

MUNICIPAL HIGH INCOME FUND INC
Form N-CSR
January 09, 2006

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number **811-5497**

Municipal High Income Fund Inc.
(Exact name of registrant as specified in charter)

125 Broad Street, New York, NY 10004
(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.
Legg Mason & Co., LLC
300 First Stamford Place, 4th Floor
Stamford, CT 06902
(Name and address of agent for service)

Registrant's telephone number, including area code: (800) 451-2010

Date of fiscal year end: **October 31**

Date of reporting period: **October 31, 2005**

ITEM 1. REPORT TO STOCKHOLDERS.

The **Annual** Report to Stockholders is filed herewith.

Municipal High Income
Fund Inc.

OCTOBER 31, 2005

INVESTMENT PRODUCTS: NOT FDIC INSURED NO BANK GUARANTEE MAY LOSE VALUE

Municipal High Income Fund Inc.

Annual October 31, 2005

<u>Letter from the Chairman</u>	i
<u>Manager Overview</u>	1
<u>Fund at a Glance</u>	6
<u>Schedule of Investments</u>	7
<u>Statement of Assets and Liabilities</u>	19
<u>Statement of Operations</u>	20
<u>Statements of Changes in Net Assets</u>	21
<u>Financial Highlights</u>	22
<u>Notes to Financial Statements</u>	23
<u>Report of Independent Registered Public Accounting Firm</u>	29
<u>Financial Data</u>	30
<u>Board Approval of Management Agreement</u>	31
<u>Additional Information</u>	38
<u>Annual Chief Executive Officer and Chief Financial Officer Certificate</u>	42
<u>Additional Shareholder Information</u>	43
<u>Dividend Reinvestment Plan</u>	44
<u>Important Tax Information</u>	46

Under a licensing agreement between Citigroup and Legg Mason, the names of funds, the names of any classes of shares of funds, and the names of investment advisers of funds, as well as all logos, trademarks and service marks related to Citigroup or any of its affiliates (Citi Marks) are licensed for use by Legg Mason. Citi Marks include, but are not limited to, Smith Barney, Salomon Brothers, Citi, Citigroup Asset Management, and Davis Skaggs Investment Management . Legg Mason and its affiliates, as well as the Fund s investment adviser, are not affiliated with Citigroup.

All Citi Marks are owned by Citigroup, and are licensed for use until no later than one year after the date of the licensing agreement.

Letter from the Chairman

Dear Shareholder,

R. JAY GERKEN, CFA
Chairman, President and
Chief Executive Officer

The U.S. economy was surprisingly resilient during the fiscal year. While surging oil prices, rising interest rates, and the impact of Hurricanes Katrina and Rita threatened to derail the economic expansion, growth remained solid throughout the period. After a 3.3% advance in the second quarter of 2005, third quarter gross domestic product (GDP) growth grew to 4.3%, marking the tenth consecutive quarter in which GDP growth grew 3.0% or more.

As expected, the Federal Reserve Board (the Fed) continued to raise interest rates in an attempt to ward off inflation. After raising rates three times from June 2004 through September 2004, the Fed increased its target for the federal funds rateⁱⁱⁱ in 0.25% increments eight additional times over the reporting period. The Fed again raised rates in early November, after the Fund's reporting period had ended. All told, the Fed's twelve rate hikes have brought the target for the federal funds rate from 1.00% to 4.00%. This represents the longest sustained Fed tightening cycle since 1976-1979.

During much of the fiscal year, the fixed income market confounded investors as short term interest rates rose in concert with the Fed rate tightening, while longer-term rates, surprisingly, declined. However, due to a spike late in the period, the 10-year Treasury yield was 4.56% on October 31 2005, versus 4.11% when the period began. Nevertheless, this was still lower than its yield of 4.62% when the Fed began its tightening cycle on June 30, 2004. This trend also occurred in the municipal bond market.

Please read on for a more detailed look at prevailing economic and market conditions during the Fund's fiscal year and to learn how those conditions have affected Fund performance.

Special Shareholder Notice

On December 1, 2005, Citigroup Inc. (Citigroup) completed the sale of substantially all of its asset management business, Citigroup Asset Management, to Legg Mason, Inc. (Legg Mason). As a result, the Fund's investment adviser (the Manager), previously an indirect wholly owned subsidiary of Citigroup, has become a wholly-owned subsidiary of Legg Mason. Completion of the sale caused the Fund's existing investment management contract to terminate. The Fund's shareholders previously approved a new investment management contract between the Fund and the Manager, which became effective on December 1, 2005.

Effective January 1, 2006, the Fund's board has approved the appointment of Joseph P. Deane and David T. Fare as co-portfolio managers of the Fund.

Information About Your Fund

As you may be aware, several issues in the mutual fund industry have recently come under the scrutiny of federal and state regulators. The Fund's Manager and some of its affiliates have received requests for information from various government regulators regarding market timing, late trading, fees, and other mutual fund issues in connection with various investigations. While these issues do not directly affect your Fund, the Fund has been informed that the Manager and its affiliates are responding to those information requests, but are not in a position to predict the outcome of these requests and investigations.

Important information concerning the Fund and its Manager with regard to recent regulatory developments is contained in Notes to the Financial Statements included in this report.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-CSR

As always, thank you for your confidence in our stewardship of your assets. We look forward to helping you continue to meet your financial goals.

Sincerely,

R. Jay Gerken, CFA
Chairman, President and Chief Executive Officer

December 19, 2005

All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

- i Gross domestic product is a market value of goods and services produced by labor and property in a given country.
- ii The Federal Reserve Board is responsible for the formulation of a policy designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.
- iii The federal funds rate is the interest rate that banks with excess reserves at a Federal Reserve district bank charge other banks that need overnight loans.

Municipal High Income Fund Inc.

iii

(This page intentionally left blank.)

Manager Overview

PETER M. COFFEY

Vice President and
Investment Officer

Q. What were the overall market conditions during the Fund's reporting period?

A. The U.S. economy continued to grow at a solid pace throughout the period, with gross domestic product (GDP) surpassing 3.0% in each quarter covered by this report. Given the strength of the economy and rising oil prices triggering inflationary concerns, the Federal Reserve Board (Fed) continued to raise short-term interest rates at a measured pace. While there were expectations that the Fed might pause in its tightening cycle following the devastation wrought by Hurricanes Katrina and Rita, it continued to raise rates. In its statement accompanying the September 2005 rate hike the Fed said: "The widespread devastation in the Gulf region, the associated dislocation of economic activity, and the boost to energy prices imply that spending, production, and unemployment will be set back in the near term. While these unfortunate developments have increased uncertainty about near-term economic performance, it is the Committee's view that they do not pose a more persistent threat."

Turning to the municipal bond market, new bond issuance continued to be very strong during the reporting period. In 2004, \$358 billion in new municipal securities was issued, the third largest amount during a calendar year. This trend has continued thus far in 2005, as a record for first half-year new issuance was established, with \$206 billion in new municipal debt. Overall, the abundance of new supply was met with strong demand, especially by institutions and property and casualty insurers.

The current market is characterized by relatively low long-term bond yields and still rising short-term interest rates. Credit quality spreads (the difference in yield between high-, medium- and low-grade credits) are also very narrow by historical standards. In this environment, purchasers of high yield securities are being paid comparatively little incremental yield for taking interest rate or credit risk.

During the fiscal year, the shorter end of the municipal bond yield curve generated the weakest results, while longer-term securities outperformed. Over the same period, lower quality municipals outperformed their higher quality counterparts.

Performance Review

For the 12 months ended October 31, 2005, Municipal High Income Fund Inc. returned 2.16%, based on its New York Stock Exchange (NYSE) market price and 7.82% based on its net asset value (NAV) per share. In comparison, the unmanaged Lehman

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-CSR

Brothers Municipal Bond Index,^{iv} returned 2.54% and the Lipper High Yield Municipal Debt Closed-End Funds Category Average^v increased 8.20% over the same time frame. Please note that Lipper performance returns are based on each Fund's NAV.

Certain investors may be subject to the Federal Alternative Minimum Tax, and state and local taxes may apply. Capital gains, if any, are fully taxable. Please consult your personal tax or legal adviser.

During the 12-month period, the Fund made distributions to shareholders totaling \$0.4490 per share. The performance table shows the Fund's 30-day SEC yield as well as its 12-month total return based on its NAV and market price as of October 31, 2005. **Past performance is no guarantee of future results. The Fund's yields will vary.**

	30-Day	12-Month
Price Per Share	SEC Yield	Total Return
\$7.95 (NAV)	5.46%	7.82%
\$7.10 (Market Price)	6.12%	2.16%

All figures represent past performance and are not a guarantee of future results. The Fund's yields will vary.

Total returns are based on changes in NAV or market price, respectively. Total returns assume the reinvestment of all distributions, including returns of capital, if any, in additional shares. The SEC yield is a return figure often quoted by bond and other fixed-income mutual funds. This quotation is based on the most recent 30-day (or one-month) period covered by the Fund's filings with the SEC. The yield figure reflects the income dividends and interest earned during the period after deduction of the Fund's expenses for the period. These yields are as of October 31, 2005 and are subject to change.

Q. What were the most significant factors affecting Fund performance?

What were the leading contributors to performance?

A. During the fiscal year, the Fund's securities in the tobacco sector enhanced results. This was largely due to positive developments on the litigation front. As a result, investors had a favorable outlook on securities that are backed by revenues from the Master Settlement Agreement between states and tobacco companies. Our education bonds also performed well, with one non-rated student housing issue gaining substantially as a result of an advance refunding.

The Fund's transportation holdings contributed to performance as well. In particular, our toll road holdings recovered substantially. We took the opportunity to sell our below investment grade zero coupon bond toll road holdings to reduce interest rate and credit quality risk. We also sold our holdings in two airport special facilities issues for airlines that filed for bankruptcy protection U.S. Air and Northwest at higher prices than they were valued at the beginning of the period. Finally, several miscellaneous holdings benefited from generally improving credit quality and narrowing credit quality spreads.

What were the leading detractors from performance?

A. The Fund's multi-family low income housing securities detracted from results as one issue defaulted and lost most of its value. In addition, several other distressed holdings in this sector were sold at substantial losses. Our high quality, short maturity pre-refunded holdings were also a drag on performance during the fiscal year. This was due to the fact that shorter term rates rose substantially while long term rates were relatively stable. Elsewhere, several of the Fund's high coupon bonds were called (or retired) when they reached their first optional call date. This resulted in reduced income for the Fund.

Our hedging strategies detracted from performance. Our short positioning strategy in long-term Treasury futures enhanced results when longer-term rates rose, particularly in the last two months of the period. However, while this strategy reduced the portfolio's volatility, overall it was detrimental as long-term yields declined over much of the fiscal year, even though the Fed continued to raise short-term rates.

Q. Were there any significant changes to the Fund during the reporting period?

A. Over the fiscal year, we took advantage of favorable market conditions to reduce the Fund's exposure in the life care, tobacco and transportation sectors. In addition, commitments were pared in multi-family housing, which has remained an area of concern. Holdings in the industrial development and pollution control segments declined as several older high coupon issues were called as they reached optional call dates. Positions in education and hospitals increased primarily because they represented better values at the time cash was available, rather than for any sector related strategy. Pre-refunded bonds also increased as the low interest rate environment enabled issuers to refinance at lower rates by advance refunding several issues in our portfolio.

Looking for Additional Information?

The Fund is traded under the symbol **MHF** and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under symbol **XMHFX**. *Barron's* and *The Wall Street Journal's* Monday editions carry closed-end fund tables that will provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well as www.citigroupam.com.

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-735-6507, Monday through Friday from 8:00 a.m. to 6:00 p.m. Eastern Time, for the Fund's current net asset value, market price, and other information.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-CSR

Thank you for your investment in the Municipal High Income Fund Inc. As ever, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the fund's investment goals.

Sincerely,

Peter M. Coffey
Vice President and Investment Officer
December 1, 2005

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole.

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors is not a sufficient basis upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional. Portfolio holdings are subject to change at any time and may not be representative of the portfolio manager's current or future investments. The Fund's top five sector holdings (as a percentage of net assets) as of October 31, 2005 were: Hospitals (16.1%), Miscellaneous (14.9%), Education (13.2%), Pre-refunded (9.9%) and Life Care Systems (6.2%). The Fund's portfolio composition is subject to change at any time.

RISKS: The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on fund performance. High yield bonds involve greater credit and liquidity risks than investment grade bonds. Certain investors may be subject to the Federal Alternative Minimum Tax (AMT), and state and local taxes may apply. Capital gains, if any, are fully taxable.

All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

- i Gross domestic product is a market value of goods and services produced by labor and property in a given country.
- ii The Federal Reserve Board is responsible for the formulation of a policy designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.
- iii NAV is calculated by subtracting total liabilities and outstanding preferred stock from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is at the Fund's market price as determined by supply of and demand for the Fund's shares.
- iv The Lehman Brothers Municipal Bond Index is a broad measure of the municipal bond market with maturities of at least one year.
- v Lipper, Inc. is a major independent mutual-fund tracking organization. Returns are based on the 12-month period ended October 31, 2005, including the reinvestment of distributions, including returns of capital, if any, calculated among the 15 funds in the Fund's Lipper category, and excluding sales charges.

Take Advantage of the Fund's Dividend Reinvestment Plan!

As an investor in the Fund, you can participate in its Dividend Reinvestment Plan (Plan), a convenient, simple and efficient way to reinvest your dividends and –capital gains, if any, in additional shares of the Fund. A more complete description of the Plan begins on page 44. Below is a short summary of how the Plan works.

Plan Summary

If you are a Plan participant who has not elected to receive your dividends in the form of a cash payment, then your dividend and capital gain distributions will be reinvested automatically in additional shares of the Fund.

The number of shares in the Fund you will receive in lieu of a cash dividend is determined in the following manner. If the market price of the shares is equal to or higher than 98% of the net asset value (NAV) per share on the date of valuation, you will be issued shares for the equivalent of either 98% of the most recently determined NAV per share or 95% of the market price, whichever is greater.

If 98% of the NAV per share at the time of valuation is greater than the market price of the common stock, the Fund will buy shares for your account in the open market or on the New York Stock Exchange.

If the Fund begins to purchase additional shares in the open market and the market price of the shares subsequently rises above 98% of the NAV before the purchases are completed, the Fund will attempt to cancel any remaining orders and issue the remaining dividend or distribution in shares at 98% of the Fund's NAV per share. In that case, the number of Fund shares you receive will be based on the weighted average of prices paid for shares purchased in the open market and the price at which the Fund issues the remaining shares.

To find out more detailed information about the Plan and about how you can participate, please call PFPC Inc. at 1 (800) 331-1710.

16.1%

13.2%

9.9%

6.2%

5.8%

5.1%

4.9%

4.4%

4.3%

2.8%

2.8%

2.7%

2.3%

1.8%

0.8%

0.8%

0.6%

0.6%

0.0%

5.0%

10.0%

20.0%

15.0%

As a Percent of Total Investments

Fund at a Glance (unaudited)

Hospitals

Education

Pre-Refunded

Lifecare Systems

Industrial Development

Transportation

Pollution Control

Public Facilities

Utilities

Housing: Multi-Family

Cogeneration Facilities

Tobacco

Housing: Single-Family

General Obligations

Water & Sewer

Escrowed to Maturity

Government Facilities

Tax Allocation

Miscellaneous

14.9%

October 31, 2005

MUNICIPAL HIGH INCOME FUND INC.

Face Amount	Rating	Security	Value
MUNICIPAL BONDS 94.6%			
Alabama 0.7%			
\$ 615,000	NR	Capstone Improvement District of Brookwood, AL, Series A, 7.700% due 8/15/23 (a)	\$ 61,500
1,000,000	AAA	West Jefferson, AL, Amusement & Public Park Authority Revenue, Visionland Project, Call 12/1/06 @ 102, 8.000% due 12/1/26 (b)	1,071,410
Total Alabama			1,132,910
Alaska 2.9%			
1,055,000	NR	Alaska Industrial Development & Export Authority Revenue, Williams Lynxs Alaska Cargoport, 8.125% due 5/1/31 (c)	1,051,054
2,000,000	AAA	Alaska State Housing Financial Corp., General Housing: Series A, FGIC-Insured, 5.000% due 12/1/26 (d)	2,066,240
1,650,000	AAA	Series B, MBIA-Insured, 5.250% due 12/1/30	1,738,803
Total Alaska			4,856,097
Arizona 3.1%			
1,500,000	NR	Casa Grande, AZ, IDA, Hospital Revenue, Casa Grande Regional Medical Center, Series A, 7.625% due 12/1/29	1,644,555
935,000	NR	Maricopa County, AZ, IDA, MFH Revenue, Gran Victoria Housing LLC Project, Series B, 10.000% due 5/1/31 (e)	937,711
1,780,000	NR	Phoenix, AZ, IDA, MFH Revenue, Ventana Palms Apartments Project, Series B, 8.000% due 10/1/34	1,510,775
1,000,000	AAA	Yuma & La Paz Counties, Arizonal Community College District, Arizona Western College, FSA-Insured, 5.000% due 7/1/24	1,035,590
Total Arizona			5,128,631
Arkansas 1.1%			
1,000,000	BBB	Arkansas State Development Financing Authority: Hospital Revenue, Washington Regional Medical Center, Call 2/1/10 @ 100, 7.375% due 2/1/29 (b)	1,151,530
600,000	BB+	Industrial Facilities Revenue, Potlatch Corp. Projects, Series A, 7.750% due 8/1/25 (c)	679,590
Total Arkansas			1,831,120
California 10.6%			
1,500,000	NR	Barona, Band of Mission Indians, CA, 8.250% due 1/1/20 (e)	1,564,260
2,000,000	A3(f)	California Health Facilities Financing Authority Revenue, Refunding, Cedars-Sinai Medical Center, 5.000% due 11/15/27	2,025,160
5,000,000	AAA	California State Department of Water Resources & Power Supply Revenue, Series A: MBIA-IBC-Insured, Call 5/1/12 @ 101, 5.375% due 5/1/21 (b)(d)	5,395,700
1,500,000	AAA	XLCA-Insured, Call 5/1/12 @ 101, 5.375% due 5/1/17 (b)	1,633,020
1,500,000	NR	California Statewide CDA Revenue, East Valley Tourist Project, Series A, 9.250% due 10/1/20	1,637,385

See Notes to Financial Statements.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-CSR

Face Amount	Rating	Security	Value
California 10.6% (continued)			
\$ 2,000,000	BBB	Golden State Tobacco Securitization Corp., California Tobacco Settlement Revenue:	\$ 2,434,060
1,000,000	A-	Asset Backed, Series A-4, 7.800% due 6/1/42 (d)	
		Enhanced Asset Backed, Series B, Call 6/1/13 @ 100, 5.625% due 6/1/38 (b)	1,116,370
1,865,000	Ba2(f)	Vallejo, CA, COP, Touro University, 7.375% due 6/1/29	1,956,143
		Total California	17,762,098
Colorado 4.0%			
500,000	NR	Beacon Point Metropolitan District, GO, Series A, 6.250% due 12/1/35	498,825
		Colorado Educational & Cultural Facilities Authority Revenue: Charter School:	
1,230,000	AAA	Bromley School Project, Refunding, XLCA-Insured, 5.125% due 9/15/25	1,286,642
845,000	AAA	Peak to Peak Project, Call 8/15/11 @100, 7.500% due 8/15/21 (b)	984,095
2,000,000	NR	Colorado Lutheran High School Association Project, Series A, 7.625% due 6/1/34 (d)	2,083,360
785,000	NR	Elbert County Charter, 7.375% due 3/1/35	785,126
500,000	NR	High Plains, CO, Metropolitan District, Series A, 6.250% due 12/1/35	498,825
500,000	NR	Southlands, CO, Metropolitan District Number 1, GO, 7.125% due 12/1/34	543,715
		Total Colorado	6,680,588
District of Columbia 1.2%			
1,895,000	AAA	District of Columbia COP, District Public Safety & Emergency, AMBAC-Insured, 5.500% due 1/1/20 (d)	2,054,085
Florida 12.5%			
1,000,000	NR	Beacon Lakes, FL, Community Development District, Special Assessment, Series A, 6.900% due 5/1/35	1,087,600
1,500,000	NR	Bonnet Creek Resort Community Development District, Special Assessment, 7.500% due 5/1/34	1,643,310
2,000,000	NR	Capital Projects Finance Authority of Florida, Student Housing Revenue, Capital Projects Loan Program, Florida University, Series A, 7.850% due 8/15/31 (b)(d)	2,426,820
2,000,000	NR	Capital Projects Finance Authority, FL, Continuing Care Retirement Glenridge on Palmer Ranch, Series A, 8.000% due 6/1/32 (d)	2,220,960
965,000	NR	Century Parc Community Development District, Special Assessment, 7.000% due 11/1/31	1,013,231
1,000,000	A+	Highlands County, FL, Health Facilities Authority Revenue, Adventist Health Systems, Series D, 6.000% due 11/15/25	1,085,170
1,000,000	Aaa(f)	Hollywood, FL, FGIC-Insured, 5.000% due 6/1/26	1,044,060
830,000	NR	Homestead, FL, IDR, Community Rehabilitation Providers Program, Series A, 7.950% due 11/1/18	837,171

See Notes to Financial Statements.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-CSR

	Face Amount	Rating	Security	Value
Florida	12.5% (continued)			
\$				
	2,000,000	BB+	Martin County, FL, IDA Revenue, Indiantown Cogeneration Projects, Series A, 7.875% due 12/15/25 (c)(d)	\$ 2,066,560
	1,000,000	NR	Orange County, FL, Health Facilities Authority Revenue, First Mortgage, GF, Orlando Inc. Project, 9.000% due 7/1/31	1,074,470
	495,000	AAA	Palm Beach County, FL, Health Facilities Authority Revenue, John F. Kennedy Memorial Hospital Inc. Project, 9.500% due 8/1/13 (g)	610,855
	2,000,000	NR	Reunion East Community Development District, Special Assessment, Series A, 7.375% due 5/1/33 (d)	2,186,780
	1,000,000	B-	Santa Rosa, FL, Bay Bridge Authority Revenue, 6.250% due 7/1/28	1,004,940
	1,000,000	AAA	University of Central Florida, COP, Series A, FGIC-Insured, 5.000% due 10/1/25	1,029,100
	1,485,000	NR	Waterlefe, FL, Community Development District, Golf Course Revenue, 8.125% due 10/1/25	1,489,024
			Total Florida	20,820,051
Georgia	4.2%			
	1,000,000	AAA	Atlanta, GA, Airport Revenue: Series B, FGIC-Insured, 5.625% due 1/1/30 (c)	1,045,850
	1,000,000	AAA	Series G, FSA-Insured, 5.000% due 1/1/26	1,035,620
	2,500,000	NR	Atlanta, GA, Tax Allocation, Atlantic Station Project, 7.900% due 12/1/24 (d)	2,732,225
	1,000,000	NR	Gainesville & Hall County, GA, Development Authority Revenue, Senior Living Facilities, Lanier Village Estates, Series C, 7.250% due 11/15/29	1,072,940
	1,005,000	NR	Walton County, GA, IDA Revenue, Walton Manufacturing Co. Project, 8.500% due 9/1/07	1,030,798
			Total Georgia	6,917,433
Illinois	1.3%			
	2,000,000	AAA	Chicago, IL, GO, Neighborhoods Alive 21 Program, FGIC-Insured, Call 1/1/11 @ 100, 5.500% due 1/1/31 (b)(d)	2,184,320
Indiana	2.1%			
	2,500,000	BBB	East Chicago Industrial, PCR, IN, Inland Steel Co. Project Number 10, 6.800% due 6/1/13 (d)	2,503,125
	1,000,000	BBB-	Indiana State Development Finance Authority, PCR, Inland Steel Co. Project Number 13, 7.250% due 11/1/11 (c)	1,035,630
			Total Indiana	3,538,755
Louisiana	0.6%			
	1,000,000	NR	Epps, LA, COP, 8.000% due 6/1/18	1,028,140
Maryland	1.0%			
	1,500,000	NR	Maryland State Economic Development Corp. Revenue, Chesapeake	

See Notes to Financial Statements.

[Municipal High Income Fund Inc. 2005 Annual Report](#)

9

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-CSR

	Face Amount	Rating	Security	Value
Massachusetts	4.2%			
\$				
	955,000	NR	Boston, MA, Industrial Development Financing Authority Revenue,	
			Roundhouse Hospitality LLC Project, 7.875% due 3/1/25	
			(c)	\$ 957,416
	1,000,000	NR	Massachusetts State DFA Revenue, Briarwood, Series B,	
			Call 12/1/10 @ 101, 8.250% due 12/1/30 (b)	1,217,650
	1,000,000	BBB	Massachusetts State HEFA Revenue, Caritas Christi	
			Obligation,	
			Series B, 6.750% due 7/1/16	1,116,050
	1,900,000	NR	Massachusetts State IFA Revenue, Assisted Living	
			Facilities,	
			Marina Bay LLC Project, 7.500% due 12/1/27 (b)(c)	2,003,645
	1,000,000	AAA	Massachusetts State, School Building Authority, Dedicated	
			Sales Tax	
			Revenue, Series A, FSA-Insured, 5.000% due 8/15/20	1,057,820
	425,000	AAA	Massachusetts State Port Authority Revenue, 13.000%	
			due 7/1/13 (g)	590,716
			Total Massachusetts	6,943,297
Michigan	6.7%			
	2,130,000	NR	Allen Academy, COP, 7.500% due 6/1/23 (d)	2,057,410
			Cesar Chavez Academy, COP:	
	1,000,000	NR	7.250% due 2/1/33	965,370
	1,000,000	NR	8.000% due 2/1/33	1,032,730
	1,645,000	Ba1(f)	Garden City, MI, HFA, Hospital Revenue, Garden City	
			Hospital	
			Obligation Group, Series A, 5.625% due 9/1/10	1,633,567
	1,000,000	NR	Gaudior Academy, COP, 7.250% due 4/1/34	1,007,160
	1,750,000	NR	Kalamazoo Advantage Academy, COP, 8.000% due	
			12/1/33	1,828,557
	1,000,000	NR	Merritt Academy, COP, 7.250% due 12/1/24	996,850
	1,000,000	NR	Star International Academy, COP, 7.000% due 3/1/33	1,008,710
	700,000	NR	William C. Abney Academy, COP, 6.750% due 7/1/19	687,085
			Total Michigan	11,217,439
Mississippi	0.9%			
	1,480,000	Aaa(f)	Jackson, MS, Public School District, FSA-Insured, 5.000%	
			due 10/1/20	1,554,755
Montana	1.5%			
	2,515,000	NR	Montana State Board of Investment, Resource Recovery	
			Revenue,	
			Yellowstone Energy LP Project, 7.000% due 12/31/19	2,473,528
			(c)(d)	
New Hampshire	1.0%			
	1,600,000	A	New Hampshire HEFA Revenue, Covenant Health System,	
			5.500% due 7/1/34	1,662,400
New Jersey	4.8%			
	1,500,000	AAA	Casino Reinvestment Development Authority Revenue,	
			Series A,	
			MBIA-Insured, 5.250% due 6/1/20	1,598,715
	1,000,000	NR	New Jersey EDA, Retirement Community Revenue,	
			SeaBrook	
			Village Inc., Series A, 8.250% due 11/15/30	1,110,790
	3,000,000	BBB-	New Jersey Health Care Facilities Financing Authority	
			Revenue,	
			Trinitas Hospital Obligation Group, 7.500% due 7/1/30 (d)	3,338,550
	1,750,000	BBB	Tobacco Settlement Financing Corp., 6.750% due 6/1/39	2,012,500
			Total New Jersey	8,060,555

See Notes to Financial Statements.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-CSR

Face Amount	Rating	Security	Value
New Mexico 2.0%			
		Albuquerque, NM, Hospital Revenue, Southwest Community Health Services, Call 8/1/08 @ 100:	
\$ 200,000	AAA	10.000% due 8/1/12 (b)	\$ 228,812
105,000	AAA	10.125% due 8/1/12 (b)	120,427
1,000,000	NR	Otero County, NM, Jail Project Revenue, 7.500% due 12/1/24	1,041,100
1,000,000	A+	Sandoval County, NM, Incentive Payment Revenue, Refunding, 5.000% due 6/1/20	1,038,520
940,000	NR	Sandoval County, NM, Project Revenue, Santa Ana Pueblo Project, 7.750% due 7/1/15	966,414
		Total New Mexico	3,395,273
New York 7.2%			
700,000	NR	Brookhaven, NY, IDA Civic Facilities Revenue, Memorial Hospital Medical Center Inc., Series A, 8.250% due 11/15/30	752,878
500,000	Aaa(f)	Herkimer County, NY, IDA, Folts Adult Home, Series A, FHA-Insured, GNMA-Collateralized, 5.500% due 3/20/40	538,590
2,000,000	AAA	Metropolitan Transportation Authority of New York, Series A, AMBAC-Insured, 5.000% due 7/1/30 (d)	2,056,880
1,000,000	NR	Monroe County, NY, IDA, Civic Facilities Revenue, Woodland Village Project, 8.550% due 11/15/32	1,121,880
1,340,000	NR	New York City, NY, IDA, Civic Facilities Revenue: Community Residence for the Developmentally Disabled Project, 7.500% due 8/1/26	1,394,552
1,000,000	NR	Special Needs Facilities Pooled Program, Series A-1, 8.125% due 7/1/19	1,077,060
1,000,000	AAA	New York City, NY, Municipal Water Finance Authority, Water & Sewer System Revenue, Series C, MBIA-Insured, 5.000% due 6/15/27	1,041,010
1,500,000	AAA	New York State Dormitory Authority Revenue: Mental Health Services Facilities Improvement, Series B, AMBAC-Insured, 5.000% due 2/15/35	1,543,680
1,450,000	AAA	Montefiore Hospital, FGIC/FHA-Insured, 5.000% due 8/1/29	1,498,691
970,000	NR	Suffolk County, NY, IDA, Civic Facilities Revenue, Eastern Long Island Hospital Association, Series A, 7.750% due 1/1/22	1,026,541
		Total New York	12,051,762
North Carolina 0.6%			
950,000	NR	North Carolina Medical Care Community, Health Care Facilities Revenue, First Mortgage, DePaul Community Facilities Project, 7.625% due 11/1/29	995,173
Ohio 3.5%			
1,500,000	BBB	Cuyahoga County, OH, Hospital Facilities Revenue, Canton Inc. Project, 7.500% due 1/1/30	1,667,295
260,000	BBB	Montgomery County, OH, Health Systems Revenue: Prerefunded Balance, Series B-1, Call 7/1/06 @102, 8.100% due 7/1/18 (b)	272,298
1,035,000	BBB	Series B-1, Call 7/1/06 @ 102, 8.100% due 7/1/18 (b)	1,088,468

See Notes to Financial Statements.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-CSR

Face Amount	Rating	Security	Value
Ohio 3.5% (continued)			
\$ 1,500,000	BBB-	Ohio State Air Quality Development Authority Revenue, Cleveland Pollution Control, Series A, 6.000% due 12/1/13	\$ 1,575,150
1,260,000	AA+	Riversouth Authority Ohio, Revenue, Riversouth Area Redevelopment, Series A, 5.000% due 12/1/25	1,311,584
		Total Ohio	5,914,795
Pennsylvania 4.2%			
2,200,000	NR	Allegheny County, PA, IDA, Airport Special Facilities Revenue, USAir, Inc. Project, Series B, 8.500% due 3/1/21 (a)(c)	46,750
1,000,000	NR	Cumberland County, PA, Municipal Authority Retirement Community Revenue, Wesley Affiliated Services Inc. Project, Series A, 7.250% due 1/1/35	1,069,430
1,000,000	BBB+	Lebanon County, PA, Health Facilities Authority Revenue, Good Samaritan Hospital Project, 6.000% due 11/15/35	1,067,520
2,640,000	NR	Montgomery County, PA, Higher Education & Health Authority Revenue, Temple Continuing Care Center, 6.625% due 7/1/19 (a)	475,200
990,000	NR	Northumberland County, PA, IDA Facilities Revenue, NHS Youth Services Inc. Project, Series A, 7.500% due 2/15/29	1,014,403
1,000,000	NR	Philadelphia, PA, Authority for IDR, Host Marriot LP Project, Remarketed 10/31/95, 7.750% due 12/1/17	1,010,250
2,000,000	NR	Westmoreland County, PA, IDA Revenue, Health Care Facilities, Redstone Highlands Health, Series B, Call 11/15/10 @ 101, 8.125% due 11/15/30 (b)(d)	2,279,160
		Total Pennsylvania	6,962,713
South Carolina 0.4%			
225,000	NR	Florence County, SC, IDR, Stone Container Corp., 7.375% due 2/1/07	225,601
385,000	NR	McCormick County, SC, COP, 9.750% due 7/1/09	386,336
		Total South Carolina	611,937
Texas 9.7%			
1,155,000	Ba3(f)	Bexar County, TX, Housing Finance Corp., MFH Revenue, Nob Hill Apartments, Series B, 8.500% due 6/1/31	1,056,063
570,000	NR	Bexar County, TX, Housing Financial Corp., MFH Revenue, Continental Lady Ester, Series A, 6.875% due 6/1/29	528,282
1,000,000	BBB	Garza County Public Facility Corp., 5.500% due 10/1/18	1,036,860
2,000,000	BB	Gulf Coast of Texas, IDA, Solid Waste Disposal Revenue, CITGO Petroleum Corp. Project, 7.500% due 9/30/12 (c)(d)(h)	2,233,260
2,750,000	B-	Houston, TX, Airport Systems Revenue, Special Facilities, Continental Airlines Inc. Project, Series C, 6.125% due 7/15/27 (c)(d)	2,184,682
1,100,000	NR	Intercontinental Airport, Houston Public Facilities Corp. Project Revenue, 7.750% due 5/1/26	1,079,001
1,000,000	AAA	Laredo, TX, ISD Public Facility Corp. Lease Revenue, Series A, AMBAC-Insured, 5.000% due 8/1/29	1,022,450

See Notes to Financial Statements.

	Face Amount	Rating	Security	Value
Texas	9.7% (continued)			
\$	1,000,000	NR	Midlothian, TX, Development Authority, Tax Increment Contract Revenue, 6.200% due 11/15/29	\$ 1,003,730
	1,000,000	AAA	North Texas Throughway Authority, Dallas North Tollway Systems Revenue, Series A, FSA-Insured, 5.000% due 1/1/35	1,028,060
	1,000,000	BB	Port Corpus Christi, TX, Industrial Development Corp., CITGO Petroleum Corp. Project, 8.250% due 11/1/31 (c)	1,060,490
	960,000	Caa1(f)	Texas State Affordable Housing Corp., MFH Revenue, HIC	
	1,865,000	NR	Arborstone/Baybrook, Series C, 7.250% due 11/1/31 (a)(i)(j)	66,240
	1,000,000	NR	West Texas Detention Facility Corp. Revenue, 8.000% due 2/1/25	1,905,079
	1,000,000	NR	Willacy County, TX, PFC Project Revenue: County Jail, 7.500% due 11/1/25	1,009,380
		NR	Series A-1, 8.250% due 12/1/23	1,033,380
			Total Texas	16,246,957
Virginia	1.6%			
	505,000	NR	Alexandria, VA, Redevelopment & Housing Authority, MFH Revenue, Parkwood Court Apartments Project, Series C, 8.125% due 4/1/30	506,459
	1,000,000	NR	Broad Street CDA Revenue, 7.500% due 6/1/33	1,093,360
	1,000,000	NR	Fairfax County, VA, EDA Revenue, Retirement Community, Greenspring Village, Inc., Series A, 7.500% due 10/1/29	1,061,280
			Total Virginia	2,661,099
Wisconsin	1.0%			
	1,000,000	BBB+	Wisconsin State HEFA Revenue: Aurora Health Care, 6.400% due 4/15/33	1,094,610
	1,745,000	NR	Benchmark Healthcare of Green Bay, Inc. Project, Series A, 7.750% due 5/1/27 (a)	523,500
			Total Wisconsin	1,618,110
			TOTAL MUNICIPAL BONDS	
			(Cost \$158,414,152)	157,885,456
	Shares			
COMMON STOCK	0.0%			
ENERGY	0.0%			
Oil, Gas & Consumable Fuels	0.0%			
	3,180		Mobile Energy Services LLC (i)(j)* (Cost \$988,235)	0
			TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS (Cost \$159,402,387)	157,885,456

See Notes to Financial Statements.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-CSR

	Face Amount	Rating	Security	Value
SHORT-TERM INVESTMENTS(k) 3.4%				
Florida 0.3%				
\$	460,000	VMIG 1(f)	Brevard County, FL, Health Facilities Authority, Refunding Bonds, Health First Inc. Project, LOC-Suntrust Bank, 2.720% due 11/1/05	\$ 460,000
Georgia 0.1%				
	200,000	A-1+	Atlanta, GA, Water & Wastewater Revenue, Series C, FSA-Insured, 2.720% due 11/1/05	200,000
Illinois 0.9%				
	700,000	A-1+	Illinois Finance Authority Revenue, Northwestern Memorial Hospital, Series B-2, SPA-UBS AG, 2.700% due 11/1/05	700,000
	500,000	A-1+	Illinois Health Facilities Authority, OSF Healthcare Systems, LOC-Fifth Third Bank, 2.730% due 11/1/05	500,000
	400,000	A-1+	Illinois Health Facilities Authority Revenue, University Chicago Hospitals, MBIA Insured, SPA-Bank One, 2.740% due 11/1/05	400,000
			Total Illinois	1,600,000
Massachusetts 0.3%				
	500,000	VMIG 1(f)	Massachusetts HEFA, Capital Asset Program, Series E, LOC-Bank of America, 2.700% due 11/1/05	500,000
Pennsylvania 0.3%				
	200,000	A-1+	Pennsylvania State Higher EFA, Carnegie Mellon University, Series B, SPA-JPMorgan Chase Bank, 2.720% due 11/1/05	200,000
	300,000	A-1+	Philadelphia, PA, Hospitals & Higher Education Facilities Authority, Children s Hospital Philadelphia, SPA-Fleet National Bank, 2.720% due 11/1/05	300,000
			Total Pennsylvania	500,000
Tennessee 0.6%				
	1,000,000	VMIG 1(f)	Sevier County, TN, Public Building Authority, Local Government Improvement, Series IV-E-3, AMBAC-Insured, 2.740% due 11/1/05	1,000,000
Texas 0.7%				
	500,000	A-1+	Harris County, TX, Health Facilities Development Corp. Revenue: Special Facilities, Texas Medical Center Project, MBIA-Insured, 2.740% due 11/1/05	500,000
	600,000	A-1+	St. Luke s Episcopal Hospital, Series B, BPA, 2.720% due 11/1/05	600,000
			Total Texas	1,100,000

See Notes to Financial Statements.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-CSR

	Face Amount	Rating	Security	Value
Virginia	0.2%			
\$	300,000	A-1+	Roanoke, VA, IDA Hospital Revenue, Carilion Health Systems, Series B, SPA-JPMorgan Chase Bank, 2.740% due 11/1/05	\$ 300,000
			TOTAL SHORT-TERM INVESTMENTS	
			(Cost \$5,660,000)	5,660,000
			TOTAL INVESTMENTS 98.0%	
			(Cost \$165,062,387#)	163,545,456
			Other Assets in Excess of Liabilities 2.0%	3,370,821
			TOTAL NET ASSETS 100.0%	\$166,916,277

* Non-income producing security.

All ratings are by Standard & Poor's Ratings Service, unless otherwise footnoted. All ratings are unaudited.

- (a) Security is currently in default.
- (b) Pre-Refunded bonds are escrowed with government securities and/or U.S. government agency securities and are considered by the investment adviser to be triple-A rated even if issuer has not applied for new ratings.
- (c) Income from this issue is considered a preference item for purposes of calculating the alternative minimum tax (AMT).
- (d) All or a portion of this is segregated for open futures contracts.
- (e) All or a portion of this security is held at the broker as collateral for open futures contracts.
- (f) Rating by Moody's Investors Service. All ratings are unaudited.
- (g) Bonds are escrowed to maturity by government securities and/or U.S. government agency securities and are considered by the investment adviser to be triple-A rated even if issuer has not applied for new ratings.
- (h) Maturity date shown represents the mandatory tender date.
- (i) Illiquid Security.
- (j) Securities are fair valued in good faith at fair value by or under the direction of the Board of Directors (See Note 1).
- (k) Variable rate demand obligations have a demand feature under which the fund could tender them back to the issuer on no more than 7 days notice. Date shown is the date of the next interest rate change.

Aggregate cost for federal income tax purposes is \$165,005,687.

Please see pages 17 and 18 for definitions of ratings.

Abbreviations used in this schedule:

AMBAC Ambac Assurance Corporation

CDA Community Development Authority

COP Certificate of Participation

DFA Development Finance Agency

EDA Economic Development Authority

EFA Educational Facilities Authority

FGIC Financial Guaranty Insurance Company

FHA Federal Housing Administration

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-CSR

FSA Financial Security Assurance

GNMA Government National Mortgage Association

GO General Obligation

HEFA Health & Educational Facilities Authority

HFA Housing Finance Authority

IBC Insured Bond Certificates

IDA Industrial Development Authority

IDR Industrial Development Revenue

IFA Industrial Finance Agency

ISD Independent School District

LOC Letter of Credit

MBIA Municipal Bond Investors Assurance Corporation

MFH Multi-Family Housing

PCR Pollution Control Revenue

PFC Public Facilities Corporation

SPA Standby Bond Purchase Agreement

XLCA XL Capital Assurance

See Notes to Financial Statements.

Edgar Filing: MUNICIPAL HIGH INCOME FUND INC - Form N-CSR

Schedule of Investments (October 31, 2005) (continued)

SUMMARY OF INVESTMENTS BY INDUSTRY*

Hospitals	16.1	%
Education	13.2	
Pre-Refunded	9.9	
Lifecare Systems	6.2	
Industrial Development	5.8	
Transportation	5.1	
Pollution Control	4.9	
Public Facilities	4.4	
Utilities	4.3	
Housing: Multi-Family	2.8	
Cogeneration Facilities	2.8	
Tobacco	2.7	
Housing: Single-Family	2.3	
General Obligations	1.8	
Water & Sewer	0.8	
Escrowed to Maturity	0.8	
Government Facilities	0.6	
Tax Allocation	0.6	
Miscellaneous	14.9	
	100.0	%

* As a percentage of total investments. Please note that Fund holdings are subject to change.
See Notes to Financial Statements.

Bond Ratings (unaudited)

The definitions of the applicable ratings symbols are set forth below:

Standard & Poor's Ratings Service (Standard & Poor's) Ratings from AA to C may be modified by the addition of a plus (+) or a minus (-) sign to show relative standings within the major rating categories.

AAA Bonds rated AAA have the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.

AA Bonds rated AA have a very strong capacity to pay interest and repay principal and differ from the highest rated issue only in a small degree.

A Bonds rated A have a strong capacity to pay interest and repay principal although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.

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

BB, B, CCC, CC and C Bonds rated BB, B, CCC, CC and C are 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 represents the lowest degree of speculation and C the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

D Bonds rated D are in default and payment of interest and/or repayment of principal is in arrears.

Moody's Investors Service (Moody's) Numerical modifiers 1, 2 and 3 may be applied to each generic rating from Aa to C, where 1 is the highest and 3 the lowest ranking within its generic category.

Aaa Bonds 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 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 fluctuation 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 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 some time in the future.

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

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

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

Caa Bonds rated Caa are of poor standing. These may be in default, or present elements of danger may exist with respect to principal or interest.

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

C Bonds 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.

NR Indicates that the bond is not rated by Standard & Poor's or Moody's.

Short-Term Security Ratings (unaudited)

- SP-1 Standard & Poor's highest rating indicating very strong or strong capacity to pay principal and interest; those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign.
- A-1 Standard & Poor's highest commercial paper and variable-rate demand obligation (VRDO) rating indicating that the degree of safety regarding timely payment is either overwhelming or very strong; those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign.
- VMIG 1 Moody's highest rating for issues having a demand feature VRDO.
- MIG 1 Moody's highest rating for short-term municipal obligations.
- P-1 Moody's highest rating for commercial paper and for VRDO prior to the advent of the VMIG 1 rating.
- F-1 Moody's highest rating indicating the strongest capacity for timely payment of financial commitments; those issues determined to possess overwhelming strong credit features are denoted with a plus (+) sign.

ASSETS:	
Investments, at value (Cost \$165,062,387)	\$ 163,545,456
Interest receivable	3,625,675
Receivable for securities sold	1,141,693
Prepaid expenses	5,535
Total Assets	168,318,359
LIABILITIES:	
Payable for securities purchased	1,042,590
Payable to broker variation margin on open futures contracts	62,500
Investment advisory fee payable	56,649
Distributions payable	54,251
Due to custodian	28,627
Administration fee payable	21,245
Accrued expenses	136,220
Total Liabilities	1,402,082
Total Net Assets	\$ 166,916,277
NET ASSETS:	
Par value (Note 4)	\$ 210,022
Paid-in capital in excess of par value	192,320,568
Undistributed net investment income	67,437
Accumulated net realized loss on investments and futures contracts	(26,194,272)
Net unrealized appreciation on investments and futures contracts	512,522
Total Net Assets	\$ 166,916,277
Shares Outstanding	21,002,201
Net Asset Value	\$7.95

See Notes to Financial Statements.

INVESTMENT INCOME:

Interest **\$ 10,965,860**

EXPENSES:

Investment advisory fee (Note 2)	665,684
Administration fee (Note 2)	325,761
Legal fees	122,774
Transfer agent fees	69,928
Directors' fees	65,784
Shareholder reports	62,632
Audit and tax	33,576
Custody fees	28,513
Stock exchange listing fees	17,897
Insurance	4,220
Miscellaneous expenses	22,732

Total Expenses **1,419,501**

Net Investment Income **9,546,359**

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FUTURES CONTRACTS (NOTES 1 AND 3):

Net Realized Loss From:

Investments	(5,722,240)
Futures contracts	(3,908,684)

Net Realized Loss **(9,630,924)**

Change in Net Unrealized Appreciation/Depreciation From:

Investments	7,992,564
Futures contracts	3,748,203

Change in Net Unrealized Appreciation/Depreciation **11,740,767**

Increase From Payment by Affiliate (Note 2) **80,000**

Net Gain on Investments and Futures Contracts **2,189,843**

Increase in Net Assets From Operations **\$ 11,736,202**

See Notes to Financial Statements.

	2005	2004
OPERATIONS:		
Net investment income	\$ 9,546,359	\$ 10,680,564
Net realized loss	(9,630,924)	(9,575,626)
Change in net unrealized appreciation/depreciation	11,740,767	8,470,935
Increase from payment by affiliate	80,000	
Increase in Net Assets From Operations	11,736,202	9,575,873
DISTRIBUTIONS TO SHAREHOLDERS FROM (NOTE 1):		
Net investment income	(9,429,988)	(11,184,964)
In excess of net investment income		(112,227)
Decrease in Net Assets From Distributions to Shareholders	(9,429,988)	(11,297,191)
FUND SHARE TRANSACTIONS (NOTE 4):		
Reinvestment of distributions		524,962
Increase in Net Assets From Fund Share Transactions		524,962
Increase (Decrease) in Net Assets	2,306,214	(1,196,356)
NET ASSETS:		
Beginning of year	164,610,063	165,806,419
End of year*	\$ 166,916,277	\$ 164,610,063
*Includes undistributed net investment income of:	\$67,437	\$132,824

See Notes to Financial Statements.

For a share of capital stock outstanding throughout each year ended October 31:

