

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Form N-Q

September 26, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED**

**MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number **811-05497**

**Western Asset Municipal High Income Fund Inc.**

(Exact name of registrant as specified in charter)

**620 Eighth Avenue, 49<sup>th</sup> Floor, New York, NY 10018**

(Address of principal executive offices) (Zip code)

**Robert I. Frenkel, Esq.**

**Legg Mason & Co., LLC**

**100 First Stamford Place**

**Stamford, CT 06902**

(Name and address of agent for service)

Registrant's telephone number, including area code: 1-888-777-0102

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

Date of reporting period: **July 31, 2014**



**ITEM 1. SCHEDULE OF INVESTMENTS**

**WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.**

FORM N-Q

JULY 31, 2014

## WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

## Schedule of investments (unaudited)

July 31, 2014

| SECURITY   | RATE   | MATURITY DATE | FACE AMOUNT  | VALUE                    |
|--|--------|---------------|--------------|--------------------------|
| <b>MUNICIPAL BONDS - 98.0%</b>   |        |               |              |                          |
| <b>Alabama - 4.1%</b>  |        |               |              |                          |
| Jefferson County, AL, Sewer Revenue  | 6.000% | 10/1/42       | \$ 1,120,000 | \$ 1,225,414             |
| Jefferson County, AL, Sewer Revenue:<br>AGM  | 5.500% | 10/1/53       | 400,000      | 431,476 <sup>(a)</sup>   |
| Convertible CAB  | 0.000% | 10/1/50       | 3,500,000    | 2,053,310                |
| Subordinated Lien Warrants   | 6.500% | 10/1/53       | 3,000,000    | 3,391,380                |
| <i>Total Alabama</i>   |        |               |              | <i>7,101,580</i>         |
| <b>Arizona - 1.9%</b>  |        |               |              |                          |
| Pima County, AZ, IDA Revenue, Tucson Electric Power Co.  | 5.750% | 9/1/29        | 1,000,000    | 1,013,280                |
| Salt Verde, AZ, Financial Corp. Gas Revenue  | 5.000% | 12/1/37       | 1,500,000    | 1,644,210                |
| University Medical Center Corp., AZ, Hospital Revenue  | 6.250% | 7/1/29        | 500,000      | 579,035                  |
| <i>Total Arizona</i>   |        |               |              | <i>3,236,525</i>         |
| <b>California - 7.8%</b>   |        |               |              |                          |
| California State PCFA, Water Furnishing Revenue  | 5.000% | 11/21/45      | 3,000,000    | 3,046,830 <sup>(b)</sup> |
| California State Public Works Board, Lease Revenue, Various Capital<br>Projects                    | 5.125% | 10/1/31       | 1,500,000    | 1,678,215                |
| California Statewide CDA, Student Housing Revenue:<br>Provident Group-Pomona Properties LLC        | 5.600% | 1/15/36       | 505,000      | 504,353                  |
| Provident Group-Pomona Properties LLC  | 5.750% | 1/15/45       | 360,000      | 359,471                  |
| Inland Valley, CA, Development Agency, Successor Agency Tax Allocation<br>Revenue                  | 5.000% | 9/1/44        | 500,000      | 532,465                  |
| M-S-R Energy Authority, CA, Gas Revenue  | 7.000% | 11/1/34       | 2,000,000    | 2,738,100                |
| M-S-R Energy Authority, CA, Gas Revenue  | 6.500% | 11/1/39       | 3,000,000    | 3,948,690                |
| Redding, CA, Redevelopment Agency, Tax Allocation, Shastec<br>Redevelopment Project                | 5.000% | 9/1/29        | 600,000      | 600,126                  |
| <i>Total California</i>  |        |               |              | <i>13,408,250</i>        |
| <b>Colorado - 4.8%</b>   |        |               |              |                          |
| Colorado Educational & Cultural Facilities Authority Revenue:<br>Cheyenne Mountain Charter Academy | 5.250% | 6/15/25       | 680,000      | 706,833                  |
| Cheyenne Mountain Charter Academy  | 5.125% | 6/15/32       | 510,000      | 520,909                  |
| Elbert County Charter  | 7.375% | 3/1/35        | 785,000      | 785,133                  |
| Public Authority for Colorado Energy, Natural Gas Purchase Revenue                                 | 6.125% | 11/15/23      | 4,000,000    | 4,864,400                |
| Reata South Metropolitan District, CO, GO  | 7.250% | 6/1/37        | 1,000,000    | 921,130                  |
| Southlands, CO, Metropolitan District No. 1, GO  | 7.125% | 12/1/34       | 500,000      | 511,230 <sup>(c)</sup>   |
| <i>Total Colorado</i>  |        |               |              | <i>8,309,635</i>         |
| <b>Delaware - 3.1%</b>   |        |               |              |                          |
| Delaware State EDA Revenue, Indian River Power LLC   | 5.375% | 10/1/45       | 2,000,000    | 2,113,960                |
|  | 6.000% | 10/1/40       | 3,000,000    | 3,331,440                |

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Sussex County, DE, Recovery Zone Facility Revenue, NRG Energy Inc.,  
Indian River Power LLC

*Total Delaware* 5,445,400

**District of Columbia - 2.6%**

|   |        |        |           |           |
|---|--------|--------|-----------|-----------|
| District of Columbia COP, District Public Safety & Emergency, AMBAC | 5.500% | 1/1/20 | 1,895,000 | 1,900,969 |
| District of Columbia Revenue:                                       |        |        |           |           |
| Friendship Public Charter School Inc.                               | 5.000% | 6/1/42 | 2,000,000 | 2,009,320 |
| KIPP Charter School   | 6.000% | 7/1/33 | 200,000   | 229,712   |

**See Notes to Schedule of Investments.**

## WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

## Schedule of investments (unaudited) (cont d)

July 31, 2014

| SECURITY  | RATE   | MATURITY DATE | FACE AMOUNT | VALUE                    |
|---|--------|---------------|-------------|--------------------------|
| <b>District of Columbia - 2.6% (continued)</b>  |        |               |             |                          |
| KIPP Charter School   | 6.000% | 7/1/43        | \$ 250,000  | \$ 281,750               |
| <i>Total District of Columbia</i>   |        |               |             | <i>4,421,751</i>         |
| <b>Florida - 3.8%</b>   |        |               |             |                          |
| Bonnet Creek Resort Community Development District, Special Assessment                                  | 7.500% | 5/1/34        | 1,000,000   | 1,000,190                |
| Martin County, FL, IDA Revenue, Indiantown Cogeneration LP Project                                      | 4.200% | 12/15/25      | 1,500,000   | 1,506,900 <sup>(d)</sup> |
| Palm Beach County, FL, Health Facilities Authority Revenue:   |        |               |             |                          |
| Sinai Residences Boca Raton Project   | 7.500% | 6/1/49        | 400,000     | 445,200                  |
| Sinai Residences Boca Raton Project, Entrance Fee   | 6.000% | 6/1/21        | 300,000     | 319,455                  |
| Reunion, FL, East Community Development District, Special Assessment                                    | 7.375% | 5/1/33        | 1,385,000   | 1,388,310                |
| Reunion, FL, East Community Development District, Special Assessment                                    | 7.375% | 5/1/33        | 615,000     | 430,500 <sup>(e)</sup>   |
| Santa Rosa, FL, Bay Bridge Authority Revenue  | 6.250% | 7/1/28        | 897,748     | 386,032 <sup>(e)</sup>   |
| University of Central Florida, COP, FGIC  | 5.000% | 10/1/25       | 1,000,000   | 1,034,070                |
| <i>Total Florida</i>  |        |               |             | <i>6,510,657</i>         |
| <b>Georgia - 3.8%</b>   |        |               |             |                          |
| Atlanta, GA, Development Authority Educational Facilities Revenue, Science Park LLC Project             | 5.000% | 7/1/32        | 2,000,000   | 2,117,320                |
| Atlanta, GA, Water & Wastewater Revenue   | 6.250% | 11/1/39       | 2,000,000   | 2,385,540                |
| DeKalb, Newton & Gwinnett Counties, GA, Joint Development Authority Revenue, GGC Foundation LLC Project | 6.125% | 7/1/40        | 1,000,000   | 1,136,160                |
| Franklin County, GA, Industrial Building Authority Revenue, Emmanuel College Inc.                       | 6.000% | 11/1/32       | 1,000,000   | 947,930                  |
| <i>Total Georgia</i>  |        |               |             | <i>6,586,950</i>         |
| <b>Hawaii - 1.3%</b>  |        |               |             |                          |
| Hawaii State Department of Budget & Finance Special Purpose Revenue, Hawaiian Electric Co.              | 6.500% | 7/1/39        | 2,000,000   | 2,294,420                |
| <b>Illinois - 1.8%</b>  |        |               |             |                          |
| Chicago, IL, Motor Fuel Tax Revenue, AGM  | 5.000% | 1/1/32        | 1,000,000   | 1,076,090                |
| Illinois Finance Authority Revenue, Refunding, Chicago Charter School Project                           | 5.000% | 12/1/26       | 1,000,000   | 1,016,140                |
| Illinois State Finance Authority Revenue, Franciscan Communities Inc.                                   | 5.250% | 5/15/47       | 1,000,000   | 993,720                  |
| <i>Total Illinois</i>   |        |               |             | <i>3,085,950</i>         |
| <b>Indiana - 2.0%</b>   |        |               |             |                          |
| County of St. Joseph, IN, EDR:  |        |               |             |                          |
| Holy Cross Village Notre Dame Project   | 6.000% | 5/15/26       | 285,000     | 291,518                  |
| Holy Cross Village Notre Dame Project   | 6.000% | 5/15/38       | 550,000     | 555,654                  |
| Indiana State Finance Authority Revenue, Private Activity Ohio River Bridges East End Crossing Project  | 5.000% | 7/1/48        | 2,000,000   | 2,060,780 <sup>(d)</sup> |

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|  |        |         |         |                        |
|--|--------|---------|---------|------------------------|
| Valparaiso, IN, Exempt Facilities Revenue, Pratt Paper LLC Project | 7.000% | 1/1/44  | 500,000 | 547,545 <sup>(d)</sup> |
| <i>Total Indiana</i>   |        |         |         | <i>3,455,497</i>       |
| <b>Iowa - 3.1%</b>   |        |         |         |                        |
| Iowa State Finance Authority Midwestern Disaster Area Revenue:     |        |         |         |                        |
| Iowa Fertilizer Co. Project  | 5.000% | 12/1/19 | 500,000 | 525,930                |

**See Notes to Schedule of Investments.**

## WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

## Schedule of investments (unaudited) (cont d)

July 31, 2014

| SECURITY  | RATE   | MATURITY DATE | FACE AMOUNT  | VALUE                    |
|---|--------|---------------|--------------|--------------------------|
| <b>Iowa - 3.1% (continued)</b>  |        |               |              |                          |
| Iowa Fertilizer Co. Project   | 5.250% | 12/1/25       | \$ 4,540,000 | \$ 4,786,023             |
| <i>Total Iowa</i>   |        |               |              | <i>5,311,953</i>         |
| <b>Kansas - 0.7%</b>  |        |               |              |                          |
| Salina, KS, Hospital Revenue, Refunding & Improvement Salina Regional Health                    | 5.000% | 10/1/22       | 1,150,000    | 1,189,664                |
| <b>Kentucky - 1.3%</b>  |        |               |              |                          |
| Owen County, KY, Waterworks System Revenue, Kentucky American Water Co. Project                 | 6.250% | 6/1/39        | 2,000,000    | 2,228,840                |
| <b>Louisiana - 0.2%</b>   |        |               |              |                          |
| Epps, LA, COP   | 8.000% | 6/1/18        | 775,000      | 348,750                  |
| <b>Maryland - 2.0%</b>  |        |               |              |                          |
| Maryland State Health & Higher EFA Revenue, Mercy Medical Center                                | 6.250% | 7/1/31        | 3,000,000    | 3,376,680                |
| <b>Massachusetts - 0.7%</b>   |        |               |              |                          |
| Massachusetts State DFA Revenue, Tufts Medical Center Inc.                                      | 6.875% | 1/1/41        | 1,000,000    | 1,170,230                |
| <b>Michigan - 4.0%</b>  |        |               |              |                          |
| Detroit, MI, Water Supply System Revenue, Senior Lien   | 5.250% | 7/1/41        | 2,000,000    | 1,988,480                |
| Gaudior Academy, COP  | 7.250% | 4/1/34        | 1,000,000    | 1,005,880                |
| Michigan State Strategic Fund Limited Obligation Revenue:                                       |        |               |              |                          |
| Evangelical Homes of Michigan   | 5.250% | 6/1/32        | 500,000      | 504,430                  |
| Evangelical Homes of Michigan   | 5.500% | 6/1/47        | 750,000      | 758,010                  |
| Royal Oak, MI, Hospital Finance Authority Revenue, William Beaumont Hospital                    | 8.250% | 9/1/39        | 2,000,000    | 2,580,880 <sup>(c)</sup> |
| <i>Total Michigan</i>   |        |               |              | <i>6,837,680</i>         |
| <b>Missouri - 2.8%</b>  |        |               |              |                          |
| Missouri State HEFA Revenue:  |        |               |              |                          |
| Lutheran Senior Services  | 6.000% | 2/1/41        | 500,000      | 567,960                  |
| Lutheran Senior Services  | 5.000% | 2/1/44        | 750,000      | 784,598                  |
| Refunding, St. Lukes Episcopal  | 5.000% | 12/1/21       | 1,300,000    | 1,373,736                |
| St. Louis County, MO, IDA, Senior Living Facilities Revenue, Friendship Village of Sunset Hills | 5.875% | 9/1/43        | 2,000,000    | 2,118,820                |
| <i>Total Missouri</i>   |        |               |              | <i>4,845,114</i>         |
| <b>Nebraska - 2.0%</b>  |        |               |              |                          |
| Central Plains Energy Project, NE, Gas Project Revenue, Project #3                              | 5.000% | 9/1/42        | 3,340,000    | 3,521,228                |

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**New Jersey - 6.5%**

|  |        |         |           |                          |
|--|--------|---------|-----------|--------------------------|
| Gloucester County, NJ, PCFA Revenue, Keystone Urban Renewal, Logan<br>Generating | 5.000% | 12/1/24 | 450,000   | 494,118 <sup>(d)</sup>   |
| New Jersey State EDA Revenue:  |        |         |           |                          |
| Private Activity-Goethals Bridge Replacement Project                             | 5.375% | 1/1/43  | 1,500,000 | 1,598,505 <sup>(d)</sup> |
| Refunding  | 6.875% | 1/1/37  | 5,000,000 | 5,081,950 <sup>(d)</sup> |
| New Jersey State Higher Education Assistance Authority, Student Loan<br>Revenue  | 5.000% | 12/1/44 | 640,000   | 644,365 <sup>(d)</sup>   |
| Salem County, NJ, PCFA Revenue, Chambers Project                                 | 5.000% | 12/1/23 | 3,000,000 | 3,326,190 <sup>(d)</sup> |
| <i>Total New Jersey</i>  |        |         |           | <i>11,145,128</i>        |

**See Notes to Schedule of Investments.**

## WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

## Schedule of investments (unaudited) (cont d)

July 31, 2014

| SECURITY  | RATE   | MATURITY DATE | FACE AMOUNT  | VALUE                          |
|---|--------|---------------|--------------|--------------------------------|
| <b>New York - 1.3%</b>  |        |               |              |                                |
| Brooklyn Arena, NY, Local Development Corp., Barclays Center Project                                      | 6.250% | 7/15/40       | \$ 2,000,000 | \$ 2,226,420                   |
| New York City, NY, IDA, Civic Facilities Revenue, Special Needs Facilities Pooled Program                 | 8.125% | 7/1/19        | 110,000      | 110,421                        |
| <i>Total New York</i>   |        |               |              | <i>2,336,841</i>               |
| <b>Ohio - 1.7%</b>  |        |               |              |                                |
| Cuyahoga County, OH, Hospital Facilities Revenue, Canton Inc. Project                                     | 7.500% | 1/1/30        | 1,340,000    | 1,341,836                      |
| Miami County, OH, Hospital Facilities Revenue, Refunding and Improvement Upper Valley Medical Center      | 5.250% | 5/15/21       | 1,500,000    | 1,603,755                      |
| <i>Total Ohio</i>   |        |               |              | <i>2,945,591</i>               |
| <b>Oklahoma - 1.4%</b>  |        |               |              |                                |
| Tulsa County, OK, Industrial Authority, Senior Living Community Revenue:                                  |        |               |              |                                |
| Montereau Inc. Project  | 6.875% | 11/1/23       | 1,300,000    | 1,319,981                      |
| Montereau Inc. Project  | 7.125% | 11/1/30       | 1,000,000    | 1,096,950                      |
| <i>Total Oklahoma</i>   |        |               |              | <i>2,416,931</i>               |
| <b>Pennsylvania - 2.9%</b>  |        |               |              |                                |
| Monroe County, PA, Hospital Authority Revenue, Pocono Medical Center                                      | 5.000% | 1/1/27        | 1,000,000    | 1,030,090                      |
| Montgomery County, PA, IDA Revenue:   |        |               |              |                                |
| Acts Retirement-Life Communities  | 5.000% | 11/15/28      | 1,400,000    | 1,498,504                      |
| Acts Retirement-Life Communities  | 5.000% | 11/15/29      | 1,350,000    | 1,443,123                      |
| Philadelphia, PA, Authority for IDR:  |        |               |              |                                |
| Discovery Charter School Inc. Project   | 6.250% | 4/1/37        | 500,000      | 515,570                        |
| Performing Arts Charter School Project  | 6.000% | 6/15/23       | 500,000      | 515,620 <sup>(b)</sup>         |
| <i>Total Pennsylvania</i>   |        |               |              | <i>5,002,907</i>               |
| <b>Puerto Rico - 1.2%</b>   |        |               |              |                                |
| Puerto Rico Sales Tax Financing Corp., Sales Tax Revenue  | 5.250% | 8/1/41        | 1,500,000    | 1,051,890                      |
| Puerto Rico Sales Tax Financing Corp., Sales Tax Revenue  | 5.000% | 8/1/43        | 1,500,000    | 986,940                        |
| <i>Total Puerto Rico</i>  |        |               |              | <i>2,038,830</i>               |
| <b>Tennessee - 1.5%</b>   |        |               |              |                                |
| Shelby County, TN, Health Educational & Housing Facilities Board Revenue, Trezevant Manor Project         | 5.750% | 9/1/37        | 2,500,000    | 2,519,250                      |
| <b>Texas - 22.8%</b>  |        |               |              |                                |
| Brazos River, TX, Harbor Industrial Development Corp., Environmental Facilities Revenue, Dow Chemical Co. | 5.900% | 5/1/28        | 1,500,000    | 1,619,580 <sup>(d)(f)(g)</sup> |

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|   |        |          |           |                          |
|---|--------|----------|-----------|--------------------------|
| Central Texas Regional Mobility Authority Revenue   | 5.000% | 1/1/42   | 2,000,000 | 2,050,960                |
| Dallas-Fort Worth, TX, International Airport Revenue, Joint Improvement   | 5.000% | 11/1/42  | 4,000,000 | 4,169,800 <sup>(d)</sup> |
| Grand Parkway Transportation Corp., TX, System Toll Revenue,<br>Convertible Cabs  | 0.000% | 10/1/35  | 1,500,000 | 1,077,570 <sup>(f)</sup> |
| Gulf Coast, TX, IDA Revenue, Citgo Petroleum Corp. Project  | 4.875% | 5/1/25   | 1,000,000 | 1,007,640 <sup>(d)</sup> |
| Harris County, TX, Cultural Education Facilities Finance Corp., Medical<br>Facilities Revenue, Baylor College of Medicine | 5.625% | 11/15/32 | 2,000,000 | 2,282,520                |

**See Notes to Schedule of Investments.**

## WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

## Schedule of investments (unaudited) (cont d)

July 31, 2014

| SECURITY   | RATE   | MATURITY DATE | FACE AMOUNT  | VALUE                       |
|--|--------|---------------|--------------|-----------------------------|
| <b>Texas - 22.8% (continued)</b>   |        |               |              |                             |
| Houston, TX, Airport System Revenue, Special Facilities, Continental Airlines Inc. Projects  | 6.125% | 7/15/27       | \$ 2,750,000 | \$ 2,760,863 <sup>(d)</sup> |
| Love Field Airport Modernization Corp., TX, Special Facilities Revenue, Southwest Airlines Co. Project   | 5.250% | 11/1/40       | 6,000,000    | 6,338,880                   |
| New Hope Cultural Education Facilities Finance Corp., TX, Student Housing Revenue, Collegiate Housing Stephenville II LLC, Tarleton State University Project | 5.000% | 4/1/39        | 1,165,000    | 1,212,928                   |
| North Texas Tollway Authority Revenue  | 5.750% | 1/1/40        | 2,500,000    | 2,784,375                   |
| Texas Midwest Public Facility Corp. Revenue, Secure Treatment Facility Project   | 9.000% | 10/1/30       | 2,000,000    | 920,000 <sup>(e)</sup>      |
| Texas Private Activity Bond Surface Transportation Corp., Senior Lien, NTE Mobility Partners LLC   | 6.875% | 12/31/39      | 2,000,000    | 2,348,020                   |
| Texas Private Activity Bond Surface Transportation Corp. Revenue, LBJ Infrastructure Group LLC   | 7.000% | 6/30/40       | 4,000,000    | 4,780,640                   |
| Texas State Municipal Gas Acquisition & Supply Corp. III, Gas Supply Revenue   | 5.000% | 12/15/28      | 1,500,000    | 1,615,575                   |
| Texas State Public Finance Authority:  |        |               |              |                             |
| Charter School Finance Corp. Revenue, Cosmos Foundation Inc.   | 6.200% | 2/15/40       | 1,000,000    | 1,132,470                   |
| Uplift Education   | 5.750% | 12/1/27       | 1,500,000    | 1,668,630                   |
| West Texas Detention Facility Corp. Revenue  | 8.000% | 2/1/25        | 1,865,000    | 1,211,000                   |
| Willacy County, TX, PFC Project Revenue, County Jail   | 7.500% | 11/1/25       | 445,000      | 446,927                     |
| <i>Total Texas</i>   |        |               |              | <i>39,428,378</i>           |
| <b>U.S. Virgin Islands - 1.6%</b>  |        |               |              |                             |
| Virgin Islands Public Finance Authority Revenue, Matching Fund Loan  | 6.750% | 10/1/37       | 2,500,000    | 2,727,250                   |
| <b>Virginia - 1.8%</b>   |        |               |              |                             |
| Virginia State Small Business Financing Authority Revenue:   |        |               |              |                             |
| Elizabeth River Crossings OpCo LLC Project   | 5.250% | 1/1/32        | 1,000,000    | 1,067,890 <sup>(d)</sup>    |
| Elizabeth River Crossings OpCo LLC Project   | 5.500% | 1/1/42        | 2,000,000    | 2,122,160 <sup>(d)</sup>    |
| <i>Total Virginia</i>  |        |               |              | <i>3,190,050</i>            |
| <b>West Virginia - 1.5%</b>  |        |               |              |                             |
| Pleasants County, WV, PCR, Refunding, County Commission, Allegheny Energy Supply Co., LLC  | 5.250% | 10/15/37      | 2,500,000    | 2,561,775                   |
| <b>TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS</b>   |        |               |              |                             |
| (Cost - \$158,764,192)   |        |               |              | 168,999,685                 |
| <b>SHORT-TERM INVESTMENTS - 0.9%</b>   |        |               |              |                             |
| <b>Florida - 0.1%</b>  |        |               |              |                             |
| Highlands County, FL, Health Facilities Authority Revenue, Hospital Adventist Health System  | 0.050% | 11/15/33      | 200,000      | 200,000 <sup>(h)(i)</sup>   |

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**Massachusetts - 0.2%**

Massachusetts State HEFA Revenue, Partners Healthcare Systems,  
SPA-JPMorgan Chase

0.050%      7/1/27      400,000      400,000<sup>(h)(i)</sup>

**Mississippi - 0.3%**

Mississippi State Business Finance Commission Gulf Opportunity  
Revenue, Chevron U.S.A. Inc.

0.050%      11/1/35      600,000      600,000<sup>(h)(i)</sup>

**North Carolina - 0.2%**

Raleigh, NC, COP, Downtown Improvement Project, SPA-Wells Fargo  
Bank N.A.

0.050%      2/1/34      300,000      300,000<sup>(h)(i)</sup>

**See Notes to Schedule of Investments.**

**WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.****Schedule of investments (unaudited) (cont d)****July 31, 2014**

| SECURITY   | RATE   | MATURITY<br>DATE | FACE<br>AMOUNT | VALUE                        |
|--|--------|------------------|----------------|------------------------------|
| <b>Oregon - 0.1%</b>                                   |        |                  |                |                              |
| Oregon State, GO, Veterans Welfare, SPA-U.S. Bank N.A. | 0.070% | 6/1/41           | \$ 100,000     | \$ 100,000 <sup>(h)(i)</sup> |
| <b>TOTAL SHORT-TERM INVESTMENTS</b>                    |        |                  |                |                              |
| (Cost - \$1,600,000)                                   |        |                  |                | 1,600,000                    |
| <b>TOTAL INVESTMENTS - 98.9%</b>                       |        |                  |                |                              |
| (Cost - \$160,364,192#)                                |        |                  |                | 170,599,685                  |
| Other Assets in Excess of Liabilities - 1.1%           |        |                  |                | 1,917,950                    |
| <b>TOTAL NET ASSETS - 100.0%</b>                       |        |                  |                |                              |
|  |        |                  |                | \$ 172,517,635               |

- (a) All or a portion of this security is held at the broker as collateral for open futures contracts.
- (b) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors, unless otherwise noted.
- (c) Pre-Refunded bonds are escrowed with U.S. government obligations 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.
- (d) Income from this issue is considered a preference item for purposes of calculating the alternative minimum tax ( AMT ).
- (e) The coupon payment on these securities is currently in default as of July 31, 2014.
- (f) Variable rate security. Interest rate disclosed is as of the most recent information available.
- (g) Maturity date shown represents the mandatory tender date.
- (h) Variable rate demand obligations have a demand feature under which the Fund can tender them back to the issuer or liquidity provider on no more than 7 days notice.

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(i) Maturity date shown is the final maturity date. The security may be sold back to the issuer before final maturity.

# Aggregate cost for federal income tax purposes is substantially the same.

Abbreviations used in this schedule:

|       |   |
|-------|---|
| AGM   | Assured Guaranty Municipal Corporation - Insured Bonds        |
| AMBAC | American Municipal Bond Assurance Corporation - Insured Bonds |
| CAB   | Capital Appreciation Bonds                                    |
| CDA   | Communities Development Authority                             |
| COP   | Certificates of Participation                                 |
| DFA   | Development Finance Agency                                    |
| EDA   | Economic Development Authority                                |
| EDR   | Economic Development Revenue                                  |
| EFA   | Educational Facilities Authority                              |
| FGIC  | Financial Guaranty Insurance Company - Insured Bonds          |
| GO    | General Obligation  |
| HEFA  | Health & Educational Facilities Authority                     |
| IDA   | Industrial Development Authority                              |
| IDR   | Industrial Development Revenue                                |
| PCFA  | Pollution Control Financing Authority                         |
| PCR   | Pollution Control Revenue                                     |
| PFC   | Public Facilities Corporation                                 |
| SPA   | Standby Bond Purchase Agreement - Insured Bonds               |

**See Notes to Schedule of Investments.**

**WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.**

Schedule of investments (unaudited) (cont d)

July 31, 2014

**Summary of Investments by Industry**

|                                   |        |
|-----------------------------------|--------|
| Industrial Revenue                | 30.7%  |
| Health Care                       | 15.8   |
| Transportation                    | 14.3   |
| Water & Sewer                     | 9.8    |
| Education                         | 9.6    |
| Special Tax Obligation            | 5.7    |
| Leasing                           | 5.2    |
| Power                             | 3.5    |
| Pre-Refunded/Escrowed to Maturity | 1.9    |
| Solid Waste/Resource Recovery     | 0.9    |
| Local General Obligation          | 0.5    |
| Housing                           | 0.5    |
| Student Municipals                | 0.4    |
| Other                             | 0.3    |
| Short - Term Investments          | 0.9    |
|                                   | 100.0% |

As a percentage of total investments. Please note that Fund holdings are as of July 31, 2014 and are subject to change.

**Ratings Table\*****Standard & Poor's/Moody's/Fitch\*\***

|            |        |
|------------|--------|
| AA/Aa      | 2.2%   |
| A          | 21.3   |
| BBB/Baa    | 45.8   |
| BB/Ba      | 11.8   |
| B/B        | 3.4    |
| CCC/Caa    | 1.2    |
| A-1/VMIG 1 | 0.9    |
| NR         | 13.4   |
|            | 100.0% |

\* As a percentage of total investments.

\*\* The ratings shown are based on each portfolio security's rating as determined by Standard & Poor's, Moody's or Fitch, each a Nationally Recognized Statistical Rating Organization (NRSRO). These ratings are the opinions of the NRSRO and are not measures of quality or guarantees of performance. Securities may be rated by other NRSROs, and these ratings may be higher or lower. In the event that a security is rated by multiple NRSROs and receives different ratings, the Fund will treat the security as being rated in the lowest rating category received from a NRSRO.

**See Notes to Schedule of Investments.**

**Notes to Schedule of Investments (unaudited)**

**1. Organization and significant accounting policies**

Western Asset Municipal High Income 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 Fund seeks high current income exempt from federal income taxes.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP).

**(a) Investment valuation.** The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment's fair value. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When reliable prices are not readily available, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities as determined in accordance with procedures approved by the Fund's Board of Directors.

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North American Fund Valuation Committee (the Valuation Committee). The Valuation Committee, pursuant to the policies adopted by the Board of Directors, is responsible for making fair value determinations, evaluating the effectiveness of the Fund's pricing policies, and reporting to the Board of Directors. When determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

The Valuation Committee will consider pricing methodologies it deems relevant and appropriate when making fair value determinations. Examples of possible methodologies include, but are not limited to, multiple of earnings; discount from market of a similar freely traded security; discounted cash-flow analysis; book value or a multiple thereof; risk premium/yield analysis; yield to maturity; and/or fundamental investment analysis. The Valuation Committee will also consider factors it deems relevant and appropriate in light of the facts and circumstances. Examples of possible factors include, but are not limited to, the type of security; the issuer's financial statements; the purchase price of the security; the discount from market value of unrestricted securities of the same class at the time of purchase; analysts' research and observations from financial institutions; information regarding any transactions or offers with respect to the security; the existence of merger proposals or tender offers affecting the security; the price and extent of public trading in similar securities of the issuer or comparable companies; and the existence of a shelf registration for restricted securities.

For each portfolio security that has been fair valued pursuant to the policies adopted by the Board of Directors, the fair value price is compared against the last available and next available market quotations. The Valuation Committee reviews the results of such back testing monthly and fair valuation occurrences are reported to the Board of Directors quarterly.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

GAAP establishes a disclosure hierarchy that categorizes the inputs to valuation techniques used to value assets and liabilities at measurement date. These inputs are summarized in the three broad levels listed below:

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Level 1 quoted prices in active markets for identical investments

Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

**Notes to Schedule of Investments (unaudited) (continued)**

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments) The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used in valuing the Fund's assets and liabilities carried at fair value:

| DESCRIPTION            | ASSETS                     |   |  | TOTAL          |
|------------------------|----------------------------|---|--|----------------|
|                        | QUOTED PRICES<br>(LEVEL 1) | OTHER SIGNIFICANT<br>OBSERVABLE INPUTS<br>(LEVEL 2) | SIGNIFICANT<br>UNOBSERVABLE<br>INPUTS<br>(LEVEL 3) |                |
| Municipal bonds        |                            | \$ 168,999,685                                      |  | \$ 168,999,685 |
| Short-term investments |                            | 1,600,000   |  | 1,600,000      |
| Total investments      |                            | \$ 170,599,685                                      |  | \$ 170,599,685 |

| DESCRIPTION                  | LIABILITIES                |  |  | TOTAL     |
|------------------------------|----------------------------|--|--|-----------|
|                              | QUOTED PRICES<br>(LEVEL 1) | OTHER<br>SIGNIFICANT<br>OBSERVABLE INPUTS<br>(LEVEL 2) | SIGNIFICANT<br>UNOBSERVABLE<br>INPUTS<br>(LEVEL 3) |           |
| Other financial instruments: |                            |  |  |           |
| Futures contracts            | \$ 74,110                  |  |  | \$ 74,110 |

See Schedule of Investments for additional detailed categorizations.

**(b) Futures contracts.** The Fund uses futures contracts generally to gain exposure to, or hedge against, changes in interest rates or gain exposure to, or hedge against, changes in certain asset classes. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the Fund is required to deposit cash or cash equivalents with a broker in an amount equal to a certain percentage of the contract amount. This is known as the initial margin and subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuation in the value of the contract. For certain futures, including foreign denominated futures, variation margin is not settled daily, but is recorded as a net variation margin payable or receivable. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded.

Futures contracts involve, to varying degrees, risk of loss. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

**(c) Credit and market risk.** The Fund invests in high-yield instruments that are subject to certain credit and market risks. The yields of high-yield obligations reflect, among other things, perceived credit and market risks. The Fund's investments in securities rated below investment grade typically involve risks not associated with higher rated securities including, among others, greater risk related to timely and ultimate payment of interest and principal, greater market price volatility and less liquid secondary market trading.

**(d) Security transactions.** Security transactions are accounted for on a trade date basis.

## 2. Investments

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At July 31, 2014, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

|                               |               |
|-------------------------------|---------------|
| Gross unrealized appreciation | \$ 13,971,496 |
| Gross unrealized depreciation | (3,736,003)   |
| Net unrealized appreciation   | \$ 10,235,493 |

Notes to Schedule of Investments (unaudited) (continued)

At July 31, 2014, the Fund had the following open futures contracts:

|                               | Number of<br>Contracts | Expiration<br>Date | Basis<br>Value | Market<br>Value | Unrealized<br>Depreciation |
|-------------------------------|------------------------|--------------------|----------------|-----------------|----------------------------|
| <b>Contracts to Sell:</b>     |                        |                    |                |                 |                            |
| U.S. Treasury Long-Term Bonds | 53                     | 9/14               | \$ 7,208,422   | \$ 7,282,532    | \$ (74,110)                |

**3. Derivative instruments and hedging activities**

GAAP requires enhanced disclosure about an entity's derivative and hedging activities.

The following is a summary of the Fund's derivative instruments categorized by risk exposure at July 31, 2014.

| Primary Underlying Risk | Futures Contracts<br>Unrealized<br>Depreciation |
|-------------------------|---|
| Interest Rate Risk      | \$ (74,110)                                     |

During the period ended July 31, 2014, the volume of derivative activity for the Fund was as follows:

|                             | Average Market Value |
|-----------------------------|----------------------|
| Futures contracts (to buy)  | \$ 13,222            |
| Futures contracts (to sell) | 6,080,216            |

At July 31, 2014, there were no open positions held in this derivative.

**ITEM 2. CONTROLS AND PROCEDURES.**

- (a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.
  
- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

**ITEM 3. EXHIBITS.**

Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are attached hereto.

