WESTERN ASSET INTERMEDIATE MUNI FUND INC.
Form N-CSR
March 12, 2007

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 811-6506

Western Asset Intermediate Muni 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 Fl.

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: December 31

Date of reporting period: December 31, 2006

ITEM 1. REPORT TO STOCKHOLDERS.

The Annual Report to Stockholders is filed herewith.

**Western Asset Intermediate**
**Muni Fund Inc.**

**ANNUAL REPORT**

DECEMBER 31, 2006

**Western Asset Intermediate Muni Fund Inc.**

Annual Report December 31, 2006

**What s Inside**


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**Letter from the Chairman**

Dear Shareholder,

U.S. economic growth was mixed during the 12-month reporting period. After gross domestic product ( GDP[i] ) increased 1.7% in the fourth quarter of 2005, the economy then rebounded sharply in the first quarter of 2006. Over this period, GDP rose 5.6%, its best showing since the third quarter of 2003. In the second quarter of 2006, GDP growth was 2.6% and it further moderated to 2.0% in the third quarter. The economy then strengthened in the fourth quarter, due largely to increased consumer spending. Over this time, the advance estimate for GDP growth was 3.5%.

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

After increasing the federal funds rate[ii] to 5.25% in June its 17th consecutive rate hike the Federal Reserve Board ( Fed[iii] ) paused from raising rates at its next five meetings. In its statement accompanying the January 2007 meeting, the Fed stated, Recent indicators have suggested somewhat firmer economic growth, and some tentative signs of stabilization have appeared in the housing market. Readings on core inflation have improved modestly in recent months, and inflation pressures seem likely to moderate over time.

During the reporting period, short- and long-term Treasury yields experienced periods of significant volatility. After peaking in late June with two- and 10-year Treasuries hitting 5.29% and 5.25%, respectively rates fell sharply as the Fed paused from its tightening cycle. In addition, inflationary pressures eased as oil prices fell after reaching a record high in mid-July. Overall, during the 12 months ended December 31, 2006, two-year Treasury yields increased to 4.82% versus 4.41% when the reporting period began. Over the same period, 10-year Treasury yields moved from 4.39% to 4.71%.

Looking at the municipal market, it outperformed its taxable bond counterparts over the 12-months ended December 31, 2006. Over that period, the Lehman Brothers Municipal Bond Index[iv] and the Lehman Brothers U.S. Aggregate Index[v] returned 4.84% and 4.33%, respectively.

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 Notices**

Effective August 1, 2006, Legg Mason Partners Fund Advisor, LLC ( LMPFA ) became the Fund s investment manager. Western Asset Management Company ( Western Asset ) became the Fund s subadviser under a new sub-advisory agreement between LMPFA and Western Asset. LMPFA and Western Asset are wholly-owned subsidiaries of Legg Mason, Inc. The portfolio managers who are responsible for the day-to-day management of the Fund remained the same immediately prior to and immediately after the date of these changes. LMPFA provides administrative and certain oversight services to the Fund. LMPFA has delegated to the sub-adviser the day-to-day management of the Fund. The management fee for the Fund remains unchanged.

Prior to October 9, 2006, the Fund was known as Intermediate Muni Fund, Inc.

**Information About Your Fund**

As you may be aware, several issues in the mutual fund industry (not directly affecting closed-end investment companies, such as this Fund) have come under the scrutiny of federal and state regulators. Affiliates of the Fund s manager have, in recent years, received requests for information from various government regulators regarding market timing, late trading, fees, and other mutual fund issues in connection with various investigations. The regulators appear to be examining, among other things, the open-end funds response to market timing and shareholder exchange activity, including compliance with prospectus disclosure related to these subjects. The Fund is not in a position to predict the outcome of these requests and investigations, or whether these may affect the Fund.

Important information with regard to recent regulatory developments that may affect the Fund is contained in the Notes to Financial Statements included in this report.

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

Sincerely,

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

*January 31, 2007*

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 funds rate is the interest rate that banks with excess reserves at a Federal Reserve district bank charge other banks that need overnight loans.

iii 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.

iv The Lehman Brothers Municipal Bond Index is a broad measure of the municipal bond market with maturities of at least one year.

v The Lehman Brothers U.S. Aggregate Index is a broad-based bond index comprised of Government, Corporate, Mortgage and Asset-backed issues, rated investment grade or higher, and having at least one year to maturity.

**Fund Overview**

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

**A.** During the first half of the reporting period, the bond market faced a number of challenges, including four additional short-term interest rate hikes by the Federal Reserve Board ( Fed[i]), inflationary pressures and a continued economic expansion. However, as the period progressed, oil prices declined, a cooling housing market triggered slower economic growth and the Fed paused from raising rates during their meetings in August, September, October and December 2006. All told, the municipal bond market generated positive returns during the one-year period ended December 31, 2006 and outperformed the overall taxable bond market. During that period, the Lehman Brothers Municipal Bond Index[ii] gained 4.84% while the Lehman Brothers U.S. Aggregate Index[iii] returned 4.33%.

**Performance Review**

For the 12 months ended December 31, 2006, Western Asset Intermediate Muni Fund Inc. returned 6.17%, based on its net asset value ( NAV[iv] ) and 9.97% based on its American Stock Exchange ( AMEX ) market price per share. In comparison, the Fund s unmanaged benchmark, the Lehman Brothers Municipal Bond Index[v], returned 4.84% and its Lipper Intermediate Municipal Debt Closed-End Funds Category Average[vi] increased 5.99% over the same time frame. Please note that Lipper performance returns are based on each fund s NAV.

During the 12-month period, the Fund made distributions to shareholders totaling $0.438 per share. The performance table shows the Fund s 12-month total return based on its NAV and market price as of December 31, 2006. **Past performance is no guarantee of future results.**

**Performance Snapshot as of December 31, 2006 (unaudited)**

| Price Per Share | 12-Month Total Return |
|---|---|
| $9.76 (NAV) | 6.17% |
| $9.00 (Market Price) | 9.97% |

**All figures represent past performance and are not a guarantee of future results.**

Total returns are based on changes in NAV or market price, respectively. Total returns assume the reinvestment of all distributions in additional shares.

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

**What were the leading contributors to performance?**

**A.** Given the rising interest rate environment during much of the reporting period, we maintained a defensive approach in terms of the Fund s maturity. As such, the Fund s duration[vii] was generally shorter than its benchmark index. Overall, this proved to be beneficial, as bond prices generally fall when interest rates rise. In addition, we were able to use the proceeds from our cash flows and coupons and reinvest that money into municipal bonds offering higher coupons.

Throughout the reporting period, we also emphasized a well-diversified portfolio, with holdings from a diverse array of market segments that we believed had favorable risk/reward characteristics.

**What were the leading detractors from performance?**

**A.** During the period, lower rated municipal bonds outperformed their higher quality counterparts. As a result, the Fund s high quality bias detracted from results. In particular, not having an exposure to more speculative areas of the market hurt the Fund s performance. In addition, during the third quarter of the year yields fell and the Fund s shorter maturity detracted from results during this period.

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

**A.** There were no significant changes to the Fund s portfolio.

**Looking for Additional Information?**

The Fund is traded under the symbol SBI and its closing market price is available in most newspapers under the AMEX listings. The daily NAV is available on-line under symbol XSBIX on most financial websites. *Barron s* and *The Wall Street Journal s* Monday edition both carry closed-end fund tables that 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.leggmason.com/InvestorServices.

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 6:00 p.m. Eastern Time, for the Fund s current NAV, market price and other information.

Thank you for your investment in the Western Asset Intermediate Muni Fund Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund s investment goals.

Sincerely,

Western Asset Management Company

*January 18, 2007*

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.

RISKS: Keep in mind the Fund s investments are subject to interest rate and credit risks. As interest rates rise, bond prices fall, reducing the value of the Fund s share price. Lower-rated, higher yielding bonds, known as junk bonds , are subject to greater credit risk, including the risk of default, than higher-rated obligations. 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.

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

i The Federal Reserve Board is responsible for the formulation of a policy designed to promote economic growth, full employment, stable prices, and sustainable pattern of international trade and payments.

ii The Lehman Brothers Municipal Bond Index is a broad measure of the municipal bond market with maturities of at least one year.

iii The Lehman Brothers U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.

iv 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.

v The Lehman Brothers Municipal Bond Index is a broad measure of the municipal bond market with maturities of at least one year.

vi Lipper, Inc. is a major independent mutual-fund tracking organization. Returns are based on the 12-month period ended December 31, 2006, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 8 funds in the Fund s Lipper category.

vii Duration is a common gauge of the price sensitivity of a fixed income asset or portfolio to a change in interest rates.

**Dividend Reinvestment Plan Summary**

**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 distributions, if any, in additional shares of the Fund. 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 distributions will be reinvested automatically in additional shares of the Fund.

The number of common stock shares of the Fund you will receive in lieu of a cash payment is determined in the following manner. If the market price of the common stock is equal to or exceeds the net asset value per share ( NAV ) on the determination date, you will be issued shares by the Fund at a price reflecting the NAV, or 95% of the market price, whichever is greater.

If the market price is less than the NAV at the time of valuation (the close of business on the determination date), American Stock Transfer & Trust Company ( AST or Plan Agent ) will buy common stock for your account in the open market.

If the Plan Agent begins to purchase additional shares in the open market and the market price of the shares subsequently rises above the previously determined NAV before the purchases are completed, the Plan Agent will attempt to terminate purchases and have the Fund issue the remaining distribution in shares at the greater of the previously determined NAV or 95% of the market price. 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.

A more complete description of the current Plan appears in the section of this report beginning on page 35. To find out more detailed information about the Plan and about how you can participate, please call the Plan Agent at 1-877-366-6441.

**Fund at a Glance (unaudited)**

**Investment Breakdown**

**Schedule of Investments (December 31, 2006)**

**WESTERN ASSET INTERMEDIATE MUNI FUND INC.**

**MUNICIPAL BONDS 98.8%**

**Alabama 3.0%**

| Face Amount | Rating | Security | Value |
|---|---|---|---|
| $ 3,000,000 | AAA | Alabama State Public School & College Authority, FSA-Insured, 5.125% due 11/1/15 | $ 3,118,860 |
| 1,225,000 | AAA | Baldwin County, AL, Board of Education, Capital Outlay School Warrants, AMBAC-Insured, 5.000% due 6/1/20 | 1,304,441 |
| 179,127 | AAA | Birmingham, AL, Medical Clinic Board Revenue, Baptist Medical Center, 8.300% due 7/1/08 (a) | 186,754 |
| 1,000,000 | AAA | Saraland, AL, GO, MBIA-Insured, 5.250% due 1/1/15 | 1,068,350 |
| | | **Total Alabama** | 5,678,405 |
| **Alaska 1.6%** | | | |
| 1,000,000 | NR | Alaska Industrial Development & Export Authority Revenue, Williams Lynxs Alaska Cargo Port LLC, 8.000% due 5/1/23 (b) | 1,076,410 |
| 500,000 | AAA | Anchorage, AK, GO, Refunding, FGIC-Insured, 6.000% due 10/1/14 | 575,315 |
| 1,250,000 | AAA | North Slope Boro, AK, Refunding, Series A, MBIA-Insured, 5.000% due 6/30/15 | 1,359,850 |
| | | **Total Alaska** | 3,011,575 |
| **Arizona 0.3%** | | | |
| | | Maricopa County, AZ, Hospital Revenue: | |
| 15,000 | AAA | Samaritan Health Service, 7.625% due 1/1/08 (a) | 15,124 |
| 444,000 | AAA | St. Lukes Medical Center, 8.750% due 2/1/10 (a) | 478,303 |
| 40,000 | AAA | Pima County, AZ, IDA, Single-Family Housing Authority Revenue, Series A, GNMA/FNMA-Insured, FHLMC-Collateralized, 7.100% due 11/1/29 (b)(c) | 40,267 |
| | | **Total Arizona** | 533,694 |
| **Arkansas 1.5%** | | | |
| 1,500,000 | BBB | Arkansas State Development Finance Authority Hospital Revenue, Washington Regional Medical Center, Call 2/1/10 @ 100, 7.000% due 2/1/15 (d) | 1,641,660 |
| 1,000,000 | BB | Warren County, AR, Solid Waste Disposal Revenue, Potlatch Corp. Project, 7.000% due 4/1/12 (b) | 1,083,930 |
| | | **Total Arkansas** | 2,725,590 |
| **California 4.8%** | | | |
| 1,500,000 | NR | Barona, CA, Band of Mission Indians, GO, 8.250% due 12/1/20 | 1,559,205 |
| 3,000,000 | AA+ | California State Economic Recovery, GO, Series A, 5.000% due 7/1/17 | 3,163,830 |
| 10,000 | AAA | Loma Linda, CA, Community Hospital Corp. Revenue, First Mortgage, 8.000% due 12/1/08 (a) | 10,762 |
| | | Los Angeles, CA: | |
| 1,015,000 | NR | COP, Hollywood Presbyterian Medical Center, INDLC-Insured, 9.625% due 7/1/13 (a) | 1,210,093 |
| 1,000,000 | AAA | Union School District, Series A, MBIA-Insured, Call 7/1/13 @ 100, 5.375% due 7/1/18 (d) | 1,103,760 |
| 1,450,000 | AAA | | 1,570,480 |

Morgan Hill, CA, USD, FGIC-Insured, Call 8/1/10 @ 101,
5.750% due 8/1/17 (d)

**See Notes to Financial Statements.**

**Schedule of Investments (December 31, 2006) (continued)**

| Face Amount | Rating | Security | Value |
|---|---|---|---|
| **California 4.8% (continued)** | | | |
| $ 330,000 | AAA | San Francisco, CA, Airport Improvement Corp. Lease Revenue, United Airlines, Inc., 8.000% due 7/1/13 (a) | $ 375,919 |
| 105,000 | AAA | San Leandro, CA, Hospital Revenue, Vesper Memorial Hospital, 11.500% due 5/1/11 (a) | 123,746 |
| | | **Total California** | 9,117,795 |
| **Colorado 5.2%** | | | |
| 1,860,000 | Aaa(e) | Broomfield, CO, COP, Open Space Park & Recreation Facilities, AMBAC-Insured, 5.500% due 12/1/20 | 1,976,548 |
| | | Colorado Educational & Cultural Facilities Authority Revenue Charter School: | |
| 1,000,000 | BBB- | Bromley East Project, Series A, Call 9/15/11 @ 100, 7.000% due 9/15/20 (d) | 1,139,630 |
| 1,155,000 | AAA | Bromley School Project, XLCA-Insured, 5.125% due 9/15/20 | 1,256,663 |
| 1,350,000 | AAA | Refunding & Improvement, University Lab School, XLCA-Insured, 5.250% due 6/1/24 | 1,469,866 |
| 500,000 | Baa2(e) | University Lab School Project Call 6/1/11 @ 100, 6.125% due 6/1/21 (d) | 549,310 |
| 710,000 | BBB | Denver, CO, Health & Hospital Authority, Series A, 6.250% due 12/1/16 | 769,342 |
| 1,765,000 | AAA | Pueblo, CO, Bridge Waterworks Water Revenue, Improvement Series A, FSA-Insured, Call 11/1/10 @ 100, 6.000% due 11/1/14 (d) | 1,913,684 |
| 750,000 | A | SBC Metropolitan District, CO, GO, ACA-Insured, 5.000% due 12/1/25 | 778,920 |
| | | **Total Colorado** | 9,853,963 |
| **Connecticut 3.9%** | | | |
| 2,000,000 | AA | Connecticut State HEFA Revenue, Bristol Hospital, Series B, 5.500% due 7/1/21 | 2,177,120 |
| 1,855,000 | A | Connecticut State Special Obligation Parking Revenue, Bradley International Airport, Series A, ACA-Insured, 6.375% due 7/1/12 (b) | 2,010,245 |
| 3,000,000 | AAA | Connecticut State Special Tax Obligation Revenue, Series B, FSA-Insured, 5.375% due 10/1/13* | 3,221,940 |
| | | **Total Connecticut** | 7,409,305 |
| **Florida 4.2%** | | | |
| 150,000 | AAA | Lee County, FL, Southwest Florida Regional Airport Revenue, MBIA-Insured, 8.625% due 10/1/09 (a) | 161,775 |
| 3,250,000 | AAA | Lee, FL, Memorial Health System, Hospital Revenue, Series A, FSA-Insured, 5.750% due 4/1/14 (f) | 3,548,415 |
| 1,375,000 | NR | Old Palm Community Development District, FL, Palm Beach Gardens, Series B, 5.375% due 5/1/14 | 1,397,096 |
| | | Orange County, FL, Health Facilities Authority Revenue: | |
| 605,000 | NR | First Mortgage Healthcare Facilities, 8.750% due 7/1/11 | 635,262 |
| 1,500,000 | A+ | Hospital Adventist Health Systems, Call 11/15/12 @ 100, 6.250% due 11/15/24 (d) | 1,700,745 |

| | | | | |
|---|---|---|---|---|
| | 360,000 | Aaa(e) | Southern Adventist Hospital, Adventist Health Systems, 8.750% due 10/1/09 (a) | 389,031 |
| | | | **Total Florida** | 7,832,324 |
| **Georgia 5.3%** | | | | |
| | 970,000 | Aaa(e) | Athens, GA, Housing Authority Student Housing Lease Revenue, University of Georgia East Campus, AMBAC-Insured, 5.250% due 12/1/23 | 1,043,245 |
| | 650,000 | BBB+ | Chatham County, GA, Hospital Authority Revenue, Hospital Memorial Health Medical Center, Series A, 6.000% due 1/1/17 | 701,447 |

**See Notes to Financial Statements.**

**Schedule of Investments (December 31, 2006) (continued)**

| Face Amount | Rating | Security | Value |
|---|---|---|---|
| **Georgia 5.3% (continued)** | | | |
| $ 1,000,000 | AAA | Gainesville, GA, Water & Sewer Revenue, FSA-Insured, Call 11/15/11 @ 100, 5.375% due 11/15/20 (d) | $ 1,077,120 |
| 3,000,000 | AAA | Georgia Municipal Electric Authority Power Revenue, Refunding, Series A, FSA-Insured, 5.000% due 1/1/18 (f) | 3,181,380 |
| 500,000 | A+ | Georgia Municipal Electric Authority, Power System Revenue, Series X, 6.500% due 1/1/12 | 534,445 |
| 1,000,000 | AAA | Griffin, GA, Combined Public Utilities Revenue, Refunding & Improvement, AMBAC-Insured, 5.000% due 1/1/21 | 1,070,650 |
| 2,120,000 | AAA | Metropolitan Atlanta Rapid Transit Georgia Sales Tax Revenue, Series E, 7.000% due 7/1/11 (a) | 2,336,007 |
| | | **Total Georgia** | 9,944,294 |
| **Illinois 4.3%** | | | |
| 535,000 | C(e) | Bourbonnais, IL, Industrial Development Revenue, Refunding Kmart Corp. Project, 6.600% due 10/1/06 (g) | 10,700 |
| 1,500,000 | AAA | Chicago, IL, O Hare International Airport Revenue, Refunding Bonds, Lien A-2, FSA-Insured, 5.750% due 1/1/19 (b) | 1,656,795 |
| 1,000,000 | AAA | Cicero, IL, Tax Increment, Series A, XLCA-Insured, 5.250% due 1/1/21 | 1,082,650 |
| 970,000 | AAA | Glendale Heights, IL, Hospital Revenue, Refunding Glendale Heights Project, Series B, 7.100% due 12/1/15 (a) | 1,117,411 |
| 1,000,000 | AA | Harvey, IL, GO, Radian-Insured, 6.700% due 2/1/09 | 1,000,960 |
| 430,000 | BBB | Illinois Development Finance Authority, Chicago Charter School Foundation Project A, 5.250% due 12/1/12 | 443,399 |
| 355,000 | AAA | Illinois Health Facilities Authority Revenue, Methodist Medical Center of Illinois Project, 9.000% due 10/1/10 (a) | 391,206 |
| 1,310,000 | AAA | Kane County, IL, GO, FGIC-Insured, 5.500% due 1/1/14 | 1,409,088 |
| | | Mount Veron, IL, Elderly Housing Corp., First Lien Revenue: | |
| 250,000 | Ba3(e) | 7.875% due 4/1/07 | 250,948 |
| 270,000 | Ba3(e) | 7.875% due 4/1/08 | 270,937 |
| 1,000,000 | Aaa(e) | Will County, IL, GO, School District North 122 New Lenox, Capital Appreciation Refunding School, Series D, FSA-Insured, zero coupon bond to yield 5.188% due 11/1/24 | 461,140 |
| | | **Total Illinois** | 8,095,234 |
| **Indiana 0.6%** | | | |
| 800,000 | AAA | Ball State University, Indiana University Revenue, Student Fee, Series K, FGIC-Insured, 5.750% due 7/1/20 | 869,568 |
| 185,000 | AAA | Madison County, IN, Hospital Authority Facilities Revenue, Community Hospital of Anderson Project, 9.250% due 1/1/10 (a) | 199,896 |
| | | **Total Indiana** | 1,069,464 |
| **Iowa 1.1%** | | | |
| 1,000,000 | A-1(e) | Iowa Finance Authority, Health Care Facilities Revenue, Genesis Medical Center, 6.250% due 7/1/20 | 1,073,990 |
| 835,000 | AAA | Muscatine, IA, Electric Revenue, 9.700% due 1/1/13 (a) | 976,340 |
| | | **Total Iowa** | 2,050,330 |

**See Notes to Financial Statements.**

**Schedule of Investments (December 31, 2006) (continued)**

| Face Amount | Rating | Security | Value |
|---|---|---|---|
| **Kansas 1.8%** | | | |
| $ 1,000,000 | BBB | Burlington, KS, Environmental Improvement Revenue, Kansas City Power & Light Project, Refunding, 4.750% due 9/1/15 (c)(h) | $ 1,004,570 |
| 2,245,000 | AA | Johnson County, KS, Union School District, Series A, Call 10/1/09 @ 100, 5.125% due 10/1/20 (d) | 2,332,892 |
| | | **Total Kansas** | 3,337,462 |
| **Louisiana 1.2%** | | | |
| 285,000 | AAA | Louisiana Public Facilities Authority Hospital Revenue, Southern Baptist Hospital Inc. Project, Aetna-Insured, 8.000% due 5/15/12 (a) | 316,897 |
| 1,690,000 | AAA | Monroe, LA, Sales & Use Tax Revenue, FGIC-Insured, 5.625% due 7/1/25 | 1,860,200 |
| | | **Total Louisiana** | 2,177,097 |
| **Maryland 1.7%** | | | |
| 1,000,000 | AAA | Maryland State Health & Higher EFA Revenue, Refunding Mercy Medical Center, FSA-Insured, 6.500% due 7/1/13 | 1,099,620 |
| 2,000,000 | AAA | Montgomery County, MD, GO, 5.250% due 10/1/14 | 2,159,440 |
| | | **Total Maryland** | 3,259,060 |
| **Massachusetts 6.6%** | | | |
| 485,000 | AAA | Boston, MA, Water & Sewer Commission Revenue, 10.875% due 1/1/09 (a) | 519,193 |
| 1,130,000 | Aaa(e) | Lancaster, MA, GO, AMBAC-Insured, 5.375% due 4/15/17 | 1,227,575 |
| 2,000,000 | | Massachusetts State, GO, Series D, MBIA Insured, 5.500% due 11/1/15* | 2,159,460 |
| 500,000 | AAA | Massachusetts State, GO, RITES, Series PA 993-R, MBIA-Insured, 6.190% due 5/1/09 (i)** | 579,730 |
| | | Massachusetts State DFA Revenue: | |
| 500,000 | A | Curry College, Series A, ACA-Insured, 6.000% due 3/1/20 | 526,530 |
| 370,000 | AAA | VOA Concord, Series A, GNMA-Collateralized, 6.700% due 10/20/21 | 420,886 |
| | | Massachusetts State HEFA Revenue: | |
| | | Caritas Christi Obligation, Series B: | |
| 2,000,000 | BBB | 6.500% due 7/1/12 | 2,166,320 |
| 835,000 | BBB | 6.750% due 7/1/16 | 937,680 |
| 1,000,000 | BBB- | Milford-Whitinsville Regional Hospital, Series D, 6.500% due 7/15/23 | 1,093,470 |
| 1,000,000 | BBB+(j) | Winchester Hospital, Series E, Call 7/1/10 @ 101, 6.750% due 7/1/30 (d) | 1,095,140 |
| 1,030,000 | AAA | Massachusetts State Industrial Finance Agency Assisted Living Facility Revenue, Arbors at Amherst Project, GNMA-Collateralized, 5.750% due 6/20/17 (b) | 1,070,623 |
| 500,000 | A3(e) | New England Education Loan Marketing Corp. Massachusetts Student Loan Revenue, Subordinated Issue H, 6.900% due 11/1/09 (b) | 525,485 |
| | | **Total Massachusetts** | 12,322,092 |
| **Michigan 3.3%** | | | |
| 1,775,000 | AAA | Carrier Creek, MI, Drain District No. 326, AMBAC-Insured, 5.000% due 6/1/24 | 1,896,694 |
| 1,000,000 | AAA | Jenison, MI, Public Schools GO, Building and Site, FGIC-Insured, 5.500% due 5/1/20 | 1,087,730 |
| 1,000,000 | Aaa(e) | Memphis, MI, Community Schools GO, Call 5/1/09 @ 100, 5.150% due 5/1/19 (d) | 1,033,320 |
| 1,000,000 | A | Michigan State Hospital Finance Authority Revenue, Oakwood Obligated Group, 5.500% due 11/1/18 | 1,080,080 |
| 1,000,000 | AAA | Walled Lake, MI, Consolidated School District, MBIA-Insured, 5.000% due 5/1/22 | 1,063,610 |

| | |
|---|---|
| **Total Michigan** | 6,161,434 |

**See Notes to Financial Statements.**

**Schedule of Investments (December 31, 2006) (continued)**

| Face Amount | Rating | Security | Value |
|---|---|---|---|
| **Missouri 1.6%** | | | |
| $ 1,000,000 | AAA | Hazelwood, MO, School District, Missouri Direct Deposit Program, Series A, FGIC-Insured, 5.000% due 3/1/23 (f) | $ 1,066,820 |
| 405,000 | A-(j) | Lees Summit, MO, IDA Health Facilities Revenue, John Knox Village, 5.750% due 8/15/11 | 425,513 |
| 1,000,000 | Aaa(e) | Missouri State Environmental Improvement & Energy Resource Authority, Water Pollution Control, State Revolving Funds Program, Series C, 5.250% due 7/1/18 | 1,131,010 |
| 30,000 | AAA | Missouri State Housing Development Community Mortgage Revenue, Series C, GNMA/FNMA-Collateralized, 7.450% due 9/1/27 (b) | 31,075 |
| 290,000 | AAA | Nevada, MO, Waterworks Systems Revenue, AMBAC-Insured, 10.000% due 10/1/10 (a) | 330,203 |
| | | **Total Missouri** | 2,984,621 |
| **Nebraska 1.3%** | | | |
| | | NebHELP Inc. Nebraska Revenue: | |
| 1,300,000 | AAA | Series A-5A, MBIA-Insured, 6.200% due 6/1/13 (b) | 1,330,641 |
| 1,000,000 | AAA | Series A-6, MBIA-Insured, 6.450% due 6/1/18 (b) | 1,058,960 |
| | | **Total Nebraska** | 2,389,601 |
| **Nevada 0.4%** | | | |
| | | Henderson, NV, Health Care Facilities Revenue: | |
| 240,000 | A- | Pre-Refunded, Catholic West, Series A, 6.200% due 7/1/09 (a) | 243,012 |
| 535,000 | A- | Unrefunded Balance, Catholic West, Series A, 6.200% due 7/1/09 | 561,739 |
| | | **Total Nevada** | 804,751 |
| **New Hampshire 0.5%** | | | |
| 815,000 | A | New Hampshire HEFA, Covenant Healthcare System, 6.500% due 7/1/17 | 911,879 |
| **New Jersey 0.1%** | | | |
| 150,000 | AAA | Ringwood Borough, NJ, Sewer Authority Special Obligation, 9.875% due 7/1/13 (a) | 178,211 |
| **New Mexico 0.7%** | | | |
| 1,100,000 | AAA | Bernalillo County, NM, Gross Receipts Tax Revenue, AMBAC-Insured, 5.250% due 10/1/18 | 1,235,454 |
| **New York 3.7%** | | | |
| 730,000 | NR | New York City, NY, IDA, Civic Facilities Revenue, Community Hospital Brooklyn, 6.875% due 11/1/10 | 747,279 |
| 1,760,000 | AAA | New York State Dormitory Authority Revenue, Mental Health Services Facilities, 5.000% due 2/15/18 | 1,890,944 |
| 2,000,000 | AAA | New York State Thruway Authority, Highway & Bridge, Trust Fund Revenue, Series B, AMBAC-Insured, 5.000% due 4/1/21 | 2,149,260 |
| 2,000,000 | AA- | Tobacco Settlement Financing Corp., New York, Asset-Backed, Series C-1, 5.500% due 6/1/14 | 2,083,080 |
| | | **Total New York** | 6,870,563 |
| **North Carolina 1.3%** | | | |
| 90,000 | AAA | Charlotte North Carolina Mortgage Revenue, Refunding Double Oaks Apartments, Series A, FNMA-Collateralized, 7.300% due 11/15/07 | 91,165 |
| 1,000,000 | BBB | North Carolina Eastern Municipal Power Agency, Power System Revenue, Series D, 6.450% due 1/1/14 | 1,079,670 |

**See Notes to Financial Statements.**

**Schedule of Investments (December 31, 2006) (continued)**

| Face Amount | Rating | Security | Value |
|---|---|---|---|
| **North Carolina 1.3% (continued)** | | | |
| $ 1,175,000 | AAA | North Carolina Municipal Power Agency No. 1, Catawba Electricity Revenue, 10.500% due 1/1/10 (a) | $ 1,293,123 |
| | | **Total North Carolina** | 2,463,958 |
| **Ohio 6.5%** | | | |
| 1,370,000 | AAA | Cleveland, OH, Waterworks Revenue, Series K, Call 1/1/12 @ 100, 5.250% due 1/1/21 (d) | 1,469,846 |
| 970,000 | BBB | Cuyahoga County, OH, Hospital Facilities Revenue, Canton Inc. Project, 6.750% due 1/1/10 | 1,003,028 |
| 1,855,000 | Aaa(e) | Highland, OH, Local School District, School Improvement, FSA-Insured, Call 12/1/11 @ 100, 5.750% due 12/1/19 (d) | 2,030,279 |
| 1,000,000 | Aaa(e) | Kettering, OH, City School District, School Improvement, FSA-Insured, 5.000% due 12/1/19 | 1,073,500 |
| | | Lake County, OH, Hospital Improvement Revenue: | |
| 165,000 | AAA | Lake County Memorial Hospital Project, 8.625% due 11/1/09 (a) | 178,385 |
| 95,000 | NR | Ridgecliff Hospital Project, 8.000% due 10/1/09 (a) | 101,431 |
| 1,500,000 | BBB- | Ohio State Air Quality Development Authority Revenue, Cleveland Pollution Control, Series A, 6.000% due 12/1/13 | 1,543,215 |
| 3,010,000 | AA+ | Ohio State GO, Conservation Project, Series A, 5.250% due 9/1/13 (f) | 3,198,877 |
| | | Ohio State Water Development Authority Revenue: | |
| 1,280,000 | AAA | 9.375% due 12/1/10 (a)(k) | 1,408,192 |
| 175,000 | AAA | Safe Water, Series 3, 9.000% due 12/1/10 (a) | 190,552 |
| | | **Total Ohio** | 12,197,305 |
| **Oklahoma 0.7%** | | | |
| 55,000 | AAA | Oklahoma State Industries Authority Revenue, Hospital Oklahoma Health Care Corp., Series A, Call 5/1/07 @ 100, 9.125% due 11/1/08 (d) | 55,957 |
| 215,000 | BBB(j) | Tulsa, OK, Housing Assistance Corp. MFH Revenue, 7.250% due 10/1/07 (b) | 215,320 |
| | | Tulsa, OK, Municipal Airport Trust Revenue, Refunding American Airlines, Series B: | |
| 500,000 | B | 5.650% due 12/1/08 (b)(c)(h) | 507,180 |
| 500,000 | B | 6.000% due 12/1/08 (b)(c)(h) | 510,975 |
| | | **Total Oklahoma** | 1,289,432 |
| **Oregon 1.0%** | | | |
| 645,000 | BBB+(j) | Klamath Falls, OR, International Community Hospital Authority Revenue, Merle West Medical Center Project, 8.000% due 9/1/08 (a) | 673,812 |
| 1,200,000 | NR | Wasco County, OR, Solid Waste Disposal Revenue, Waste Connections Inc. Project, 7.000% due 3/1/12 (b) | 1,255,656 |
| | | **Total Oregon** | 1,929,468 |
| **Pennsylvania 7.1%** | | | |
| 755,000 | AAA | Conneaut, PA, School District GO, AMBAC-Insured, 9.500% due 5/1/12 (a) | 852,342 |
| 3,710,000 | AAA | Delaware River Port Authority Port District Project Refunding, Series A, FSA-Insured, 5.500% due 1/1/26* | 4,022,382 |

| | | | |
|---|---|---|---|
| 1,000,000 | Aaa(e) | Harrisburg, PA, Parking Authority Parking Revenue, FSA-Insured, 5.500% due 5/15/20 | 1,087,310 |

**See Notes to Financial Statements.**

**Schedule of Investments (December 31, 2006) (continued)**

| Face Amount | Rating | Security | Value |
|---|---|---|---|
| **Pennsylvania 7.1% (continued)** | | | |
| $ 1,365,000 | AA | Northampton County, PA, IDA Revenue, Mortgage Moravian Hall Square Project, Radian-Insured, 5.500% due 7/1/19 | $ 1,466,447 |
| 1,000,000 | AAA | Pennsylvania State IDA Revenue, Economic Development, AMBAC-Insured, 5.500% due 7/1/21 | 1,095,840 |
| 65,000 | AAA | Philadelphia, PA, Hospital Authority Revenue, Thomas Jefferson University Hospital, 7.000% due 7/1/08 (a) | 66,968 |
| 1,000,000 | AAA | Philadelphia, PA, School District, Series A, FSA-Insured, Call 2/1/12 @ 100, 5.500% due 2/1/23 (d) | 1,085,450 |
| 2,000,000 | AAA | Philadelphia, PA, Water & Wastewater, Series B, FGIC-Insured, 5.250% due 11/1/14 | 2,162,080 |
| 1,350,000 | AAA | Pittsburgh, PA, School District GO, FSA-Insured, 5.375% due 9/1/16 | 1,520,478 |
| | | **Total Pennsylvania** | 13,359,297 |
| **Rhode Island 0.6%** | | | |
| 1,000,000 | AA | Central Falls, RI, GO, Radian-Insured, 5.875% due 5/15/15 | 1,063,330 |
| **South Carolina 3.2%** | | | |
| 50,000 | AAA | Anderson County, SC, Hospital Facilities Revenue, 7.125% due 8/1/07 (a) | 51,006 |
| 1,445,000 | AA | Charleston, SC, Waterworks & Sewer Revenue, 5.250% due 1/1/16 | 1,542,668 |
| | | Greenville County, SC, School District Installment Purchase Revenue, Building Equity Sooner for Tomorrow, Call 12/1/12 @ 101: | |
| 2,000,000 | AA- | 5.875% due 12/1/19 (d) | 2,246,120 |
| 2,000,000 | AA- | 6.000% due 12/1/21 (d) | 2,259,280 |
| | | **Total South Carolina** | 6,099,074 |
| **South Dakota 1.4%** | | | |
| 2,400,000 | Aa2(e) | Minnehana County, SD, GO, Limited Tax Certificates, Call 12/1/10 @ 100, 5.625% due 12/1/20 (d) | 2,550,432 |
| **Tennessee 0.4%** | | | |
| 460,000 | AAA | Jackson, TN, Water & Sewer Revenue, 7.200% due 7/1/12 (a) | 499,008 |
| 310,000 | Baa1(e) | McMinnville, TN, Housing Authority Revenue, Refunding First Mortgage Beersheba Heights, 6.000% due 10/1/09 | 317,108 |
| | | **Total Tennessee** | 816,116 |
| **Texas 13.0%** | | | |
| 5,140,000 | AAA | Austin Texas Electirc Utility System Revenue, Refunding, Series A, AMBAC-Insured, 5.000% due 11/15/19 (f) | 5,572,737 |
| 2,000,000 | Aa3(e) | Brazos River, TX, Harbor Navigation District, BASF Corp. Project, 6.750% due 2/1/10 | 2,176,300 |
| 2,000,000 | AAA | Dallas, TX, Area Rapid Transit Sales Tax Revenue, Senior Lien, AMBAC-Insured, 5.375% due 12/1/16 | 2,140,700 |
| | | Dallas-Fort Worth, TX: | |
| 1,500,000 | CCC+ | International Airport Facility, Improvement Corp. Revenue, Refunding, American Airlines, Series C, 6.150% due 11/1/07 (b)(c)(h) | 1,515,225 |
| 1,000,000 | AAA | International Airport Revenue, Refunding, Series B, FSA-Insured, 5.500% due 11/1/20 | 1,087,960 |
| | | El Paso County, TX, Housing Finance Corp.: | |
| 270,000 | Baa3(e) | La Plaza Apartments, Subordinated Series C, 8.000% due 7/1/30 | 277,506 |

**See Notes to Financial Statements.**

**Schedule of Investments (December 31, 2006) (continued)**

| Face Amount | Rating | Security | Value |
|---|---|---|---|
| **Texas 13.0% (continued)** | | | |
| $ 360,000 | A3(e) | MFH Revenue, Series A, American Village Communities, 6.250% due 12/1/24 | $ 381,449 |
| | | El Paso, TX, Water & Sewer Revenue, Refunding & Improvement, Series A, FSA-Insured: | |
| 45,000 | AAA | 6.000% due 3/1/15 | 49,684 |
| 955,000 | AAA | Call 3/1/12 @ 100, 6.000% due 3/1/15 (d) | 1,060,069 |
| 2,000,000 | AA | Fort Worth, TX, Water & Sewer Revenue, Call 2/15/12 @ 100, 5.625% due 2/15/17 (d) | 2,178,780 |
| 1,000,000 | AAA | Harris County, TX, Hospital District Revenue, MBIA-Insured, 6.000% due 2/15/15 | 1,075,690 |
| 5,000,000 | AAA | Houston, TX Independent School District, GO, Refunding Ltd., Tax Series A, PSF-GTD, 5.000% due 8/15/17 (f) | 5,478,650 |
| 1,000,000 | AAA | Southwest Higher Education Authority Inc., Southern Methodist University Project, AMBAC-Insured, 5.500% due 10/1/19 | 1,083,670 |
| 230,000 | Aaa(e) | Tarrant County, TX, Hospital Authority Revenue, Adventist Health System-Sunbelt, 10.250% due 10/1/10 (a) | 261,147 |
| 175,000 | AAA | Texas State Department Housing Community Affairs Home Mortgage Revenue, RIBS Series C-2, GNMA/FNMA/FHLMC-Collateralized, 9.714% due 1/25/07 (b)(l) | 176,851 |
| | | **Total Texas** | 24,516,418 |
| **Utah 1.7%** | | | |
| 1,580,000 | Aaa(e) | Salt Lake & Sandy, UT, Metropolitan Water District Revenue, Series A, AMBAC-Insured, 5.000% due 7/1/24 | 1,684,596 |
| | | Spanish Fork City, UT, Water Revenue, FSA-Insured: | |
| 1,135,000 | Aaa(e) | 5.500% due 6/1/16 | 1,234,267 |
| 350,000 | Aaa(e) | Call 6/1/12 @ 100, 5.500% due 6/1/16 (d) | 381,686 |
| | | **Total Utah** | 3,300,549 |
| **Washington 1.9%** | | | |
| 1,250,000 | Aaa(e) | Cowlitz County, WA, School District, No. 122 Longview, FSA-Insured, 5.500% due 12/1/19 | 1,352,438 |
| 2,000,000 | AAA | Energy Northwest Washington Electric Revenue, Project No. 3, Series A, FSA-Insured, 5.500% due 7/1/18 | 2,152,640 |
| | | **Total Washington** | 3,505,078 |
| **West Virginia 0.1%** | | | |
| 95,000 | AAA | Cabell Putnam & Wayne Counties, WV, Single - Family Residence Mortgage Revenue, FGIC-Insured, 7.375% due 4/1/10 (a) | 99,756 |
| **Wisconsin 1.2%** | | | |
| 2,000,000 | BBB | La Crosse, WI, Resource Recovery Revenue, Refunding Bonds, Northern States Power Co. Project, Series A, 6.000% due 11/1/21 (b) | 2,185,480 |
| | | **TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS** (Cost $179,116,742) | **185,329,891** |
| **SHORT-TERM INVESTMENTS (m) 1.2%** | | | |
| **Florida 0.3%** | | | |
| 600,000 | A-1+ | Gainesville, FL, Utilities System Revenue, Series C, SPA-SunTrust Bank, 3.950%, 1/2/07 | 600,000 |

**See Notes to Financial Statements.**

**Schedule of Investments (December 31, 2006) (continued)**

| Face Amount | Rating | Security | | Value |
|---|---|---|---|---|
| **Nevada 0.4%** | | | | |
| $ 700,000 | VMIG1(e) | Las Vegas Valley, NV, Water District, GO, Water Improvement, Series C, SPA-Dexia Credit Local, 4.000%, 1/2/07 | $ | 700,000 |
| **New York 0.5%** | | | | |
| 900,000 | A-1+ | New York City, NY, GO, Subordinated Series H-4, LOC-Bank of New York, 3.920%, 1/2/07 | | 900,000 |
| | | **TOTAL SHORT-TERM INVESTMENTS** (Cost $2,200,000) | | **2,200,000** |
| | | **TOTAL INVESTMENTS 100.0%** (Cost $181,316,742#) | **$** | **187,529,891** |

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

(a) Bonds are escrowed to maturity by government securities and/or U.S. government agency securities and are considered by the Manager to be triple-A rated even if issuer has not applied for new ratings.

(b) Income from this issue is considered a preference item for purposes of calculating the alternative minimum tax ( AMT ).

(c) Variable rate security. Interest rate disclosed is that which is in effect at December 31, 2006.

(d) Pre-Refunded bonds are escrowed with government obligations and/or government agency securities and are considered by the Manager to be triple-A rated even if issuer has not applied for new ratings.

(e) Rating by Moody s Investors Service. All ratings are unaudited.

(f) All or a portion of this security is segregated for open futures contracts.

(g) Security is currently in default.

(h) Maturity date shown represents the mandatory tender date.

(i) Residual interest tax-exempt securities coupon varies inversely with level of short-term tax-exempt interest rates.

(j) Rating by Fitch Ratings Service. All ratings are unaudited.

(k) All or a portion of this security is held at the broker as collateral for open futures contracts.

(l) Residual interest bonds coupon varies inversely with level of short-term tax-exempt interest rates.

(m) Variable rate demand obligations have a demand feature under which the Fund can tender them back to the issuer on no more than 7 days notice. Date shown is the date of the next interest rate change.

* Security represents participation in a trust that issued inverse floaters and secured borrowings, which are disclosed as floating rate notes in the accompanying statement of assets and liabilities (See Note 1).

** Inverse floating rate security for which the stated interest rate represents the rate in effect at December 31, 2006.

\# Aggregate cost for federal income tax purposes is $181,351,967.

See pages 16 and 17 for definitions of ratings.

Abbreviations used in this schedule:

| | |
|---|---|
| ACA | American Capital Assurance |
| AMBAC | Ambac Assurance Corporation |
| COP | Certificate of Participation |
| DFA | Development Finance Agency |
| EFA | Educational Facilities Authority |
| FGIC | Financial Guaranty Insurance Company |
| FHLMC | Federal Home Loan Mortgage Corporation |
| FNMA | Federal National Mortgage Association |
| FSA | Financial Security Assurance |
| GNMA | Government National Mortgage Association |
| GO | General Obligation |
| GTD | Guaranteed |
| HEFA | Health & Educational Facilities Authority |
| IDA | Industrial Development Authority |
| INDLC | Industrial Indemnity Company |
| LOC | Letter of Credit |
| MBIA | Municipal Bond Investors Assurance Corporation |
| MFH | Multi-Family Housing |
| PSF | Permanent School Fund |
| RIBS | Residual Interest Bonds |
| RITES | Residual Interest Tax-Exempt Securities |
| Radian | Radian Assets Assurance |
| SPA | Standby Bond Purchase Agreement |
| USD | Unified School District |
| XLCA | XL Capital Assurance Inc. |

**See Notes to Financial Statements.**

**Schedule of Investments (December 31, 2006) (continued)**

**Summary of Investments by Industry**

| | |
|---|---|
| Pre-Refunded | 16.6% |
| General Obligation | 16.6 |
| Hospitals | 11.4 |
| Utilities | 10.3 |
| Transportation | 9.0 |
| Education | 9.0 |
| Escrowed to Maturity | 8.3 |
| Pollution Control | 4.4 |
| Water & Sewer | 2.7 |
| Tax Allocation | 2.3 |
| Life Care Systems | 2.3 |
| Miscellaneous | 2.0 |
| Industrial Development | 1.4 |
| Tobacco | 1.1 |
| Public Facilities | 1.1 |
| Housing: Multi-Family | 0.8 |
| Solid Waste | 0.7 |
| | 100.0% |

As a percentage of total investments. Please note that Fund holdings are as of December 31, 2006 and are subject to change.

**See Notes to Financial Statements.**

**Bond Ratings (unaudited)**

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

*Standard & Poor s Ratings Service ( Standard & Poor s )* Ratings from AA to CCC may be modified by the addition of a plus (+) or 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 issues 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 Caa, 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 generally lack 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. |

**Bond Ratings (unaudited) (continued)**

| | |
|---|---|
| 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 class of bonds and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing. |

*Fitch Ratings Service ( Fitch )* Ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standings within the major rating categories.

| | |
|---|---|
| AAA | Bonds rated AAA have the highest rating assigned by Fitch. 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 issues 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 and CC | Bonds rated BB , B , CCC and CC 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 a lower degree of speculation than B , and CC the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions. |
| NR | Indicates that the bond is not rated by Standard & Poor s, Moody s or Fitch. |

**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. |
| MIG1 | 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. |
| F1 | Fitch s highest rating indicating the strongest capacity for timely payment of financial commitments; those issues determined to possess overwhelming strong credit feature are denoted with a plus (+) sign. |

**Statement of Assets and Liabilities (December 31, 2006)**

| | | |
|---|---|---|
| **ASSETS:** | | |
| Investments, at value (Cost $181,316,742) | $ | 187,529,891 |
| Cash | | 29,340 |
| Interest receivable | | 3,006,493 |
| Receivable for securities sold | | 921,142 |
| Receivable from broker variation margin on open futures contracts | | 25,625 |
| Receivable from manager | | 3,292 |
| Prepaid expenses | | 3,011 |
| **Total Assets** | | **191,518,794** |
| **LIABILITIES:** | | |
| Floating rate notes issued in structured transactions (Note 1) | | 4,355,000 |
| Investment management fee payable | | 87,551 |
| Distributions payable to auction rate cumulative preferred stockholders | | 32,109 |
| Deferred compensation payable | | 16,376 |
| Directors fees payable | | 7,735 |
| Accrued expenses | | 93,272 |
| **Total Liabilities** | | **4,592,043** |
| **Series M Municipal Auction Rate Cumulative Preferred Stock** | | |
| **(2,000 shares authorized and issued at $25,000 per share) (Note 4)** | | **50,000,000** |
| **Total Net Assets** | **$** | **136,926,751** |
| | | |
| **NET ASSETS:** | | |
| Par value ($0.001 par value; 14,032,784 shares issued and outstanding; 100,000,000 shares authorized) | $ | 14,033 |
| Paid-in capital in excess of par value | | 141,521,690 |
| Undistributed net investment income | | 71,765 |
| Accumulated net realized loss on investments and futures contracts | | (11,130,302) |
| Net unrealized appreciation on investments and futures contracts | | 6,449,565 |
| **Total Net Assets** | **$** | **136,926,751** |
| | | |
| **Shares Outstanding** | | **14,032,784** |
| **Net Asset Value** | | **$ 9.76** |

**See Notes to Financial Statements.**

**Statement of Operations (For the year ended December 31, 2006)**

| | |
|---|---|
| **INVESTMENT INCOME:** | |
| Interest | **$ 9,481,886** |
| **EXPENSES:** | |
| Investment management fee (Note 2) | 1,023,961 |
| Interest Expense (Note 1) | 160,812 |
| Auction participation fees (Note 4) | 126,138 |
| Shareholder reports | 50,818 |
| Legal fees | 47,185 |
| Transfer agent fees | 44,138 |
| Stock exchange listing fees | 40,148 |
| Audit and tax | 31,094 |
| Directors fees | 14,721 |
| Custody fees | 7,333 |
| Insurance | 4,468 |
| Miscellaneous expenses | 14,345 |
| **Total Expenses** | **1,565,161** |
| Less: Fee waivers and/or expense reimbursements (Note 2) | (7,401) |
| **Net Expenses** | **1,557,760** |
| **Net Investment Income** | **7,924,126** |
| **REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENT AND FUTURES CONTRACTS (NOTES 1 AND 3):** | |
| Net Realized Gain (Loss) From: | |
| Investment transactions | (274,434) |
| Futures contracts | 919,181 |
| **Net Realized Gain** | **644,747** |
| Change in Net Unrealized Appreciation/Depreciation From: | |
| Investments | (552,071) |
| Futures contracts | 1,248,135 |
| **Change in Net Unrealized Appreciation/Depreciation** | **696,064** |
| **Net Gain on Investments and Futures Contracts** | **1,340,811** |
| **Distributions Paid to Auction Rate Cumulative Preferred Stockholders From Net Investment Income (Notes 1 and 4)** | **(1,743,031)** |
| **Increase in Net Assets From Operations** | **$ 7,521,906** |

**See Notes to Financial Statements.**

**Statements of Changes in Net Assets (For the years ended December 31,)**

| | 2006 | 2005 |
|---|---|---|
| **OPERATIONS:** | | |
| Net investment income | $ 7,924,126 | $ 8,125,424 |
| Net realized gain (loss) | 644,747 | (2,844,670) |
| Change in net unrealized appreciation/depreciation | 696,064 | (1,277,930) |
| Distributions paid to auction rate cumulative preferred stockholders from net investment income | (1,743,031) | (1,206,809) |
| **Increase in Net Assets From Operations** | **7,521,906** | **2,796,015** |
| **DISTRIBUTIONS PAID TO COMMON SHAREHOLDERS FROM (NOTE 1):** | | |
| Net investment income | (6,146,360) | (7,788,195) |
| **Decrease in Net Assets From Distributions Paid to Common Stock Shareholders** | **(6,146,360)** | **(7,788,195)** |
| **Increase (Decrease) in Net Assets** | **1,375,546** | **(4,992,180)** |
| **NET ASSETS:** | | |
| Beginning of year | 135,551,205 | 140,543,385 |
| **End of year *** | **$ 136,926,751** | **$ 135,551,205** |
| * Includes undistributed net investment income of: | $ 71,765 | $ 42,766 |

**See Notes to Financial Statements.**

**Financial Highlights**

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

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| **Net Asset Value, Beginning of Year** | $ 9.66 | $ 10.02 | $ 10.26 | $ 10.27 | $ 10.21 |
| **Income (Loss) From Operations:** | | | | | |
| Net investment income | 0.56 | 0.56 | 0.64 | 0.68 | 0.68 |
| Net realized and unrealized gain (loss) | 0.10 | (0.27) | (0.23) | (0.03) | 0.07 |
| Distributions paid to auction rate cumulative preferred stockholders from net investment income | (0.12) | (0.09) | (0.04) | (0.05) | (0.05) |
| Total Income From Operations | 0.54 | 0.20 | 0.37 | 0.60 | 0.70 |
| **Underwriting Commissions and Offering Expenses for the Issuance of Municipal Auction Rate Cumulative Preferred Stock** | | | | | (0.06) |
| **Distributions Paid to Common Stock Shareholder From:** | | | | | |
| Net investment income | (0.44) | (0.56) | (0.61) | (0.61) | (0.58) |
| Total Distributions | (0.44) | (0.56) | (0.61) | (0.61) | (0.58) |
| **Net Asset Value, End of Year** | $ 9.76 | $ 9.66 | $ 10.02 | $ 10.26 | $ 10.27 |
| **Market Price, End of Year** | $ 9.00 | $ 8.60 | $ 9.36 | $ 10.19 | $ 9.56 |
| **Total Return, Based on NAV**(1) | 6.17% | 2.41% | 3.99% | 6.22% | 6.73% |
| **Total Return, Based on Market Price**(1) | 9.97% | (2.40)% | (2.19)% | 13.33% | 4.03% |
| **Net Assets, End of Year (millions)** | $ 137 | $ 136 | $ 141 | $ 144 | $ 144 |
| **Ratios to Average Net Assets:**(2) | | | | | |
| Net expenses | 1.14%(3) | 1.23%(4) | 1.14%(4) | 1.13%(4) | 1.13%(4) |
| Net expenses, excluding interest | 1.03(3) | 1.12 | 1.07 | 1.07 | 1.08 |
| Net investment income | 5.82 | 5.89 | 6.34 | 6.55 | 6.59 |
| **Portfolio Turnover Rate** | 7% | 18% | 32% | 21% | 49% |
| **Auction Rate Cumulative Preferred Stock:**(5) | | | | | |
| Total Amount Outstanding (000s) | $ 50,000 | $ 50,000 | $ 50,000 | $ 50,000 | $ 50,000 |
| Asset Coverage Per Share | 93,463 | 92,776 | 95,272 | 96,840 | 96,942 |
| Involuntary Liquidating Preference Per Share(6) | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |
| Average Market Value Per Share(6) | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |

(1) The total return calculation assumes that all distributions, including returns of capital, if any, are reinvested in accordance with the Fund s dividend reinvestment plan. Performance figures may reflect fee waivers and/or expense reimbursements. Past performance is no guarantee of future results. In the absence of fee waivers and/or expense reimbursements, the total return would have been lower. Total returns for periods of less than one year are not annualized.

(2) Calculated on the basis of average net assets of common stock shareholders. Ratios do not reflect the effect of dividend payments to preferred shareholders.

(3) Reflects fee waivers and/or expense reimbursements. Without these fee waivers and/or expense reimbursements the ratio for net expenses and net expenses, excluding interest would have been 1.15% and 1.03%, respectively.

(4) Ratio for 2002 through 2005 were changed to reflect a correction of an immaterial amount.

(5) On January 28, 2002, the Fund issued 2,000 shares of Series M Municipal Auction Rate Cumulative Preferred Stock at $25,000 per share.

(6) Excludes accumulated and unpaid distributions.

**See Notes to Financial Statements.**

**Notes to Financial Statements**

**1. Organization and Significant Accounting Policies**

Western Assert Intermediate Muni Fund Inc. (formerly known as Intermediate Muni Fund, Inc.) (the Fund ) was incorporated in Maryland and is registered as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act ).

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles ( GAAP ). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ.

**(a) Investment Valuation.** Securities are valued at the mean between the bid and asked prices provided by an independent pricing service that are based on transactions in municipal obligations, quotations from municipal bond dealers, market transactions in comparable securities and various other relationships between securities. Securities for which market quotations are not readily available or are determined not to reflect fair value, will be valued in good faith by or under the direction of the Fund s Board of Directors. Short-term obligations with maturities of 60 days or less are valued at amortized cost, which approximates value.

**(b) Financial Futures Contracts.** The Fund may enter into financial futures contracts typically to hedge a portion of the portfolio. Upon entering into a financial futures contract, the Fund is required to deposit cash or securities as initial margin. Additional securities are also segregated up to the current market value of the financial futures contracts. Subsequent payments, known as variation margin, are made or received by the Fund each day, depending on the daily fluctuation in the value of the underlying financial instruments. The Fund recognizes an unrealized gain or loss equal to the daily variation margin. When the financial futures contracts are closed, a realized gain or loss is recognized equal to the difference between the proceeds from (or cost of) the closing transactions and the Fund s basis in the contracts.

The risks associated with entering into financial futures contracts include the possibility that a change in the value of the contract may not correlate with the changes in the value of the underlying instruments. In addition, investing in financial futures contracts involves the risk that the Fund could lose more than the original margin deposit and subsequent payments required for a futures transaction. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

**(c) Inverse Floaters.** The Fund may participate either in structuring an inverse floater or purchasing an inverse floater in the secondary market. An inverse floater generally has a floating or variable rate of interest that moves in the opposite direction of market interest rates. So, when short term interest rates move in an upward direction, the interest rate paid on the inverse floater decreases, and vice versa when market interest rates decrease. Inverse floaters also generally respond more rapidly to market interest rate changes than fixed rate securities. Inverse floaters are subject to interest rate and leveraging risks.

When structuring an inverse floater, the Fund will transfer to a trust fixed-rate tax-exempt municipal bonds purchased by the Fund. The trust then typically issues two traunches of variable rate securities that are collateralized by the cash flows of the fixed-rate tax-exempt municipal bonds. The two traunches are known as an inverse floater and a variable rate demand obligation ( VRDO ). The VRDO pays interest based on a floating rate set by a remarketing agent at predetermined intervals. The inverse floater, also known as a residual interest tax-exempt security (a RITES ), is transferred to the Fund, which receives interest based on the remaining cash flow of the trust, after payment of interest on the VRDO and various expenses of the trust. When structuring an inverse floater, the Fund would also be required to retain the municipal bond on its balance sheet and recognize a liability for the VRDO traunch of the trust, along with the periodic interest expense associated with the VRDO. Both the municipal bond and the VRDO are marked to market when the Fund determines its net asset value.

When the Fund purchases an inverse floater in the secondary market, it is required to mark the inverse floater to market when determining net asset value. Interest income is accrued as earned and unrealized gains or losses are recognized when marked to market.

As of December 31, 2006, the Fund held $9,403,782 of municipal bonds that represent participation in three trusts which issued $4,355,000 of secured borrowings, with a weighted average interest rate of 3.69%. The Fund recognized related interest income of $314,488 and interest expense of $160,812. Also, as of December 31, 2