-2013	2,000	2,245,000
First Mortgage Revenue Bonds, RiverWoods at Exeter Issue, Series 1993, 9.0%, 3-1-2023	2,000	1,992,500
Revenue Bonds, New Hampshire Catholic Charities Issue, Series 1991, 8.4%, 8-1-2011	1,700	1,916,750
Hospital Revenue Bonds, Monadnock Community Hospital Issue, Series 1990, 9.125%, 10-1-2020	1,485	1,681,763
Hospital Revenue Bonds, St. Joseph Hospital Issue, Series 1991, 7.5%, 1-1-2016	1,000	1,105,000
The Industrial Development Authority of the State of New Hampshire, Pollution Control Revenue Bonds, Public Service Company of New Hampshire Project:		
1991 Tax-Exempt Series A, 7.65%, 5-1-2021	2,000	2,262,500
1991 Tax-Exempt Series C, 7.65%, 5-1-2021	2,000	2,262,500
Lisbon Regional School District, New Hampshire, General Obligation Capital Appreciation School Bonds, 0.0%, 2-1-2013	2,160	1,171,800
Total		14,637,813

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

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
NEW JERSEY - 1.40%		
New Jersey Economic Development Authority:		
First Mortgage Revenue Bonds (The Evergreens-Series 1992), 9.25%, 10-1-2022	$ 2,000	$ 2,067,500
First Mortgage Revenue Fixed Rate Bonds (Franciscan Oaks Project-Series 1992A), 8.5%, 10-1-2023	1,500	1,550,625
New Jersey Housing Finance Agency, Multi-Family Mortgage Revenue Bonds, 1976 Series A, 8.25%, 11-1-2020	1,000	1,010,000
Total		4,628,125
NEW MEXICO - 1.07%		
City of Farmington, New Mexico, Collateralized Pollution Control Revenue Bonds, Series 1976 (Tucson Gas & Electric Company, San Juan Project), 7.5%, 7-1-2006	2,510	2,510,000
Dona Ana County, New Mexico, Gross Receipts Tax Refunding and Improvement Revenue		

Bonds, Series 1993,		
6.0%, 6-1-2019	1,000	1,023,750
Total		3,533,750
NEW YORK - 1.03%		
The Port Authority of New York and New Jersey, Special Project Bonds, Series 2, Continental Airlines, Inc. and Eastern Air Lines, Inc. Project, LaGuardia Airport Passenger Terminal, Third Installment Bonds,		
9.125%, 12-1-2015	1,945	2,290,238
New York City Industrial Development Agency, Civic Facility Revenue Bonds (YMCA of Greater New York Project),		
8.0%, 8-1-2016	1,000	1,096,250
Total		3,386,488
NORTH CAROLINA - 0.25%		
Eastern Band of Cherokee Indians of North Carolina, Special Obligation Revenue Bonds (Carolina Mirror Company Project), Series 1986,		
10.25%, 9-1-2009	840	810,600

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

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
OHIO - 1.64%		
Hamilton County, Ohio, Health System Revenue Bonds, Providence Hospital Issue, Series 1992,		
6.875%, 7-1-2015	$ 2,000	$ 2,142,500
County of Butler, Ohio, Hospital Facilities Revenue Refunding and Improvement Bonds, Series 1991 (Fort Hamilton-Hughes Memorial Hospital Center),		
7.5%, 1-1-2010	1,000	1,110,000
City of Fairfield, Ohio, Economic Development Revenue Refunding Bonds (Beverly Enterprises-Ohio, Inc. Project), Series 1992,		
8.5%, 1-1-2003	1,000	1,097,500
County of Lorain, Ohio, First Mortgage Revenue Bonds, 1992 Series A (Kendal at Oberlin Project),		
8.625%, 2-1-2022	1,000	1,060,000
Total		5,410,000
OKLAHOMA - 2.89%		
Oklahoma County Industrial Authority, Industrial Development Revenue Bonds:		
1986 Series B (Choctaw Nursing Center Project):		
10.25%, 9-1-2016	1,230	1,306,875
10.125%, 9-1-2006	525	555,844
1986 Series A (Westlake Nursing Center Project):		
10.25%, 9-1-2016	905	961,563
10.125%, 9-1-2006	430	455,800
Trustees of the Tulsa Municipal Airport Trust, Adjustable Rate Revenue Obligations,		
7.375%, 12-1-2020	2,000	2,160,000
Trustees of the Oklahoma Ordnance Works Authority, Industrial Development Revenue Refunding Bonds (A.P. Green Industries, Inc. Project), Series 1992,		

	Principal Amount in Thousands	Value
8.5%, 5-1-2008	1,600	1,684,000
Cushing Municipal Authority (Cushing, Oklahoma), Utility System Revenue Bonds, Series 1993,		
6.0%, 7-1-2016	1,345	1,366,856

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

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
OKLAHOMA (Continued)		
Oklahoma City Public Property Authority (Oklahoma City, Oklahoma), Revenue Bonds, Series 1991 (Oklahoma City Golf System),		
8.0%, 10-1-2013	$ 1,000	$ 1,031,250
Total		9,522,188
PENNSYLVANIA - 6.08%		
Luzerne County Industrial Development Authority:		
Exempt Facilities Revenue Refunding Bonds, 1992 Series A (Pennsylvania Gas and Water Company Project),		
7.2%, 10-1-2017	2,000	2,225,000
Exempt Facilities Revenue Bonds, 1992 Series B (Pennsylvania Gas and Water Company Project),		
7.125%, 12-1-2022	1,000	1,097,500
Delaware County Authority (Pennsylvania), First Mortgage Revenue Bonds, Series 1992 (Riddle Village Project):		
8.0%, 6-1-99	1,500	1,546,875
9.25%, 6-1-2022	1,000	1,073,750
McKeesport Hospital Authority (Commonwealth of Pennsylvania), Hospital Revenue Bonds, Series of 1993 (McKeesport Hospital Project),		
6.5%, 7-1-2008	2,500	2,568,750
The Hospitals and Higher Education Facilities Authority of Philadelphia, Hospital Revenue Bonds, Series of 1993 (Temple University Hospital),		
6.5%, 11-15-2008	2,335	2,513,044
South Wayne County Water and Sewer Authority (Wayne County, Pennsylvania), Sewer Revenue Bonds, Series of 1992,		
8.2%, 4-15-2013	1,965	2,166,413
Erie City Water Authority, Erie County, Pennsylvania, Water Revenue Bonds, Series of 1991,		
7.125%, 12-1-2011	2,000	2,122,500
Wilkins Area Industrial Development Authority (Pennsylvania), First Mortgage Revenue Bonds (Longwood at Oakmont, Inc. Continuing Care Retirement Community Project), Series 1991A,		
10.0%, 1-1-2021	2,000	2,117,500

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

	Principal Amount in Thousands	Value

MUNICIPAL BONDS (Continued)
PENNSYLVANIA (Continued)

Clarion County Industrial Development Authority (Pennsylvania), Health Facilities Revenue Refunding Bonds (Beverly Enterprises Project), Series 1985,		
10.125%, 5-1-2007	$ 900	$ 1,037,250
Erie, Pennsylvania Sewer Authority, Sewer Revenue Bonds,		
6.0%, 6-1-2011	1,000	918,750
The Hospitals Authority of Philadelphia, Hospital Revenue Bonds, Series of 1979 (James C. Giuffre Medical Center),		
8.25%, 7-1-2009	1,415	636,750
Total		20,024,082
RHODE ISLAND - 1.56%		
Providence Public Buildings Authority (Veazie Street School and Modular Classrooms Projects), Revenue Bonds, Series 1991:		
7.3%, 12-1-2010	1,000	1,112,500
7.3%, 12-1-2011	1,000	1,108,750
Pawtucket Public Buildings Authority (Water System Project), Revenue Bonds, Series 1991:		
7.6%, 7-1-2010	840	946,050
7.6%, 7-1-2009	785	884,106
Rhode Island Health and Educational Building Corporation, Hospital Financing Revenue Bonds, South County Hospital Issue - Series 1991,		
7.25%, 11-1-2011	1,000	1,091,250
Total		5,142,656
SOUTH CAROLINA - 3.87%		
Charleston County, South Carolina, Industrial Refunding Revenue Bonds, 1982 Series (Massey Coal Terminal, South Carolina Corporate Project), Adjustable Convertible Extendible Securities,		
3.35%, 1-1-2007	3,000	3,000,000
South Carolina State Housing, Finance and Development Authority, Multifamily Housing Mortgage Revenue Bonds (United Dominion-Plum Chase), Series 1991,		
8.5%, 10-1-2021	2,000	2,185,000
Horry County, South Carolina, Hospital Revenue Refunding Bonds, Series 1992 (Conway Hospital, Inc.),		
6.75%, 7-1-2012	2,000	2,117,500

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	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
SOUTH CAROLINA (Continued)		
South Carolina Jobs-Economic Development Authority, Economic Development Revenue Bonds (Carolinas Hospital System Project), Series 1992,		
7.0%, 9-1-2014	$ 1,500	$ 1,621,875
McCormick County, South Carolina, Hospital Facilities Revenue Bonds, Series 1988 (McCormick Health Care Center Project),		
10.5%, 3-1-2018	1,490	1,573,813
County of Chester, South Carolina, Industrial Development Refunding Revenue Bonds (Springs Industries, Inc. Project), Series 1992,		
7.35%, 2-1-2014	1,000	1,125,000

York County, South Carolina, Water and Sewer System Revenue Bonds, Series 1993, 6.5%, 12-1-2014	1,100	1,116,500
Total		12,739,688
TENNESSEE - 3.45%		
Memphis-Shelby County Airport Authority, Special Facilities Revenue Bonds, Series 1993 (Federal Express Corporation), 6.2%, 7-1-2014	3,000	3,086,250
The Industrial Development Board of the Metropolitan Government of Nashville and Davidson County:		
Multi-Family Housing Revenue Bonds (River Retreat II, Ltd. Project), Series 1986, 9.5%, 5-1-2017	1,500	1,455,000
Industrial Development Revenue Bonds, Series 1986 (Shoney's Inn of Opryland Project), 10.0%, 12-1-2016	1,100	1,134,375
The Industrial Development Board of the County of McMinn, Solid Waste Recycling Facilities Revenue Bonds, Series 1992 (Calhoun Newsprint Company Project - Bowater Incorporated Obligor), 7.4%, 12-1-2022	2,000	2,222,500
The Health and Educational Facilities Board of the City of Crossville, Tennessee, Hospital Revenue Improvement Bonds, Series 1992 (Cumberland Medical Center), 6.75%, 11-1-2012	2,000	2,097,500

See Notes to Schedule of Investments on page 40.

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

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
TENNESSEE (Continued)		
The Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee, First Mortgage Revenue Bonds (Metropolitan Nashville Teachers' Nursing Facility, Inc. Project), Series 1989, 10.25%, 10-1-2019	$ 1,585	$ 1,378,950
Total		11,374,575
TEXAS - 3.25%		
Alliance Airport Authority, Inc., Special Facilities Revenue Bonds, Series 1991 (American Airlines, Inc. Project), 7.0%, 12-1-2011	4,500	4,950,000
Gulf Coast Waste Disposal Authority, Multi-Modal Interchangeable Rate Revenue Bonds (Champion International Corporation Project), Series 1991, 7.45%, 5-1-2026	2,000	2,222,500
Dallas-Fort Worth International Airport Facility Improvement Corporation, American Airlines, Inc. Revenue Bonds, Series 1990, 7.5%, 11-1-2025	2,000	2,160,000
Texas Health Facilities Development Corporation, Hospital Revenue Bonds (All Saints Episcopal Hospitals of Fort Worth Project), Series 1989A, 6.25%, 8-15-2010	1,350	1,382,063
Total		10,714,563

	Principal Amount in Thousands	Value
UTAH - 1.37%		
Carbon County, Utah, Solid Waste Disposal Refunding Revenue Bonds, Series 1991 (Sunnyside Cogeneration Associates Project), 9.25%, 7-1-2018	2,500	2,737,500
Brigham City, Box Elder County, Utah, Special Assessment Bonds, Series 1990 (Brigham City, Utah, Special Improvement District No. 22), 9.25%, 8-1-2010	1,690	1,782,950
Total		4,520,450

See Notes to Schedule of Investments on page 40.

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

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
VERMONT - 0.79%		
Vermont Industrial Development Authority, Mortgage Revenue Bonds, Wake Robin Corporation Project, Series 1993A, 8.75%, 3-1-2023	$ 2,500	$ 2,600,000
VIRGIN ISLANDS - 0.48%		
Virgin Islands Public Finance Authority, Revenue Refunding Bonds (Virgin Islands General Obligation/Matching Fund Loan Notes), Series 1992 A, 7.25%, 10-1-2018	1,400	1,571,500
VIRGINIA - 1.66%		
Industrial Development Authority of the County of Prince William (Virginia), Residential Care Facility First Mortgage Revenue Bonds (Westminster at Lake Ridge), Series 1992A, 10.0%, 1-1-2022	2,500	2,753,125
Virginia Housing Development Authority, Commonwealth Mortgage Bonds:		
1988 Series B, 7.8%, 7-1-2008	1,000	1,085,000
1988 Series C, 8.0%, 1-1-2038	1,000	1,080,000
1988 Series A, 8.2%, 7-1-2028	500	546,250
Total		5,464,375
WASHINGTON - 1.00%		
Pilchuck Development Public Corporation (State of Washington), Special Facilities Airport Revenue Bonds, Series 1993 (TRAMCO, INC. Project), 6.0%, 8-1-2023	1,250	1,267,188
Stevens County Public Corporation, Pollution Control Revenue Refunding Bonds (The Washington Water Power Company Kettle Falls Project), Series 1993, 6.0%, 12-1-2023	1,000	1,033,750
Economic Development Corporation of Pierce County (Washington), Solid Waste Disposal Revenue Bonds (Occidental Petroleum Corporation Project), Series 1993, 5.8%, 9-1-2029	1,000	992,500
Total		3,293,438

See Notes to Schedule of Investments on page 40.

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

	Principal Amount in Thousands	Value
MUNICIPAL BONDS (Continued)		
WEST VIRGINIA - 0.65%		
West Virginia Hospital Finance Authority, State of West Virginia, Hospital Revenue Refunding Bonds, Series of 1986 (Logan General Hospital Project), 8.75%, 4-1-2013	$ 2,000	$ 2,137,500
TOTAL MUNICIPAL BONDS - 96.50% (Cost: $294,403,711)		$317,847,004
TOTAL SHORT-TERM SECURITIES - 2.42% (Cost: $7,981,167)		$ 7,981,167
TOTAL INVESTMENT SECURITIES - 98.92%% (Cost: $302,384,878)		$325,828,171
CASH AND OTHER ASSETS, NET OF LIABILITIES - 1.08%		3,545,309
NET ASSETS - 100.00%		$329,373,480

Notes to Schedule of Investments

(A) Non-income producing as the issuer has either missed its most recent interest payment or declared bankruptcy.

(B) Security is paying partial interest.

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

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

UNITED MUNICIPAL HIGH INCOME FUND, INC.
STATEMENT OF ASSETS AND LIABILITIES
SEPTEMBER 30, 1993

Assets	
Investment securities - at value (Notes 1 and 3)	$325,828,171
Cash	16,601
Receivables:	
Interest	6,718,320
Fund shares sold	659,051
Investment securities sold	30,000
Prepaid insurance premium	13,853
Total assets	333,265,996
Liabilities	
Payable for investment securities purchased	3,015,672
Payable for Fund shares redeemed	634,594
Dividends payable	192,964
Accrued transfer agency and dividend disbursing ..	30,552
Accrued accounting services fee	4,167
Other	14,567
Total liabilities	3,892,516
Total net assets	$329,373,480

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

100,000,000; shares outstanding -- 59,586,456	
Capital stock	$ 59,586,456
Additional paid-in capital	241,877,405
Accumulated undistributed gain:	
Accumulated undistributed net realized gain on investment transactions	4,466,326
Net unrealized appreciation in value of investments at end of period	23,443,293
Net assets applicable to outstanding units of capital	$329,373,480
Net asset value per share (net assets divided by shares outstanding)	$5.53
Sales load (offering price x 4.25%)	.25
Offering price (net asset value divided by 95.75%)	$5.78

On sales of $100,000 or more the sales load is reduced as set forth on page 15.

See notes to financial statements.

UNITED MUNICIPAL HIGH INCOME FUND, INC.
STATEMENT OF OPERATIONS
For the Fiscal Year ended SEPTEMBER 30, 1993

Investment Income	
Interest (taxable portion - $279,238)	$20,873,668
Expenses (Note 2):	
Investment management fee	1,510,519
Transfer agency and dividend disbursing	248,911
Legal fees	66,694
Accounting services fee	50,000
Audit fees	22,644
Custodian fees	22,192
Other	107,495
Total expenses	2,028,455
Net investment income	18,845,213
Realized and Unrealized Gain on Investments	
Realized net gain on investments	5,051,945
Unrealized appreciation in value of investments during the period	14,102,680
Net gain on investments	19,154,625
Net increase in net assets resulting from operations	$37,999,838

See notes to financial statements.

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

	For the fiscal year ended September 30,	
	1993	1992
Increase in Net Assets		
Operations:		
Net investment income	$ 18,845,213	$ 17,098,607
Realized net gain on investments	5,051,945	3,628,934
Unrealized appreciation	14,102,680	4,608,387
Net increase in net assets resulting from operations	37,999,838	25,335,928
Dividends to shareholders from:*		

Net investment income	(18,845,213)	(17,098,607)
Realized net gain from investment transactions	(2,193,823)	---
	(21,039,036)	(17,098,607)
Capital share transactions:		
Proceeds from sale of shares (11,521,464 and 8,153,395 shares, respectively)	61,425,292	41,857,846
Proceeds from reinvestment of dividends and/or capital gains distribution (3,220,064 and 2,595,605 shares, respectively)	17,133,052	13,331,987
Payments for shares redeemed (5,063,005 and 5,382,295 shares, respectively)	(26,922,626)	(27,594,855)
Net increase in net assets resulting from capital share transactions	51,635,718	27,594,978
Total increase	68,596,520	35,832,299
Net Assets		
Beginning of period	260,776,960	224,944,661
End of period	$329,373,480	$260,776,960
Undistributed net investment income	$ ---	$ ---

*See "Financial Highlights" on page 44.

See notes to financial statements.

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

<TABLE>
<CAPTION>

	For the fiscal year ended September 30,							For the period from 1/21/86 through 9/30/86*
	1993	1992	1991	1990	1989	1988	1987	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period	$5.23	$5.05	$4.85	$4.96	$4.84	$4.96	$5.22	$5.00
Income from investment operations:								
Net investment income ..	.35	.36	.38	.39	.41	.43	.43	.30
Net realized and unrealized gain (loss) on investments	.34	.18	.20	(0.11)	.12	(0.09)	(0.24)	.22
Total from investment operations	.69	.54	.58	.28	.53	.34	.19	.52
Less distributions:								
Dividends declared from net investment income	(0.35)	(0.36)	(0.38)	(0.39)	(0.41)	(0.43)	(0.43)	(0.30)
Distribution from capital gains	(0.04)	.00	.00	.00	.00	(0.03)	(0.02)	.00
Total distributions	(0.39)	(0.36)	(0.38)	(0.39)	(0.41)	(0.46)	(0.45)	(0.30)
End of period	$5.53	$5.23	$5.05	$4.85	$4.96	$4.84	$4.96	$5.22
Total return**	13.77%	11.08%	12.35%	5.89%	11.38%	7.27%	3.57%	15.86%***
Net assets, end of period								

(000 omitted)	$329,373	$260,777	$224,945	$192,440	$168,838	$117,838	$72,403	$27,918
Ratio of expenses to average net assets	0.70%	0.72%	0.77%	0.75%	0.75%	0.80%	0.86%	0.52%****
Ratio of net investment income to average net assets ..	6.49%	7.08%	7.63%	7.97%	8.36%	8.76%	8.42%	5.97%
Portfolio turnover rate ..	26.13%	54.18%	60.83%	27.31%	38.94%	44.49%	56.93%	115.91%

*The Fund's inception date is September 9, 1985; however, since the Fund did not have investment activity or incur expenses prior to the date of public offering, the per-share data and ratios are for a capital share outstanding for the period from January 21, 1986 (initial public offering) through September 30, 1986. On an annual basis, the ratios of expenses and net investment income to average net assets would have been approximately 0.75% and 8.65%, respectively.

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

***Annualized.

****Waddell & Reed, Inc. ("W&R"), the then investment manager, for the period from January 6, 1986 through September 30, 1986, voluntarily waived any management and shareholder service fees and paid Fund expenses to the extent necessary to assure that on each day the Fund's total expenses did not exceed 1/365th of 0.75 of 1% of the Fund's net assets. The ratio of expenses to average net assets shown in the table would have been 0.70% without this assumption of expenses.

</TABLE>

See notes to financial statements.

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

NOTE 1 -- Significant Accounting Policies

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

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

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

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

D. Dividends and distributions -- All of the Fund's net investment income is declared and recorded by the Fund as dividends payable on each day to shareholders of record at the time of the previous determination of net asset value.

NOTE 2 -- Investment Management and Payments to Affiliated Persons

The Fund pays a fee for investment management services. The fee is computed daily based on the net asset value at the close of business. The fee consists of two elements: (i) a "Specific" fee computed on net asset value as of the close of business each day at the annual rate of .10% of net assets and (ii) a "Group" fee computed each day on the combined net asset values of all of the funds in the United Group of mutual funds (approximately $11.3 billion of combined net assets at September 30, 1993) at annual rates of .51% of the first $750 million of combined net assets, .49% on that amount between $750 million and $1.5 billion, .47% between $1.5 billion and $2.25 billion, .45% between $2.25 billion and $3 billion, .43% between $3 billion and $3.75 billion, .40% between $3.75 billion and $7.5 billion, .38% between $7.5 billion and $12 billion, and .36% of that amount over $12 billion. The Fund accrues and pays this fee daily.

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

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

Accounting Services Fee

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

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

As principal underwriter for the Fund's shares, W&R received direct and indirect gross sales commissions (which are not an expense of the Fund) of $1,688,436, out of which W&R paid sales commissions of $943,960 and all expenses in connection with the sale of Fund shares, except for registration fees and related expenses.

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

The Fund paid Directors' fees of $10,951.

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

NOTE 3 -- Investment Security Transactions

Purchases of investment securities, other than U.S. Government and short-term securities, aggregated $114,743,416, while proceeds from maturities and sales aggregated $73,018,886. Purchases of short-term securities aggregated $142,228,330, while proceeds from maturities and sales aggregated $136,270,208. There was no gain or loss on the sale of short-term securities. No U.S. Government securities were bought or sold during the period ended September 30, 1993.

For Federal income tax purposes, cost of investments owned at September 30, 1993 was $302,384,877, resulting in net unrealized appreciation of $23,443,294 of which $25,514,457 related to appreciated securities and $2,071,163 related to depreciated securities.

NOTE 4 -- Federal Income Tax Matters

For Federal income tax purposes, the Fund realized net capital gains of $5,051,945 during the fiscal year ended September 30, 1993, of which a portion was paid to shareholders during the period ended September 30, 1993. Remaining net capital gains will be distributed to the Fund's shareholders.

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of United Municipal High Income Fund, Inc. (the "Fund") at September 30, 1993, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the seven years in the period then ended and for the period from January 21, 1986 (initial public offering date) through September 30, 1986, in conformity with generally accepted accounting principles. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at September 30, 1993 by correspondence with the custodian and brokers and the application of alternative auditing procedures where confirmations from brokers were not received, provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE
Kansas City, Missouri
October 29, 1993

United Municipal High Income Fund, Inc.

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

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

Independent Accountants
Price Waterhouse
Kansas City, Missouri

Investment Manager
Waddell & Reed Investment Management Company
6300 Lamar Avenue
P. O. Box 29217
Shawnee Mission, Kansas 66201-9217
(913) 236-2000

Underwriter
Waddell & Reed, Inc.
6300 Lamar Avenue
P.O. Box 29217
Shawnee Mission, Kansas 66201-9217
(913) 236-2000

Shareholder Servicing Agent
Waddell & Reed Services Company
6300 Lamar Avenue
P. O. Box 29217
Shawnee Mission, Kansas 66201-9217
(913) 236-2000

Accounting Services Agent
Waddell & Reed Services Company
6300 Lamar Avenue
P.O. Box 29217
Shawnee Mission, Kansas 66201-9217
(913) 236-2000

United Municipal High Income Fund, Inc.
6300 Lamar Avenue
P. O. Box 29217
Shawnee Mission, Kansas 66201-9217

PROSPECTUS
December 31, 1993

The United Group of Mutual Funds
United Funds, Inc.
  United Bond Fund
  United Income Fund
  United Accumulative Fund
  United Science and Technology Fund
United International Growth Fund, Inc.
United Continental Income Fund, Inc.
United Vanguard Fund, Inc.
United Retirement Shares, Inc.
United Municipal Bond Fund, Inc.
United High Income Fund, Inc.
United Cash Management, Inc.
United Government Securities Fund, Inc.
United New Concepts Fund, Inc.
United Gold & Government Fund, Inc.
United Municipal High Income Fund, Inc.
United High Income Fund II, Inc.

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UNITED MUNICIPAL HIGH INCOME FUND, INC.

6300 Lamar Avenue

P. O. Box 29217

Shawnee Mission, Kansas 66201-9217

(913) 236-2000

December 31, 1993

STATEMENT OF ADDITIONAL INFORMATION

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

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PERFORMANCE INFORMATION

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

Total Return

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

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

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

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

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

	With Sales Load Deducted	Without Sales Load Deducted
One-year period from October 1, 1992 to September 30, 1993:	8.93%	13.77%
Five-year period from October 1, 1988 to September 30, 1993:	9.90%	10.86%
Period from January 21, 1986* to September 30, 1993:	9.15%	9.76%

*initial public offering date

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

Yield

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

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

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

The yield computed according to the formula for the 30-day period ended on September 30, 1993, the date of the most recent balance sheet included in the Prospectus, is 5.99%.

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

The tax equivalent yield computed according to the formula for the 30-day period ended on September 30, 1993, the date of the most recent balance sheet included in this SAI, is 7.04%, 8.29%, 8.65%, 9.32% and 9.87% for marginal tax brackets of 15%, 28%, 31%, 36% and 39.6%, respectively.

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

Performance Rankings

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

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

INVESTMENT OBJECTIVE AND POLICIES

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

Municipal Bonds

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

A special class of municipal bonds are some, but not all, "industrial development bonds." The Fund may purchase industrial development bonds only if the interest on them is free from Federal income taxation, though such interest is an item of tax preference for purposes of the alternative minimum tax. In general, industrial development bonds are revenue bonds and are issued by or on behalf of public authorities to obtain funds to finance privately operated facilities. They generally depend for their credit quality on the credit standing of the company involved. The Fund may invest an unlimited percentage of its assets in municipal bonds which are industrial development bonds. As of September 30, 1993, 11.89% of the Fund's net assets were invested in industrial development bonds.

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

For the purposes of the percentage investment restrictions noted in the Prospectus and this SAI, the "issuer" of a municipal bond is considered to be the entity (public or private) ultimately responsible for the payment of the principal and interest on the bond. For example, the bond may be created by a governmental entity but be backed only by the assets and revenues of a subdivision of the entity such as an agency, instrumentality or authority. The subdivision would be deemed to be the "issuer." In the case of industrial development bonds, the private user of facilities financed by the bonds is considered to be the "issuer."

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

When-Issued Municipal Bonds

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

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

Investments in Unseasoned Issuers

In order to comply with the regulations of certain states, the Fund will not purchase a security if, as a result, more than 5% of its assets would be in industrial development bonds for which the payment of principal and interest are the responsibility of a company with less than three years operating history, including predecessors.

Restricted Securities

Restricted securities, which are also referred to as private placements, are subject to legal or contractual restrictions on resale because they are not registered under the Securities Act of 1933, as amended, and are not exempt from registration as a security issued by a government entity. In many cases, issuers expect to sell these securities to institutional investors, such as the Fund, initially under an exemptive provision and then file a registration statement to register the securities for public distribution. Once the securities have been registered, they may sell at a premium over the initial offering price.

In the event that the securities are not registered by the issuer, the Fund's ability to resell the unregistered securities may be limited. Limitation on the resale of unregistered securities may have an adverse effect on their marketability and may prevent the Fund's prompt disposition of them at reasonable prices. The Fund may have to bear the expense of registering such securities for resale and the risk of substantial delays in effecting such registration. Valuation for restricted securities for which market quotations are readily available will be at market value. Valuation for restricted securities for which market quotations are not available will be at fair value as determined in good faith under procedures established by the Board of Directors.

Illiquid Investments

Due to their possible limited liquidity, the Fund may not purchase the following investments if after such purchase more than 10% of its net assets would consist of a combination of such investments: (i) repurchase agreements not terminable within seven days; (ii) fixed time deposits subject to withdrawal penalties other than overnight deposits; (iii) securities for which market quotations are not readily available and (iv) restricted securities which are securities which are subject to legal or contractual restrictions on resale. However, this 10% limit does not include any obligations payable at principal amount plus interest on demand or within seven days after demand.

Risks of Certain Types of Municipal Bonds

At any one time the Fund may have more than 25% of its assets in similar type projects in which low quality municipal bonds are likely to be issued, including the following: electrical utilities, steel, health care and life care facilities and small industries. A substantial amount of the assets of the Fund may therefore be invested in securities which are related in such a way that an economic, business or political development or change affecting one such security would likewise affect the other securities. For example, a declining market for health care facilities might adversely affect the ability of municipalities to make timely payments of principal and interest on revenue bonds to be paid from hospital revenues. The Fund could also have more than 25% of its assets invested in issuers in the same geographic area, but will not have more than 25% of its assets in securities of issuers located in any one state.

Many of the low quality municipal bonds in which the Fund seeks to invest will be industrial development bonds. It is likely that more than 25% of the Fund's assets will be invested in industrial development bonds. As discussed above under "Municipal Bonds," the entity responsible for payment of the principal and interest on industrial development bonds is usually the nongovernmental user of the facility being financed by the bond issue. Consequently, to the extent the Fund invests up to 25% of its assets in bonds issued by entities in any one industry, it will be subject to the risks inherent in the industry to which the issuer belongs.

For example, a hospital's gross receipts and net income available to service its debt are influenced by demand for hospital services, the ability of the hospital to provide the services required, management and medical capabilities, economic developments in the service area, efforts by insurers and government agencies to limit rates and expenses, confidence in the hospital, service area economic developments, competition, availability and expense of malpractice insurance, Medicaid and Medicare funding, and possible federal legislation limiting the rates of increase of hospital charges. Significant events impacting the hospital industry in any one of these areas might adversely affect the industry's ability to service its debt or to pay principal when due.

Life care facilities are an alternative form of long-term housing for the elderly. They are subject to a wide variety of risks. Primarily, the projects must maintain adequate occupancy levels to be able to provide revenues adequate to maintain debt service payments. Moreover, since a portion of housing, medical care and other services may be financed by an initial deposit it is important that the facility maintain adequate financial reserves to secure estimated actuarial liabilities. The ability of management to accurately forecast inflationary cost pressures weighs importantly in the process. The facilities may also be impacted by regulatory cost restrictions applied to health care delivery in general, particularly state regulations or changes in Medicare and Medicaid payments or qualifications, or restrictions imposed by medical insurance companies. They may also face competition from alternative health care or conventional housing facilities in the private or public sector.

The electrical utility industry is facing certain problems, which may or may not affect its ability to meet obligations on bonds. These problems include the effects of: inflation on financing large construction programs; cost increases and delays arising out of environmental considerations; limitation of the capital market to absorb additional debt; the effect of shortages and high prices of fuel on operations and profits; and the effect of energy conservation on sales. Problems of these types generally affect the values of and the dividends paid on utility common stocks rather than the ability to pay bond obligations.

Pollution control and other industrial development bonds are issued by various state and local agencies to finance various projects, including those of domestic steel producers, and are secured solely by agreements with such companies. Domestic steel companies are suffering the consequences of such adverse trends as high labor costs, high foreign imports encouraged by foreign productivity increases and a strong U.S. dollar, and other cost pressures such as are imposed by antipollution legislation. Domestic steel capacity is being reduced currently by large-scale plant closings.

Repurchase Agreements

The Fund may purchase securities subject to repurchase agreements. A repurchase transaction occurs when, at the time the Fund purchases securities, it also resells them to the vendor (normally a commercial bank or broker-dealer), and must deliver those securities and/or securities substituted for them under the repurchase agreement to the vendor on an agreed-upon date in the future. In this section, such securities, including any securities so substituted, are referred to as the "Resold Securities." The resale price is in excess of the purchase price in that it reflects an agreed-upon market interest rate effective for the period of time during which the Fund's money is invested in the Resold Securities. The majority of the repurchase transactions in which the Fund would engage run from day to day, and the delivery pursuant to the resale typically will occur within one to five days of the purchase. The Fund's risk is limited to the ability of the vendor to pay the agreed-upon sum upon the delivery date. In the event of bankruptcy or other default by the vendor, there may be possible delays or expenses in liquidating the Resold Securities, decline in their value or loss of interest. Upon default, the Resold Securities constitute collateral security for the repurchase obligation. The return on such collateral may be more or less than that from the repurchase agreement. The Fund's repurchase agreements will be structured so as to fully collateralize the loans, i.e., the value of the Resold Securities is and, during the entire term of the agreement, remains at least equal to the value of the loan, including the accrued interest earned thereon. Such collateral will be held by the Fund's custodian bank, or a third party that qualifies as a custodian under section 17(f) of the Investment Company Act of 1940. Repurchase agreements are entered into only with those entities approved on the basis of criteria established by the Board of Directors.

Options, Futures Contracts and Options on Futures Contracts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Restrictions

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

(i) May not make any investments other than in municipal bonds and in the taxable obligations, options, futures contracts and other financial instruments described in the Prospectus;

(ii) May not purchase any voting securities, any commodities or commodity contracts (except that it may buy and sell the options, futures contracts and other financial instruments described in the Prospectus whether or not any of them is considered to be a commodity or a commodity contract), any real estate or interests in real estate investment trusts or any investment company securities;

(iii) May not lend money or other assets; (neither purchasing the securities in which the Fund may invest or engaging in repurchase agreements is considered "lending.");

(iv) May not borrow money or pledge any of its assets except that, as a temporary measure for extraordinary or emergency purposes and not for investment purposes, the Fund may borrow from banks up to 5% of the value of its total assets (this does not prohibit the escrow and collateral arrangements contemplated in connection with investment in options and futures contracts);

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

(vi) May not buy or continue to hold securities if any one of the Fund's Directors or officers or certain others own more than .5 of 1% of the securities of an issuer and if the persons who own that much or more own 5% of that issuer's securities;

(vii) May not sell short, buy on margin, engage in arbitrage transactions or participate on a joint, or a joint and several, basis in any trading account in securities; however, it may make margin deposits in connection with options and futures contracts;

(viii) May not engage in the underwriting of securities;

(ix) May not purchase the securities of any "issuer" if more than 5% of the Fund's total assets, taken at market, would then be invested in that "issuer." See "Municipal Bonds" for a description of an "issuer." This restriction does not apply to cash or cash items, U.S. Government Securities, i.e., securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.

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

(x) May not buy shares of other investment companies which redeem their shares. The Fund may buy shares of investment companies which do not redeem their shares if it does so in a regular transaction in the open market and then does not have more than one tenth (i.e., 10%) of its total assets in these shares.

Portfolio Turnover

A portfolio turnover rate is, in general, the percentage computed by taking the lesser of purchases or sales of portfolio securities for a year and dividing it by the monthly average of the market value of such securities during the year, excluding certain short-term securities. The Fund's turnover rate may vary greatly from year to year as well as within a particular year and may be affected by cash requirements for the redemption of its shares. The Fund's portfolio turnover rate was 26.13% for the fiscal year ended September 30, 1993 and 54.18% for the fiscal year ended September 30, 1992.

INVESTMENT MANAGEMENT AND OTHER SERVICES

The Management Agreement

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

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

Torchmark Corporation and United Investors Management Company

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

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

Shareholder Services

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

Accounting Services

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

Payments by the Fund for Management, Accounting and Shareholder Services

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

Prior to the above-described assignment from Waddell & Reed, Inc. to Waddell & Reed Investment Management Company, all fees were paid to Waddell & Reed, Inc. The management fee paid to the investment manager for the fiscal years ended September 30, 1993, 1992 and 1991 were $1,510,519, $1,273,348 and $1,106,346, respectively. For purposes of calculating the daily fee the Fund does not include money owed to it by Waddell & Reed, Inc. for shares which it has sold but not yet paid to the Fund. The Fund accrues and pays this fee daily.

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

Under the Accounting Services Agreement, the Fund pays the Agent a fee for accounting services as described in the Prospectus. Fees paid to the Agent for the fiscal years ended September 30, 1993, 1992 and 1991 were $50,000, $50,000 and $48,333, respectively.

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

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

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

Waddell & Reed, Inc., under an agreement separate from the Management Agreement, Shareholder Servicing Agreement and Accounting Services Agreement, acts as the Fund's underwriter, i.e., sells its shares on a continuous basis. Waddell & Reed, Inc. is not required to sell any particular number of shares, and thus sells shares only for purchase orders received. Under this agreement, Waddell & Reed, Inc. pays the costs of sales literature, including the costs of shareholder reports used as sales literature, and the costs of printing the prospectus furnished to it by the Fund. The aggregate dollar amount of underwriting commissions for the fiscal years ended September 30, 1993, 1992 and 1991 were $1,688,436, $1,338,253 and $1,099,741, respectively. The amounts retained by Waddell & Reed, Inc. for each period were $744,476, $590,487 and $484,617, respectively.

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

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

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

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

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

The Plan was also approved by shareholders of the Fund.

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

Custodial and Auditing Services

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

PURCHASE, REDEMPTION AND PRICING OF SHARES

Determination of Offering Price

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

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

Net asset value per share (net assets divided by capital shares outstanding)	$5.53
Add: selling commission (4.25% of offering price)	.25
Maximum offering price per share (net asset value per share divided by 95.75%)	$5.78

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

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

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

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

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

Debt Futures and Municipal Bond Index Futures purchased and held by the Fund are valued at the last sales price thereof on the commodities exchange on which they are traded, or, if there are no transactions, at the mean between bid and asked prices. (Ordinarily, the close of the regular session of the commodities exchanges is 2:15 P.M. Central Time.) Net asset value per share will ordinarily be computed on each day on which it is computed (see above) as of the last close of the regular session of any such exchange. Ordinarily, computations will be as of 4:00 P.M. Eastern time, unless the Fund holds a future in which case valuation will be as of 4:15 P.M. Eastern time. Futures contracts will be valued by reference to established futures exchanges. The value of a futures contract purchased by the Fund will be either the closing price of that contract or the bid price. Conversely, the value of a futures contract sold by the Fund will be either the closing price or the asked price.

Minimum Initial and Subsequent Investments

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

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

Reduced Sales Charges

Account Grouping

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

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

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

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

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

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

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

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

Examples:

A. Grandmother opens an UGMA account for grandson A; Grandmother has an account in her own name; A's father has an account in his own name;

the UGMA account may be grouped with A's father's account but may not be grouped with Grandmother's account;

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

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

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

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

One-time Purchases

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

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

Rights of Accumulation

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

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

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

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

Statement of Intention

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

13-month period.

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

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

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

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

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

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

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

Other Funds in the United Group

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

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

Net Asset Value Purchases

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

Reasons for Differences in Public Offering Price

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

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

Redemptions

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

Flexible Withdrawal Service

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

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

These arrangements are called a Flexible Withdrawal Service (the "Service"). To start this Service, you must fill out a form (available from Waddell & Reed, Inc.), advising Waddell & Reed, Inc. of the manner in which you want your shares redeemed to make the payments. You have three choices:

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

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

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

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

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

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

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

You may, at any time change the manner in which you have chosen to have shares redeemed to any of the other choices originally available to you. For example, if you started out with a $50 monthly payment, you could change to a $200 quarterly payment. You can at any time redeem part or all of the shares in your account; if you redeem all of the shares, the Service is terminated. The Fund can also terminate the Service by notifying you in writing.

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

Exchanges for Shares of Other Funds in the United Group

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

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

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

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

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

Reinvestment Privilege

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

Mandatory Redemption of Certain Small Accounts

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

DIRECTORS AND OFFICERS

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

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

RONALD K. RICHEY*
2001 Third Avenue South
Birmingham, Alabama 35233
Chairman of the Board of Directors of the Fund; Chairman of the Board of Directors of Waddell & Reed Financial Services, Inc., United Investors Management Company and United Investors Life Insurance Company; Chairman of the Board of Directors and Chief Executive Officer of Torchmark Corporation; formerly, Chairman of the Board of Directors of Waddell & Reed, Inc.

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

HENRY L. BELLMON
Route 1
Red Rock, Oklahoma 74651

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PAUL S. WISE
P.O. Box 5248
8648 Silver Saddle Drive
Carefree, Arizona 85377

Director of Potash Corporation of Saskatchewan.

LESLIE S. WRIGHT
Samford University
800 Lakeshore Drive
Birmingham, Alabama 35209

Chancellor of Samford University; formerly, Director of City Federal Savings and Loan Association; formerly, President of Samford University.

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

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

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

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

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

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

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

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

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

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

The funds in the United Group, TMK/United Funds, Inc. and Waddell & Reed Funds, Inc. pay to each Director a total of $40,000 per year ($38,000 per year prior to January 1, 1993), plus $500 for each meeting of the Board of Directors attended and $500 for each committee meeting attended which is not in conjunction with a Board of Directors' meeting, other than Directors who are affiliates of Waddell & Reed, Inc. The fees to the Directors who receive them are divided among these funds based on their relative size. During the Fund's fiscal year ended September 30, 1993, its share was $10,951. The officers are paid by the Manager or an affiliate of the Manager.

Shareholdings

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

PAYMENTS TO SHAREHOLDERS

General

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

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

Ordinarily, on the 27th day of each month or on the preceding business day if the 27th falls on a Saturday, Sunday or holiday, all dividends declared since the last dividend payment are paid. The shares whose holders are entitled to receive each such dividend are those shares which are held on the Fund's books at the close of business on the prior day. Therefore, dividends are paid on shares starting on the day after they are issued and on the day they are redeemed. When shares are redeemed, any declared but unpaid dividends on these shares will be paid on the shares with the next regular dividend payment and not at the time of redemption.

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

Choices you have on your Dividends and Distributions

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

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

TAXES

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

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

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

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

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

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

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

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

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

PORTFOLIO TRANSACTIONS AND BROKERAGE

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

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

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

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

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

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

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

OTHER INFORMATION

The Shares of the Fund

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