

INVESTMENT GRADE MUNICIPAL INCOME FUND

Form N-CSR

November 29, 2006

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-07096

Investment Grade Municipal Income Fund Inc.

(Exact name of registrant as specified in charter)

51 West 52nd Street, New York, New York 10019-6114

(Address of principal executive offices) (Zip code)

Mark F. Kemper, Esq.
UBS Global Asset Management
51 West 52nd Street
New York, NY 10019-6114
(Name and address of agent for service)

Copy to:
Jack W. Murphy, Esq.
Dechert LLP
1775 I Street, N.W.
Washington, DC 20006-2401

Registrant's telephone number, including area code: 212-882 5000

Date of fiscal year end: September 30

Date of reporting period: September 30, 2006

ITEM 1. REPORTS TO STOCKHOLDERS.

[LOGO OF UBS] UBS Global Asset
Management

INVESTMENT GRADE MUNICIPAL
INCOME FUND INC.
ANNUAL REPORT
SEPTEMBER 30, 2006

INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

November 15, 2006

DEAR SHAREHOLDER,

We are pleased to present you with the annual report for Investment Grade
Municipal Income Fund Inc. ("the Fund") for the fiscal year ended
September 30, 2006.

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PERFORMANCE

Over the one-year period, the Fund returned 5.87% on a net asset value basis and 13.05% on a market price basis. Over the same period, the Fund's peer group, the Lipper General Municipal Debt Funds (Leveraged) category, posted median net asset value and market price returns of 6.00% and 8.56%, respectively. Finally, the Fund's benchmark, the Lehman Brothers Municipal Bond Index (the "Index"), returned 4.45%. (For more performance information, please refer to "Performance at a glance" on page 6.)

INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

INVESTMENT GOAL:

High level of current income exempt from federal income tax, consistent with preservation of capital.

PORTFOLIO MANAGER:

Kevin McIntyre
UBS Global Asset Management (Americas) Inc.

COMMENCEMENT:

November 6, 1992

NYSE SYMBOL:

PPM

DIVIDEND PAYMENTS:

Monthly

The Fund continued to use leverage during the period, which helped performance on an absolute basis. As of September 30, 2006, leverage accounted for approximately 41% of the Fund's total assets. While short-term rates rose over the period and increased the Fund's borrowing costs, the leverage still had a positive effect on the Fund's income during the fiscal year, as the yields on the Fund's longer-term bonds more than offset the borrowing costs. Leverage magnifies returns on both the upside and on the downside.

AN INTERVIEW WITH PORTFOLIO MANAGER KEVIN MCINTYRE

Q. HOW WOULD YOU DESCRIBE THE ECONOMIC ENVIRONMENT DURING THE REPORTING PERIOD?

A. Economic data were generally positive during the fiscal year, despite the fact that economic growth appears to be slowing from an above-average rate back to historical norms. Although the housing market continued to cool, a sharp decline in energy prices during the final two months of the reporting period helped to offset that trend. Other economic

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

indicators were mixed; advance GDP data for the third quarter came in below expectations, while unemployment remained low and consumer confidence high.

Q. HOW DID THE FEDERAL RESERVE BOARD (THE "FED") REACT TO THESE ECONOMIC CONDITIONS?

A. After raising short-term interest rates at 17 consecutive meetings dating back to 2004, the Fed paused in June and has left rates unchanged at 5.25% in its past three sessions, including its October meeting after the Fund's reporting period ended. Future rate hikes remain a possibility, according to

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Fed releases, as "some inflation risks remain." The extent and timing of any future firming, or monetary easing for that matter, will likely be dependent on emerging economic data.

Q. HOW DID THE MUNICIPAL BOND MARKET PERFORM IN THIS ENVIRONMENT?

- A. The municipal bond market on the whole outperformed Treasuries throughout the reporting period. Treasury yields rose throughout most of the period, resulting in corresponding price declines, while municipal securities with maturities of 10 years and longer actually rallied during this same period. The difference in performance versus Treasuries was greatest when comparing securities with maturities of around 30 years.

Q. IN GENERAL TERMS, HOW DID YOU POSITION THE PORTFOLIO?

- A. Over the course of the reporting period, we extended duration to a more neutral position relative to our Fund's Lipper peer group. (Duration is a measure of a fund's sensitivity to interest rate changes and is related to the maturity of the bonds comprising the portfolio.) We are also slightly longer in duration than the Index, and we significantly increased the Fund's position in the 30-year area of the curve. This clearly benefited the portfolio on an absolute basis, as the longer end of the curve outperformed every other area on the yield curve.

Additionally, some changes to the Fund's investment strategies benefited performance. The Fund has increased its exposure to lower-quality securities and securities subject to the alternative minimum tax (AMT). These changes were implemented to bring the Fund's investment style more in line with that of its peers, with the goal of making it more competitive. During the course of the period, we used these to our advantage. We diversified away from higher grade securities to increase the Fund's position in relatively lower-rated securities. We likewise increased the Fund's position in AMT securities, to benefit from the higher yields associated with these types of bonds.

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Q. FROM A SECTOR STANDPOINT, WHAT WERE IMPORTANT POSITIONS FOR THE FUND?

- A. We strive to maintain a well-diversified portfolio regardless of market conditions. As a result, the Fund holds bonds in a number of different sectors. Over the past year, we have focused our research on uncovering new opportunities in the water, airport and hospital sectors. This research indicates that the water sector tends to have stronger revenue and earnings stability than some other sectors of the municipal market, even in changing economic climates. While we slightly reduced the Fund's position in water related bonds during the period in order to diversify into other areas, we continued to view the sector positively, and it represented the Fund's largest sector position at period end.

Meanwhile, the airport sector continued to rebound. A significant portion of airport sector bonds are subject to AMT, and tend to offer higher yields. During the period, we purchased NYC IDA revenue bonds for the Terminal One Group Association. They are subject to AMT and have performed well over this period, helping us diversify the credit quality of the portfolio.

While our long-term outlook for the healthcare sector as a whole remains negative, we see positive trends developing for certain healthcare providers with stable or improving finances and strong market share. With that in mind, we have selectively added to our holdings in this sector, which has benefited performance.

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Although the tobacco sector posted very strong gains, we continued to avoid it, which detracted from performance during the period. We do not believe the potential rewards in the tobacco sector are commensurate with the risks our analysis indicates these bonds entail.

Q. WERE THERE ANY STATES OR REGIONS THAT WERE AN AREA OF FOCUS FOR THE FUND?

A. From a regional standpoint, we continued to focus on states that exhibited improved fiscal health and offered what we viewed as attractively valued municipal bonds. Issues that we believe met that definition included long-term California bonds and New York securities. While we opportunistically reduced these positions where we were able to benefit performance, they remained our largest single state exposures at period end. Additionally, we have increased our exposure to New Jersey bonds, primarily with the purchase of New Jersey Transportation Trust Fund Bonds, one of our best-performing bonds over the period.

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Q. WHAT IS YOUR OUTLOOK FOR THE ECONOMY AND THE MUNICIPAL FIXED INCOME MARKET?

A. We are generally more upbeat on the prospects for the economy than some market prognosticators. Throughout 2006, corporate earnings have appeared quite healthy, while employment and wage data have appeared strong. Inflation, high energy prices and the prospect of a bursting housing bubble represent the major hurdles facing the economy and the markets, and we find it unlikely that any of the three represents enough of a threat to derail what has been a period of solid, if not exceptional, economic growth. With respect to the municipal bond market, we believe there continue to be pockets of attractive valuations along the yield curve and within certain sectors. Our in-house research should help position the Fund well in hopes of taking advantage of those investment opportunities we identify in the months and quarters that follow.

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We thank you for your continued support and welcome any comments or questions you may have. For additional information regarding your fund, please contact your financial advisor, or visit us at www.ubs.com/globalam-us.

Sincerely,

/s/ Kai R. Sotorp

Kai R. Sotorp
President
Investment Grade Municipal Income Fund Inc.
Head of the Americas
UBS Global Asset Management (Americas) Inc.

/s/ Kevin McIntyre

Kevin McIntyre
Portfolio Management Team
Investment Grade Municipal Income Fund Inc.

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Director
UBS Global Asset Management (Americas) Inc.

/s/ Elbridge T. Gerry III

Elbridge T. Gerry III
Portfolio Management Team
Investment Grade Municipal Income Fund Inc.
Managing Director
UBS Global Asset Management (Americas) Inc.

This letter is intended to assist shareholders in understanding how the Fund performed during the fiscal year ended September 30, 2006. The views and opinions in the letter were current as of November 15, 2006. They are not guarantees of performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and we reserve the right to change our views about individual securities, sectors and markets at any time. As a result, the views expressed should not be relied upon as a forecast of the Fund's future investment intent. We encourage you to consult your financial advisor regarding your personal investment program.

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

PERFORMANCE AT A GLANCE (UNAUDITED)

AVERAGE ANNUAL TOTAL RETURNS FOR PERIODS ENDED 09/30/06

INVESTMENT GRADE MUNICIPAL INCOME FUND INC.	1 YEAR	5 YEARS	10 YEARS
Net asset value returns	5.87%	6.19%	6.08%
Market price returns	13.05%	5.86%	7.56%
=====			
LIPPER GENERAL MUNICIPAL DEBT FUNDS (LEVERAGED) MEDIAN			
Net asset value returns	6.00%	6.83%	6.64%
Market price returns	8.56%	7.79%	7.11%
=====			
LEHMAN BROTHERS MUNICIPAL BOND INDEX	4.45%	5.17%	5.90%
=====			

PAST PERFORMANCE DOES NOT PREDICT FUTURE PERFORMANCE. THE RETURN AND VALUE OF AN INVESTMENT WILL FLUCTUATE SO THAT AN INVESTOR'S SHARES, WHEN SOLD, MAY BE WORTH MORE OR LESS THAN THEIR ORIGINAL COST. NAV RETURN ASSUMES, FOR ILLUSTRATION ONLY, THAT DIVIDENDS WERE REINVESTED AT THE NET ASSET VALUE ON THE PAYABLE DATES. RETURNS DO NOT REFLECT THE DEDUCTION OF TAXES THAT A SHAREHOLDER COULD PAY ON FUND DISTRIBUTIONS.

Lipper peer group data calculated by Lipper Inc.; used with permission. The Lipper median is the return of the fund that places in the middle of the peer group.

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SHARE PRICE, DIVIDEND AND YIELDS AS OF 09/30/06

Market price	\$13.95
Net asset value (per share applicable to common shareholders)	\$15.39
Net investment income dividends paid to common shareholders during the twelve months ended 09/30/06	\$0.732
September 2006 dividend	\$0.063
Market yield*	5.42%
NAV yield*	4.91%

* Market yield is calculated by multiplying the September dividend by 12 and dividing by the month-end market price. NAV yield is calculated by multiplying the September dividend by 12 and dividing by the month-end net asset value. Prices and yields will vary.

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

PORTFOLIO STATISTICS (UNAUDITED)

CHARACTERISTICS	09/30/06	03/31/06	09/30/05
Net assets applicable to common shareholders (mm)	\$159.4	\$155.8	\$162.2
Weighted average maturity	15.0 yrs	15.9 yrs	14.5 yrs
Weighted average duration	5.1 yrs	5.5 yrs	4.1 yrs
Weighted average coupon	5.2%	5.2%	5.2%
Leverage**	40.8%	41.3%	40.4%
Securities subject to alternative minimum tax (AMT)*	9.5%	8.4%	—
Callable/maturing within five years*	8.2%	9.9%	9.1%
Callable/maturing beyond five years*	91.8%	90.1%	90.9%

PORTFOLIO COMPOSITION***	09/30/06	03/31/06	09/30/05
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Long-term municipal bonds	97.6%	93.6%	94.8%
Short-term municipal notes	1.1	5.1	2.4
Futures	(0.1)	0.0+	0.5
Other assets less liabilities	1.4	1.3	2.3
Total	100.0%	100.0%	100.0%

CREDIT QUALITY*	09/30/06	03/31/06	09/30/05
AAA	41.3%	55.3%	54.1%
AA	24.4	8.5	14.3
A	15.0	9.9	9.2
BBB	9.8	10.6	8.5
BB	—	—	0.8
A-1	1.1	5.2	2.5
Nonrated	8.4	10.5	10.6
Total	100.0%	100.0%	100.0%

* Weightings represent percentages of total investments as of the dates indicated. The Fund's portfolio is actively managed and its composition will vary over time.

** As a percentage of total assets as of the dates indicated.

*** As a percentage of net assets applicable to common and preferred shareholders as of the dates indicated. Credit quality ratings shown are designated by Standard & Poor's Rating Group, an independent rating agency.

+ Represents less than 0.05% of net assets applicable to common and preferred shareholders as of the date indicated.

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

PORTFOLIO STATISTICS (UNAUDITED) (CONCLUDED)

TOP FIVE STATES*	09/30/06	03/31/06	09/30/05
California	23.2%	California	19.4%
New York	13.7	New York	16.8
		Texas	18.5

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New Jersey	9.8	Texas	12.0	New York	9.7
North Carolina	7.4	North Carolina	7.4	North Carolina	7.4
Texas	7.1	Pennsylvania	6.0	Pennsylvania	6.0
Total	61.2%		61.6%		68.5%

TOP FIVE SECTORS*	09/30/06		03/31/06		09/30/05
Water	14.7%	Water	21.8%	Power	22.5%
University	13.6	University	14.2	Water	21.3
Hospital	11.9	Power	12.2	University	7.3
Transportation	9.4	Hospital	9.6	Hospital	6.1
Lease	9.3	Airport	8.5	Lease	5.5
Total	58.9%		66.3%		62.7%

* Weightings represent percentages of total investments as of the dates indicated. The Fund's portfolio is actively managed and its composition will vary over time.

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

PORTFOLIO OF INVESTMENTS--SEPTEMBER 30, 2006

PRINCIPAL AMOUNT (000)		MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES	INTEREST RATES	V
LONG-TERM MUNICIPAL BONDS--164.92%						
ALASKA--1.99%						
\$1,000	Alaska International Airports Revenues Refunding-Series A (MBIA Insured)++	Aaa	AAA	10/01/19	5.000%	\$1,061
1,000	Alaska International Airports Revenues Refunding-Series A (MBIA Insured)++	Aaa	AAA	10/01/20	5.000	1,058
1,000	Alaska International					

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Airports Revenues						
Refunding-Series A						
(MBIA Insured)++		Aaa	AAA	10/01/21	5.000	1,054
						3,174
=====						
ARIZONA--1.61%						
2,380	Arizona State Transportation					
	Board Highway					
	Revenue-Series B	Aa1	AAA	07/01/18	5.250	2,561
=====						
ARKANSAS--0.99%						
1,525	Little Rock Capital					
	Improvement Revenue					
	Parks & Recreation					
	Projects-Series A	NR	NR	01/01/18	5.700	1,571
=====						
CALIFORNIA--38.73%						
5,000	California Educational					
	Facilities Authority Revenue					
	Refunding-Pepperdine					
	University-Series A					
	(FGIC Insured)	Aaa	AAA	09/01/33	5.000	5,199

5,000	California Health Facilities					
	Financing Authority					
	Revenue-Kaiser					
	Permanente-Series A	NR	A[PLUS]	04/01/39	5.250	5,286

5,000	California State					
	Refunding	A1	A[PLUS]	05/01/27	5.000	5,256

3,000	California State					
	Refunding-Series 2	A1	A[PLUS]	09/01/27	5.000	3,165

						9

INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

PORTFOLIO OF INVESTMENTS--SEPTEMBER 30, 2006

PRINCIPAL AMOUNT (000)	MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES	INTEREST RATES	V

LONG-TERM MUNICIPAL BONDS--(CONTINUED)					

CALIFORNIA--(CONTINUED)					
\$3,000	California Statewide				
	Communities Development				
	Authority Apartment				

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	Development Revenue Refunding-Irvine Apartment Communities-Series A-3 (Mandatory Put 05/17/10 @ 100)	Baa2	BBB[PLUS]	05/15/25	5.100%+	\$3,082
1,750	California Statewide Communities Development Authority Revenue-Kaiser Permanente-Series H (Mandatory Put 05/01/08 @ 100)	NR	A[PLUS]	04/01/34	2.625+	1,713
2,150	Fontana Redevelopment Agency Tax Allocation Refunding-Jurupa Hills Redevelopment Project A	NR	A-	10/01/17	5.500	2,248
2,905	Inglewood Unified School District 1998 Election-Series C (FSA Insured)	Aaa	AAA	10/01/28	5.000	3,050
2,390	Los Angeles County Sanitation Districts Financing Authority Revenue Capital Projects-District No. 14-Subseries B (FGIC Insured)	NR	AAA	10/01/28	5.000	2,537
6,250	Los Angeles Wastewater System Revenue Refunding-Series A (FSA Insured)	Aaa	AAA	06/01/32	5.000	6,528
5,000	Los Angeles Water & Power Revenue Power System-Series A, Subseries A-2 (MBIA Insured)	Aaa	AAA	07/01/27	5.000	5,244

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

PORTFOLIO OF INVESTMENTS--SEPTEMBER 30, 2006

PRINCIPAL AMOUNT (000)	MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES	INTEREST RATES	V
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LONG-TERM MUNICIPAL BONDS--(CONTINUED)

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CALIFORNIA--(CONCLUDED)

\$10,000	Sacramento County Sanitation District Financing Authority Revenue Refunding (AMBAC Insured)	Aaa	AAA	12/01/27	5.000%	\$10,352
2,600	San Diego County Regional Airport Authority Airport Revenue Refunding (AMBAC Insured)++	Aaa	AAA	07/01/16	5.250	2,845
5,000	University of California Revenues-Series A (AMBAC Insured) #	Aaa	AAA	05/15/28	5.000	5,240
						61,753

COLORADO--0.97%

1,452	University of Colorado Participation Interests	NR	A[PLUS]	12/01/13	6.000	1,545
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FLORIDA--6.15%

3,350	Florida State Board of Education Capital Outlay-Series E (FGIC Insured)	Aaa	AAA	06/01/24	5.000	3,527
1,175	Gainesville Utilities System Revenue-Series A	Aa2	AA	10/01/20	5.250	1,282
2,000	Miami-Dade County Aviation Revenue Refunding-Miami International Airport-Series B (XLCA Insured)++	Aaa	AAA	10/01/13	5.000	2,125
2,700	Miami-Dade County Aviation Revenue Refunding-Miami International Airport-Series B (XLCA Insured)++	Aaa	AAA	10/01/18	5.000	2,864
						9,799

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PORTFOLIO OF INVESTMENTS--SEPTEMBER 30, 2006

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PRINCIPAL AMOUNT (000)		MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES	INTEREST RATES	V
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LONG-TERM MUNICIPAL BONDS--(CONTINUED)

ILLINOIS--4.87%

\$1,200	Illinois Educational Facilities Authority Revenues Refunding-Augustana College-Series A	Baa1	NR	10/01/22	5.625%	\$1,270
6,000	Illinois Finance Authority Revenue-University of Chicago-Series A	Aa1	AA	07/01/34	5.000	6,250
250	Metropolitan Pier & Exposition Authority Dedicated State Tax Revenue	A1	AAA	06/15/27	6.500	250
						7,770

INDIANA--7.21%

4,000	Indiana Health & Educational Facilities Financing Authority Hospital Revenue Refunding-Clarian Health Obligation Group-Series B	A2	A[PLUS]	02/15/21	5.000	4,182
4,480	Indiana Health Facility Financing Authority Revenue Ascension Health Subordinated Credit-A	Aa3	AA-	04/01/10	5.000	4,673
2,500	Indianapolis Airport Authority Revenue Refunding-Special Facilities-FedEx Corp. Project (Federal Express Co. Insured)++	Baa2	BBB	01/15/17	5.100	2,636
						11,492

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PORTFOLIO OF INVESTMENTS--SEPTEMBER 30, 2006

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PRINCIPAL AMOUNT (\$000)		MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES	INTEREST RATES	V
LONG-TERM MUNICIPAL BONDS--(CONTINUED)						
MASSACHUSETTS--3.92%						
\$6,000	Massachusetts Health & Educational Facilities Authority Revenue-Harvard University-Series DD	Aaa	AAA	07/15/35	5.000%	\$6,243
=====						
MICHIGAN--4.65%						
2,055	Michigan State Hospital Finance Authority Revenue Ascension Health Subordinated Credit-A	Aa3	AA-	05/01/12	5.000	2,174

5,000	Michigan State Hospital Finance Authority Revenue Refunding-Trinity Health Credit-Series D	Aa3	AA-	08/15/25	5.000	5,244

						7,418
=====						
MINNESOTA--0.99%						
1,500	Shakopee Health Care Facilities Revenue-Saint Francis Regional Medical Center	NR	BBB	09/01/17	5.000	1,572
=====						
NEW JERSEY--16.26%						
10,000	New Jersey State Educational Facilities Authority Revenue-Princeton University-Series D	Aaa	AAA	07/01/29	5.000	10,612

10,000	New Jersey Transportation Trust Fund Authority Transportation System-Series A	A1	AA-	12/15/20	5.250	11,263

3,500	New Jersey Transportation Trust Fund Authority Transportation System-Series A	A1	AA-	12/15/21	5.500	4,045

						25,921
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PORTFOLIO OF INVESTMENTS--SEPTEMBER 30, 2006

PRINCIPAL AMOUNT (000)		MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES	INTEREST RATES	V
LONG-TERM MUNICIPAL BONDS--(CONTINUED)						
NEW YORK--22.83%						
\$1,765	Metropolitan Transportation Authority New York Dedicated Tax Fund-Series A (FSA Insured)	Aaa	AAA	11/15/24	5.250%	\$1,905
7,390	Metropolitan Transportation Authority Revenue Transportation-Series A	A2	A	11/15/25	5.000	7,854
2,500	New York City General Obligation-Series G	A1	AA-	08/01/13	5.000	2,683
4,815	New York City General Obligation-Series O	A1	AA-	06/01/24	5.000	5,067
2,000	New York City Industrial Development Agency Special Facilities Revenue- Terminal One Group Association Project ++	A3	BBB[PLUS]	01/01/15	5.500	2,173
2,750	New York City Industrial Development Agency Special Facilities Revenue-Terminal One Group Association Project ++	A3	BBB[PLUS]	01/01/17	5.500+	2,995
3,250	New York City Industrial Development Agency Special Facilities Revenue-Terminal One Group Association Project ++	A3	BBB[PLUS]	01/01/18	5.500+	3,529
3,140	Triborough Bridge & Tunnel Authority Revenues Refunding-Series B	Aa2	AA-	11/15/19	5.250	3,397
6,400	Triborough Bridge & Tunnel Authority Revenues-Subordinate Bonds	Aa3	A[PLUS]	11/15/30	5.250	6,797

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36,404

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

PORTFOLIO OF INVESTMENTS--SEPTEMBER 30, 2006

PRINCIPAL AMOUNT (000)		MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES	INTEREST RATES	V
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LONG-TERM MUNICIPAL BONDS--(CONTINUED)

NORTH CAROLINA--12.41%

\$5,000	North Carolina Eastern Municipal Power Agency Power System Revenue Refunding-Series A	Baa2	BBB	01/01/11	5.500%	\$5,318
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2,000	North Carolina Eastern Municipal Power Agency Power System Revenue Refunding-Series A	Baa2	BBB	01/01/12	5.500	2,149
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3,065	North Carolina Eastern Municipal Power Agency Power System Revenue-Series A (Escrowed to Maturity)	Baa2	AAA	01/01/21	6.400	3,745
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8,745	North Carolina State Public Improvement-Series A	Aa1	AAA	03/01/24	4.000	8,572
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19,786

OHIO--6.82%

2,185	Ohio State Higher Education-Series B	Aa1	AA[PLUS]	11/01/17	5.250	2,355
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8,000	Ohio State Water Development Authority Water Pollution Control Revenue-Water Quality	Aaa	AAA	06/01/24	5.000	8,512
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10,868

PENNSYLVANIA--9.91%

7,125	Allegheny County Sanitation Authority
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	Sewer Revenue Refunding-Series A (MBIA Insured)	Aaa	AAA	12/01/24	5.000	7,588
5,000	Northumberland County Authority-Guaranteed Lease Revenue-Mountain View Manor Project	NR	NR	10/01/20	7.000	5,226

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

PORTFOLIO OF INVESTMENTS--SEPTEMBER 30, 2006

PRINCIPAL AMOUNT (000)	MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES	INTEREST RATES	V
------------------------------	----------------------------------	------------------------------	-------------------	-------------------	---

LONG-TERM MUNICIPAL BONDS--(CONTINUED)

PENNSYLVANIA--(CONCLUDED)

\$3,000	Susquehanna Area Regional Airport Authority Airport System Revenue-Subseries D	Baa2	NR	01/01/18	5.375%	\$2,983
						15,798

PUERTO RICO--2.00%

3,000	Puerto Rico Housing Finance Authority-Capital Funding Program (HUD Insured)	Aa3	AA	12/01/18	5.000	3,187
-------	--------------------------------------------------------------------------------------	-----	----	----------	-------	-------

RHODE ISLAND--1.05%

1,600	Rhode Island Health & Educational Building Corp. Revenue Refunding-Hospital Financing-Lifespan Obligation-Series A	A3	A-	05/15/11	5.000	1,672
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SOUTH CAROLINA--9.02%

7,570	Charleston Educational Excellence Financing Corp. Revenue-Charleston County School District Project	A1	AA-	12/01/24	5.000	7,989
5,000	Greenville County School					

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	District Installment Purchase					
	Refunding-Building Equity					
	Sooner-Series AGC	Aa3	AA-	12/01/24	5.000	5,306
1,000	Greenville Waterworks Revenue	Aa1	AAA	02/01/20	5.250	1,089
						14,385
=====						
SOUTH DAKOTA--0.67%						
1,049	Standing Rock New Public Housing**	NR	NR	08/07/13	6.000	1,070
=====						

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

PORTFOLIO OF INVESTMENTS--SEPTEMBER 30, 2006

PRINCIPAL AMOUNT (000)		MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES	INTEREST RATES	V

LONG-TERM MUNICIPAL BONDS--(CONCLUDED)

TENNESSEE--1.61%						
\$2,500	Memphis-Shelby County Airport Authority Special Facilities Revenue Refunding-Federal Express Corp.	Baa2	BBB	09/01/09	5.000%	\$2,568
=====						

TEXAS--10.26%						
4,000	Coastal Bend Health Facilities Development Corp.-Incarnate Word Health System-Series A (Escrowed to Maturity) (AMBAC Insured)	Aaa	AAA	01/01/17	6.300	4,488
6,503	Harris County Texas Lease(++)	NR	NR	05/01/20	6.750	6,887
3,007	Houston Community College System Participation Interests(++)	NR	NR	06/15/25	7.875	3,389
1,485	Lower Colorado River Authority Transmission Contract Revenue-LCRA Transmission Services					

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Corp. Project B (FSA Insured)	Aaa	AAA	05/15/20	5.250	1,588
					16,354
Total long-term municipal bonds (cost--\$256,182,868)					262,922

SHORT-TERM MUNICIPAL NOTES--1.84%

INDIANA--0.27%

435	Whiting Industrial Environmental Facilities Revenue-Amoco Oil Co. Project ++	VMIG-1	A-1[PLUS]	10/02/06	3.830*	435
-----	---------------------------------------------------------------------------------------	--------	-----------	----------	--------	-----

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

PORTFOLIO OF INVESTMENTS--SEPTEMBER 30, 2006

PRINCIPAL AMOUNT (000)	MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATE	INTEREST RATE	V
------------------------------	----------------------------------	------------------------------	------------------	------------------	---

SHORT-TERM MUNICIPAL NOTES--(CONCLUDED)

TEXAS--1.57%

\$2,500	West Side Calhoun County Naval District Environmental Facilities Revenue-BP Chemicals, Inc. Project ++	NR	A-1[PLUS]	10/02/06	3.830%*	\$2,500
---------	--------------------------------------------------------------------------------------------------------------------	----	-----------	----------	---------	---------

Total short-term municipal notes (cost--\$2,935,000) 2,935

Total investments (cost--\$259,117,868)--166.76% 265,857

Other assets in excess of liabilities--2.24% 3,572

Liquidation value of auction preferred shares--(69.00)% (110,000)

Net assets applicable to common shareholders--100.00% \$159,429

+ Floating rate security. The interest rate shown is the current rate as of September 30, 2006.

++ Security subject to Alternative Minimum Tax.

Partial amount pledged as collateral for futures transactions.

* Variable rate demand notes are payable on demand. The maturity dates shown are the next interest rate reset dates. The interest rates shown are the

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current rates as of September 30, 2006.

** Security exempt from registration under Rule 144A of the Securities Act of 1933. This security, which represents 0.67% of net assets applicable to common shareholders as of September 30, 2006, is considered illiquid and restricted. (See table below for more information).

ILLIQUID AND RESTRICTED SECURITY	ACQUISITION DATE	ACQUISITION COST	ACQUISITION COST AS A PERCENTAGE OF COMMON NET ASSETS	MARKET VALUE	MARKET VALUE AS A PERCENTAGE OF COMMON NET ASSETS
Standing Rock New Public Housing, 6.000%, 08/07/13	08/08/02	\$1,048,742	0.66%	\$1,070,661	0.67%

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

PORTFOLIO OF INVESTMENTS--SEPTEMBER 30, 2006

(++) The securities detailed in the table below are considered illiquid and restricted and represent 6.45% of net assets applicable to common shareholders as of September 30, 2006.

ILLIQUID AND RESTRICTED SECURITIES	ACQUISITION DATE	ACQUISITION COST	ACQUISITION COST AS A PERCENTAGE OF COMMON NET ASSETS	MARKET VALUE	MARKET VALUE AS A PERCENTAGE OF COMMON NET ASSETS
Harris County Texas Lease, 6.750%, 05/01/20	09/07/00	\$6,503,253	4.08%	\$6,887,855	4.32%
Houston Community College System Participation Interests, 7.875%, 06/15/25	04/22/02	3,007,095	1.89	3,389,688	2.13
		\$9,510,348	5.97%	\$10,277,543	6.45%

AMBAC American Municipal Bond Assurance Corporation
 FGIC Financial Guaranty Insurance Company
 FSA Financial Security Assurance
 HUD Housing and Urban Development
 MBIA Municipal Bond Investors Assurance
 NR Not Rated
 XLCA XL Capital Assurance

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FUTURES CONTRACTS

NUMBER OF CONTRACTS	CONTRACTS TO DELIVER	IN EXCHANGE FOR	EXPIRATION DATES	UNREALIZED DEPRECIATION
80	US Treasury Bond 20 Year Futures	\$8,845,222	December 2006	\$147,278
135	US Treasury Note 10 Year Futures	14,463,126	December 2006	125,311
				\$272,589

See accompanying notes to financial statements

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

STATEMENT OF ASSETS AND LIABILITIES--SEPTEMBER 30, 2006

ASSETS:

Investments in securities, at value (cost-\$259,117,868)	\$265,857,630
Cash	73,607
Receivable for interest	3,791,044
Receivable for variation margin	12,656
Other assets	9,608
Total assets	269,744,545

LIABILITIES:

Payable to investment advisor and administrator	117,502
Dividends payable to auction preferred shareholders	46,611
Accrued expenses and other liabilities	150,788
Total liabilities	314,901

Auction preferred shares Series A, B and C-2,200 non-participating shares authorized, issued and outstanding; \$0.001 par value per auction preferred share; \$50,000 liquidation value per auction preferred share	110,000,000
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------

Net assets applicable to common shareholders	\$159,429,644
----------------------------------------------	---------------

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NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS:

Common stock—\$0.001 par value per common share; 199,997,800 shares authorized; 10,356,667 shares issued and outstanding	\$153,239,012

Accumulated undistributed net investment income	39,452

Accumulated net realized loss from investment activities and futures	(315,993)

Net unrealized appreciation of investments and futures	6,467,173

Net assets applicable to common shareholders	\$159,429,644

Net asset value per common share (\$159,429,644 applicable to 10,356,667 common shares outstanding)	\$15.39
=====	

See accompanying notes to financial statements

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

STATEMENT OF OPERATIONS

FOR THE
YEAR ENDED
SEPTEMBER 30, 2006

INVESTMENT INCOME:	
Interest	\$12,621,869

EXPENSES:	
Investment advisory and administration fees	2,407,638

Auction preferred shares expenses	323,895

Custody and accounting fees	129,092

Professional fees	87,713

Reports and notices to shareholders	74,930

Stock exchange listing fees	24,567

Transfer agency fees	18,441

Directors' fees	15,498

Insurance fees	12,821

Other expenses	11,197

	3,105,792

Less: Fee waivers by investment advisor and administrator	(610,956)

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Net expenses	2,494,836
Net investment income	10,127,033

REALIZED AND UNREALIZED GAINS (LOSSES) FROM INVESTMENT ACTIVITIES:

Net realized gain (loss) from:

Investments	(53,891)
-------------	----------

Futures	1,934,364
---------	-----------

Net change in unrealized appreciation/depreciation of:

Investments	2,578,992
-------------	-----------

Futures	(1,585,338)
---------	-------------

Net realized and unrealized gain from investment activities	2,874,127
-------------------------------------------------------------	-----------

DIVIDENDS AND DISTRIBUTIONS PAID TO AUCTION PREFERRED SHAREHOLDERS FROM:

Net investment income	(2,745,725)
-----------------------	-------------

Net realized gain from investment activities	(1,187,664)
----------------------------------------------	-------------

Total dividends and distributions paid to auction preferred shareholders	(3,933,389)
--------------------------------------------------------------------------	-------------

Net increase in net assets applicable to common shareholders resulting from operations	\$9,067,771
----------------------------------------------------------------------------------------	-------------

See accompanying notes to financial statements

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

STATEMENT OF CHANGES IN NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS

FOR THE YEARS ENDED SEPTEMBER 30,

2006 2005

FROM OPERATIONS:

Net investment income	\$10,127,033	\$9,882,683
-----------------------	--------------	-------------

Net realized gains from investment activities and futures	1,880,473	3,290,230
-----------------------------------------------------------	-----------	-----------

Net change in unrealized appreciation/depreciation of investments and futures	993,654	(3,535,592)
-------------------------------------------------------------------------------	---------	-------------

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DIVIDENDS AND DISTRIBUTIONS PAID TO AUCTION

PREFERRED SHAREHOLDERS FROM:

Net investment income	(2,745,725)	(2,191,349)
Net realized gains from investment activities	(1,187,664)	(152,322)
Total dividends and distributions paid to auction preferred shareholders	(3,933,389)	(2,343,671)
Net increase in net assets applicable to common shareholders resulting from operations	9,067,771	7,293,650

DIVIDENDS AND DISTRIBUTIONS PAID TO COMMON

SHAREHOLDERS FROM:

Net investment income	(7,581,081)	(7,663,934)
Net realized gains from investment activities	(4,216,199)	(1,207,587)
Total dividends and distributions paid to common shareholders	(11,797,280)	(8,871,521)
Net decrease in net assets applicable to common shareholders	(2,729,509)	(1,577,871)

NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS:

Beginning of year	162,159,153	163,737,024
End of year	159,429,644	162,159,153
Accumulated undistributed net investment income	\$39,452	\$238,805

See accompanying notes to financial statements

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS

ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Investment Grade Municipal Income Fund Inc. (the "Fund") was incorporated in Maryland on August 6, 1992, and is registered with the Securities and Exchange Commission under the Investment Company Act of 1940, as amended, as a closed-end diversified management investment company. The Fund's investment objective is to achieve a high level of current income that is exempt from federal income tax, consistent with the preservation of capital. There can be no assurance that the Fund's investment objective will be achieved.

In the normal course of business the Fund may enter into contracts that contain a variety of representations or that provide indemnifications for certain liabilities. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

The preparation of financial statements in accordance with US generally accepted

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accounting principles requires the Fund's management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of significant accounting policies:

VALUATION OF INVESTMENTS--The Fund calculates its net asset value based on the current market value, where available, for its portfolio securities. The Fund normally obtains market values for its securities from independent pricing sources and broker-dealers. Independent pricing sources may use last reported sale prices, current market quotations or valuations from computerized "matrix" systems that derive values based on comparable securities. A matrix system incorporates parameters such as security quality, maturity and coupon, and/or research and evaluations by its staff, including review of broker-dealer market price quotations, if available, in determining the valuation of the portfolio securities. If a market value is not available from an independent pricing source for a particular security, that security is valued at fair value as determined in good faith by or under the direction of the Fund's Board of Directors (the "Board"). Various factors may be reviewed in order to make a good faith determination of a security's fair value. These factors include, but are not limited to, the type and cost of the security; contractual or legal restrictions on resale of the security; relevant financial or business developments of the issuer; actively traded

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS

similar or related securities; conversion or exchange rights on the security; related corporate actions; and changes in overall market conditions. If events occur that materially affect the value of securities (particularly non-US securities) between the close of trading in those securities and the close of regular trading on the New York Stock Exchange, the securities are fair valued. The amortized cost method of valuation, which approximates market value, generally is used to value short-term debt instruments with sixty days or less remaining to maturity, unless the Board or its delegate determines that this does not represent fair value. Securities traded in the over-the-counter ("OTC") market are valued at the last bid price available on the valuation date prior to valuation.

INVESTMENT TRANSACTIONS AND INVESTMENT INCOME--Investment transactions are recorded on the trade date. Realized gains and losses from investment transactions are calculated using the identified cost method. Interest income is recorded on an accrual basis. Discounts are accreted and premiums are amortized as adjustments to interest income and the identified cost of investments.

FUTURES CONTRACTS--Upon entering into a financial futures contract, the Fund is required to deliver to a broker an amount of cash and/or securities equal to a certain percentage of the contract amount. This amount is known as the "initial margin." Subsequent payments, known as "variation margin", are made or received by the Fund each day, depending on the daily fluctuations in the value of the underlying financial futures contracts. Such variation margin is recorded for financial statement purposes on a daily basis as unrealized gain or loss until the financial futures contract is closed, at which time the net gain or loss is reclassified to realized gain or loss on futures. Variation margin calls could be substantial in the event of adverse price movements.

Using financial futures contracts involves various market risks. If the Fund was unable to liquidate a futures position due to the absence of a liquid secondary

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market or the imposition of price limits, it could incur substantial losses and would continue to be subject to market risk with respect to the position. In addition, the Fund would continue to be required to make variation margin payments and might be required to maintain the position being hedged or to maintain cash or securities in a separate account. Furthermore, certain characteristics of the futures market might increase the risk that movements in the prices of the financial futures contracts might not correlate perfectly with movements in the prices of the investments

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS

being hedged, including temporary price distortion. The separate account for margin will be maintained at the futures counterparty and may be subject to risks or delays if the counterparty becomes insolvent.

DIVIDENDS AND DISTRIBUTIONS--The Fund intends to pay monthly dividends to common shareholders at a rate level that over time will result in the distribution of all of the Fund's net investment income remaining after the payment of dividends on any outstanding auction preferred shares. The dividend rate on the common stock is adjusted as necessary to reflect the earnings rate of the Fund. Dividends and distributions to common shareholders are recorded on the ex-dividend date. Dividends to auction preferred shareholders are accrued daily. The amount of dividends from net investment income and distributions from net realized capital gains is determined in accordance with federal income tax regulations, which may differ from US generally accepted accounting principles. These "book/tax" differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal tax-basis treatment; temporary differences do not require reclassification.

CONCENTRATION OF RISK

The Fund follows an investment policy of investing primarily in municipal obligations of various states. Economic changes affecting those states and certain of their public bodies and municipalities may affect the ability of the issuers within those states to pay interest on, or repay principal of, municipal obligations held by the Fund.

INVESTMENT ADVISOR AND ADMINISTRATOR

UBS Global Asset Management (US) Inc. ("UBS Global AM--US") served as the Fund's investment advisor and administrator from October 1, 2005 until April 1, 2006. On April 1, 2006, the Fund's Investment Advisory and Administration Contract ("Advisory Contract") was transferred from UBS Global AM--US to UBS Global Asset Management (Americas) Inc. ("UBS Global AM--Americas").

The transfer of the Advisory Contract between sister companies occurred in connection with an internal reorganization involving UBS Global AM--US and UBS Global AM--Americas. The Fund's Board of Directors approved the transfer of the Advisory Contract effective April 1, 2006. All of the personnel of UBS Global AM--US who previously provided investment advisory services to the Fund continue to provide investment advisory

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

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NOTES TO FINANCIAL STATEMENTS

services to the Fund as employees of UBS Global AM--Americas. UBS Global AM--Americas has the same contractual rights and responsibilities under the Advisory Contract as those previously held by UBS Global AM--US. UBS Global AM--US and UBS Global AM--Americas are both indirect wholly owned subsidiaries of UBS AG. In accordance with the Advisory Contract, the Fund pays UBS Global AM--Americas an investment advisory and administration fee, which is accrued weekly and paid monthly, at an annual rate of 0.90% of the Fund's average weekly net assets applicable to holders of common and auction preferred shares. For the period October 1, 2005 through July 31, 2006, UBS Global AM--Americas (and previously UBS Global AM--US) had agreed to waive 0.20% of the advisory and administration fee, so that the Fund's effective fee was 0.70% of average weekly net assets applicable to holders of common and auction preferred shares. Effective August 1, 2006, UBS Global AM--Americas agreed to further reduce the Fund's management fee so that the Fund's effective fee for the period August 1, 2006 through September 30, 2006 was 0.90% of the Fund's average weekly net assets applicable only to holders of common shares. This waiver will continue indefinitely unless the Board agrees to any change. At September 30, 2006, the Fund owed UBS Global AM--Americas \$117,502 in investment advisory and administration fees, which is composed of \$198,872 of investment advisory and administration fees less fees waived of \$81,370. For the year ended September 30, 2006, UBS Global AM waived \$610,956 of investment advisory and administration fees from the Fund.

ADDITIONAL INFORMATION REGARDING COMPENSATION TO AFFILIATE OF A BOARD MEMBER
Effective March 1, 2005, Professor Meyer Feldberg accepted the position of senior advisor to Morgan Stanley, resulting in him becoming an interested director of the Fund. The Fund has been informed that Professor Feldberg's role at Morgan Stanley does not involve matters directly affecting any UBS funds. Fund transactions are executed through Morgan Stanley based on that firm's ability to provide best execution of the transactions. During the year ended September 30, 2006, the Fund purchased and sold certain securities (e.g., fixed income securities) in principal trades with Morgan Stanley having an aggregate value of \$81,117,485. Morgan Stanley received compensation in connection with these trades, which may have been in the form of a "mark-up" or "mark-down" of the price of the securities, a fee from the issuer for maintaining a commercial paper program, or some other form of compensation. Although the precise amount of this compensation is not generally known by UBS Global AM--Americas,

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS

UBS Global AM--Americas believes that under normal circumstances it represents a small portion of the total value of the transactions. In addition, Morgan Stanley may participate as a broker-dealer in auctions for the Fund's Auction Preferred Shares and receive compensation therefore. Amounts received by Morgan Stanley, if any, will vary depending upon that firm's participation in an auction, and such amounts are calculated and paid by the auction agent from money provided by the Fund.

RESTRICTED SECURITIES

The Fund may invest in securities that are subject to legal or contractual restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and

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expense, and prompt sale at an acceptable price may be difficult. Information regarding restricted securities is included at the end of the Fund's "Portfolio of Investments."

AUCTION PREFERRED SHARES

The Fund has issued 800 shares of auction preferred shares Series A, 800 shares of auction preferred shares Series B, and 600 shares of auction preferred shares Series C, which are referred to herein collectively as the "APS." All shares of each series of APS have a liquidation preference of \$50,000 per share plus an amount equal to accumulated but unpaid dividends upon liquidation.

Dividends and/or capital gain distributions, which are cumulative, are generally reset every 7 days for each Series of APS. Dividend rates ranged from 2.405% to 4.000% and capital gain distribution rates ranged from 3.750% to 5.375% for the year ended September 30, 2006.

The Fund is subject to certain restrictions relating to the APS. Failure to comply with these restrictions could preclude the Fund from declaring any distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of APS at liquidation value.

The APS are entitled to one vote per share and, unless otherwise required by law, will vote with holders of common stock as a single class, except that the APS will vote separately as a class on certain matters, as required by law. The holders of the APS have the right to elect two directors of the Fund.

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS

The redemption of the Fund's APS is outside of the control of the Fund because it is redeemable upon the occurrence of an event that is not solely within the control of the Fund.

PURCHASES AND SALES OF SECURITIES

For the year ended September 30, 2006, aggregate purchases and sales of portfolio securities, excluding short-term securities, were \$140,787,537 and \$137,822,999, respectively.

FEDERAL TAX STATUS

The Fund intends to distribute substantially all of its tax-exempt income and any taxable income and to comply with the other requirements of the Internal Revenue Code applicable to regulated investment companies. Accordingly, no provision for federal income taxes is required. In addition, by distributing during each calendar year substantially all of its net investment income, net realized capital gains and certain other amounts, if any, the Fund intends not to be subject to a federal excise tax.

The tax character of distributions paid during the fiscal years ended September 30, 2006 and September 30, 2005 were as follows:

DISTRIBUTIONS PAID FROM:	2006	2005
Tax-exempt income	\$10,321,275	\$9,850,254

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Ordinary income	765,631	24,785
Net long-term capital gains	4,643,763	1,340,153
Total distributions paid	\$15,730,669	\$11,215,192

At September 30, 2006, the components of accumulated earnings on a tax basis were as follows:

Undistributed tax-exempt income	\$86,063
Accumulated capital and other losses	(588,582)
Unrealized appreciation of investments	6,739,762
Total accumulated earnings	\$6,237,243

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS

For federal income tax purposes, the tax cost of investments and the components of net unrealized appreciation of investments at September 30, 2006 were as follows:

Tax cost of investments	\$259,117,868
Gross unrealized appreciation	6,938,309
Gross unrealized depreciation	(198,547)
Net unrealized appreciation	\$6,739,762

In accordance with US Treasury regulations, the Fund has elected to defer realized capital losses of \$588,582 arising after October 31, 2005. Such losses are treated for tax purposes as arising on October 1, 2006.

To reflect reclassifications arising from permanent "book/tax" differences for the year ended September 30, 2006, the Fund's accumulated undistributed net investment income was increased by \$420 and accumulated net realized loss from investment activities and futures was increased by \$420. These differences are due to reclassification of dividends.

On July 13, 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of

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preparing the Fund's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. At this time, management is evaluating the implications of FIN 48, and its impact on the financial statements has not yet been determined.

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

FINANCIAL HIGHLIGHTS

Selected data for a share of common stock outstanding throughout each year is presented below:

	FOR THE YEAR ENDED SEPTEMBER 30, 20
NET ASSET VALUE, BEGINNING OF YEAR	\$15.66
Net investment income	0.98
Net realized and unrealized gains (losses) from investment activities	0.27
Common share equivalent of dividends and distributions paid to auction preferred shareholders from:	
Net investment income	(0.27)
Net realized gains from investment activities	(0.11)
Total dividends and distributions paid to auction preferred shareholders	(0.38)
Net increase from operations	0.87
Dividends and distributions paid to common shareholders from:	
Net investment income	(0.73)
Net realized gains from investment activities	(0.41)
Total dividends and distributions paid to common shareholders	(1.14)
Auction preferred shares offering expenses	--
NET ASSET VALUE, END OF YEAR	\$15.39
MARKET VALUE, END OF YEAR	\$13.95
TOTAL INVESTMENT RETURN(1)	13.05%
RATIO TO AVERAGE NET ASSETS ATTRIBUTABLE TO COMMON SHARES:	
Total expenses, net of fee waivers by advisor	1.58%
Total expenses, before fee waivers by advisor	1.97%

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Net investment income before auction preferred shares dividends	6.43%
Auction preferred shares dividends from net investment income	1.74%
Net investment income available to common shareholders	4.69%
SUPPLEMENTAL DATA:	
Net assets applicable to common shareholders, end of year (000's)	\$159,430
Portfolio turnover	54%
Asset coverage per share of auction preferred shares, end of year	\$122,468

(1) Total investment return is calculated assuming a \$10,000 purchase of common stock at the current market price on the first day of each year reported and a sale at the current market price on the last day of each year reported, and assuming reinvestment of dividends and other distributions to common shareholders at prices obtained under the Fund's Dividend Reinvestment Plan. Total investment return does not reflect brokerage commissions. Returns do not reflect the deduction of taxes that a shareholder could pay on Fund distributions.

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

FOR THE YEARS ENDED SEPTEMBER 30,

2005	2004	2003	2002
\$15.81	\$16.31	\$16.46	\$16.15
0.95	0.93	0.95	1.11
(0.02)	0.14	0.13	0.29
(0.21)	(0.08)	(0.07)	(0.12)
(0.01)	(0.03)	(0.02)	(0.01)
(0.22)	(0.11)	(0.09)	(0.13)
0.71	0.96	0.99	1.27
(0.74)	(0.93)	(0.96)	(0.93)
(0.12)	(0.49)	(0.18)	(0.03)
(0.86)	(1.42)	(1.14)	(0.96)
--	(0.04)	--	--

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\$15.66	\$15.81	\$16.31	\$16.46
\$13.44	\$14.25	\$14.86	\$15.60
0.42%	5.57%	2.76%	7.96%
1.66%	1.53%	1.45%	1.48%
1.99%	1.86%	1.66%	1.67%
6.04%	5.91%	5.89%	6.89%
1.34%	0.53%	0.44%	0.73%
4.70%	5.38%	5.45%	6.16%
\$162,159	\$163,737	\$168,888	\$170,454
49%	45%	51%	21%
\$123,709	\$124,426	\$155,555	\$156,534

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Investment Grade Municipal Income Fund Inc.

We have audited the accompanying statement of assets and liabilities of Investment Grade Municipal Income Fund Inc. (the "Fund"), including the portfolio of investments, as of September 30, 2006, and the related statement of operations for the year then ended, the statement of changes in net assets applicable to common shareholders for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. Our procedures included confirmation of

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securities owned as of September 30, 2006, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Investment Grade Municipal Income Fund Inc. at September 30, 2006, the results of its operations for the year then ended, the changes in its net assets applicable to common shareholders for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with US generally accepted accounting principles.

/s/ Ernst & Young LLP

New York, New York
November 7, 2006

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

GENERAL INFORMATION (UNAUDITED)

THE FUND

Investment Grade Municipal Income Fund Inc. (the "Fund") is a diversified, closed-end management investment company whose shares trade on the New York Stock Exchange ("NYSE"). The Fund's investment objective is to achieve a high level of current income that is exempt from federal income tax, consistent with the preservation of capital. The Fund's NYSE trading symbol is "PPM." Comparative net asset value and market price information about the Fund is available weekly in various publications. Effective as of April 1, 2006, the Fund's investment advisor and administrator is UBS Global Asset Management (Americas) Inc., an indirect wholly owned asset management subsidiary of UBS AG.

QUARTERLY FORM N-Q PORTFOLIO SCHEDULE

The Fund will file its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's Web site at <http://www.sec.gov>. The Fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC 0330. Additionally, you may obtain copies of Forms N-Q from the Fund upon request by calling 1-800-647 1568.

PROXY VOTING POLICIES, PROCEDURES AND RECORD

You may obtain a description of the Fund's (1) proxy voting policies, (2) proxy voting procedures and (3) information regarding how the Fund voted any proxies related to portfolio securities during the most recent 12-month period ended June 30 for which an SEC filing has been made, without charge, upon request by contacting the Fund directly at 1-800-647 1568, online on the Fund's Web site: www.ubs.com/ubsglobalam-proxy, or on the EDGAR Database on the SEC's Web site (<http://www.sec.gov>).

DIVIDEND REINVESTMENT PLAN

The Fund's Board has established a Dividend Reinvestment Plan (the "Plan") under which all common shareholders whose shares are registered in their own names, or in the name of UBS Financial Services Inc. or its nominee, will have all dividends and other distributions on their shares of common stock automatically reinvested in additional shares of common stock, unless such common shareholders elect to

INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

GENERAL INFORMATION (UNAUDITED)

receive cash. Common shareholders who elect to hold their shares in the name of another broker or nominee should contact such broker or nominee to determine whether, or how, they may participate in the Plan. The ability of such shareholders to participate in the Plan may change if their shares are transferred into the name of another broker or nominee.

A common shareholder may elect not to participate in the Plan or may terminate participation in the Plan at any time without penalty, and common shareholders who have previously terminated participation in the Plan may rejoin it at any time. Changes in elections must be made in writing to the Fund's transfer agent and should include the shareholder's name and address as they appear on the share certificate or in the transfer agent's records. An election to terminate participation in the Plan, until such election is changed, will be deemed an election by a common shareholder to take all subsequent distributions in cash. An election will be effective only for distributions declared and having a record date at least ten days after the date on which the election is received.

Additional shares of common stock acquired under the Plan will be purchased in the open market, on the NYSE or otherwise, at prices that may be higher or lower than the net asset value per share of the common stock at the time of the purchase. The number of shares of common stock purchased with each dividend will be equal to the result obtained by dividing the amount of the dividend payable to a particular shareholder by the average price per share (including applicable brokerage commissions) that the transfer agent was able to obtain in the open market. The Fund will not issue any new shares of common stock in connection with the Plan. There currently is no charge to participants for reinvesting dividends or other distributions. The transfer agent's fees for handling the reinvestment of distributions will be paid by the Fund. However, each participant pays a pro rata share of brokerage commissions incurred with respect to the transfer agent's open market purchases of common stock in connection with the reinvestment of distributions. The automatic reinvestment of dividends and other distributions in shares of common stock does not relieve participants of any income tax that may be payable on such distributions.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan with respect to any dividend or other distribution if notice of the change

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

GENERAL INFORMATION (UNAUDITED)

is sent to Plan participants at least 30 days before the record date for such distribution. The Plan also may be amended or terminated by the transfer agent by at least 30 days' written notice to all Plan participants. Additional information regarding the Plan may be obtained from, and all correspondence concerning the Plan should be directed to, the transfer agent at PFPC Inc., P.O. Box 43027, Providence, Rhode Island 02940-3027. For further information regarding the Plan, you may also contact the transfer agent directly at

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1-800-331 1710.

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

BOARD APPROVAL OF INVESTMENT ADVISORY AND ADMINISTRATION AGREEMENT (UNAUDITED)

BACKGROUND--At a meeting of the board of Investment Grade Municipal Income Fund, Inc. (the "Fund") on July 19, 2006, the members of the board, including the directors who are not "interested persons" of the Fund ("Independent Directors") as defined in the Investment Company Act of 1940, as amended (the "1940 Act"), considered and approved the continuance of the Investment Advisory and Administration Agreement of the Fund with UBS Global Asset Management (Americas) Inc. ("UBS Global AM"). In preparing for the meeting, the board members had requested and received extensive information from UBS Global AM to assist them, including performance and expense information for other investment companies with similar investment objectives. The board received and considered a variety of information about UBS Global AM, as well as the advisory and administrative arrangements for the Fund. The Independent Directors discussed the materials initially provided by management prior to the scheduled board meeting in a session with their independent legal counsel and requested, and received from management, supplemental materials to assist them in their consideration of the Investment Advisory and Administration Agreement. The board received materials detailing the administrative services provided to the Fund by UBS Global AM, which include providing accounting and financial analysis, ensuring that all financial and tax regulatory reporting requirements were met, certifying required Securities and Exchange Commission documentation and monitoring the performance of the Fund's service providers.

The Independent Directors also met for several hours the evening before the board meeting and met again after management's presentation was completed to review the disclosure that had been made to them at the meeting. At all of these sessions the Independent Directors met in session with their independent legal counsel. The Independent Directors also received a memorandum from their independent legal counsel discussing the duties of board members in considering approval of advisory and administration agreements.

In its consideration of the approval of the Investment Advisory and Administration Agreement, the board considered the following factors:

NATURE, EXTENT AND QUALITY OF THE SERVICES UNDER THE INVESTMENT ADVISORY AND ADMINISTRATION AGREEMENT--The board received and considered information regarding the nature, extent and quality of management services provided to the Fund by UBS Global AM and its

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

BOARD APPROVAL OF INVESTMENT ADVISORY AND ADMINISTRATION AGREEMENT (UNAUDITED)

predecessor, UBS Global Asset Management (US) Inc., under the Investment Advisory and Administration Agreement during the past year. The board also received a description of the administrative and other services rendered to the Fund and its shareholders by UBS Global AM. The board considered the nature, extent and quality of administrative and shareholder services performed by UBS Global AM and its affiliates. The board also considered the resources devoted

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to, and the record of compliance with, the Fund's compliance policies and procedures. The board noted that it received information at regular meetings throughout the year regarding the services rendered by UBS Global AM concerning the management of the Fund's affairs and UBS Global AM's role in coordinating providers of other services to the Fund, including custody, accounting and transfer agency services. The board's evaluation of the services provided by UBS Global AM took into account the board's knowledge and familiarity gained as board members of funds in the UBS New York Fund complex, including the scope and quality of UBS Global AM's investment management and other capabilities and the quality of its administrative and other services. The board observed that the scope of services provided by UBS Global AM had expanded over time as a result of regulatory and other developments, including maintaining and monitoring its own and the Fund's expanded compliance programs.

The board had available to it the qualifications, backgrounds and responsibilities of the Fund's senior personnel at UBS Global AM and had received information regarding the persons primarily responsible for the day-to-day portfolio management of the Fund and recognized that the Fund's senior personnel at UBS Global AM report to the board regularly, some at every board meeting, and that at each regular meeting the board receives a report on the Fund's performance. The board also considered, based on its knowledge of UBS Global AM and its affiliates, the financial resources available to UBS Global AM and its parent organization, UBS AG. In that regard, the board received extensive financial information regarding UBS Global AM and noted that it was a wholly owned, indirect subsidiary of one of the largest financial services firms in the world. It was also noted that UBS Global AM had well over \$100 billion in assets under management and was part of the UBS Global Asset Management Division, which had over \$600 billion of assets under management worldwide.

The board reviewed how transactions in Fund assets are effected. The board also reviewed the Fund's brokerage policies and practices, the standards

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

BOARD APPROVAL OF INVESTMENT ADVISORY AND ADMINISTRATION AGREEMENT (UNAUDITED)

applied in seeking best execution, policies and practices regarding soft dollars, the use of a broker affiliated with UBS Global AM and the existence of quality controls applicable to brokerage allocation procedures. In addition, UBS Global AM also reported to the board on, among other things, its disaster recovery plans and portfolio manager compensation plan.

The board concluded that, overall, it was satisfied with the nature, extent and quality of services provided (and expected to be provided) to the Fund under the Investment Advisory and Administration Agreement.

ADVISORY FEES AND EXPENSE RATIOS--The board reviewed and considered the contractual management fee ("Contractual Management Fee") payable by the Fund to UBS Global AM in light of the nature, extent and quality of the advisory and administrative services provided by UBS Global AM. The board also reviewed and considered the fee waiver arrangement in place for the Fund and considered the actual fee rate (after taking any waivers into account) (the "Actual Management Fee"). Additionally, the board received and considered information comparing the Fund's Contractual Management Fee, Actual Management Fee and overall expenses with those of funds in a group of funds selected and provided by Lipper, Inc. ("Lipper"), an independent provider of investment company data (the "Expense Group").

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In connection with its consideration of the Fund's advisory fees, the board also received information on UBS Global AM's standard institutional account fees for accounts of a similar investment type to the Fund. The board noted that, in general, these fees were lower than the Contractual Management Fee and Actual Management Fee for the Fund, but also noted management's explanation that comparisons with such accounts may be of limited relevance given the different structures and regulatory requirements of mutual funds versus such accounts and the differences in the levels of services required by mutual funds and such accounts. The board also received information on fees charged to other mutual funds managed by UBS Global AM.

In addition to the Contractual and Actual Management Fees, the board also reviewed and considered the total expenses for the Fund. The comparative Lipper information showed that the Fund's Contractual Management Fee, Actual Management Fee and total expenses were in the fifth quintile in the Fund's Expense Group for the comparison periods utilized in the Lipper

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

BOARD APPROVAL OF INVESTMENT ADVISORY AND ADMINISTRATION AGREEMENT (UNAUDITED)

report (with the first quintile representing that fifth of the funds in the Expense Group with the lowest level of fees or expenses, as applicable, and the fifth quintile representing that fifth of the funds in the Expense Group with the highest level of fees or expenses, as applicable). In light of the level of the Fund's fees and expenses, management proposed a revision in the management fee such that the management fee will be calculated only on the value of net assets attributable to the Fund's common shares, rather than of net assets attributable to both the Fund's common and preferred shares. Management noted that this change should result in an anticipated reduction in the Fund's Actual Management Fee to 0.90% of net assets applicable to common shares from its current level of 1.183%, which would be below the median of its Expense Group. Management also explained that it had negotiated a reduction in the Fund's custodian fees such that the custodian fee rate will be based only on assets attributable to common shares and not on assets attributable to both common and preferred shares. Combined, these modifications should result in an anticipated reduction in the Fund's total expenses to approximately 1.11% from its current level of 1.419%, which is below the median of its Expense Group.

Taking all of the above into consideration, including the proposed reductions in the advisory fee and custodian fees, the board determined that the management fee was reasonable in light of the nature, extent and quality of the services provided to the Fund under the Investment Advisory and Administration Agreement.

FUND PERFORMANCE--The board received and considered performance information of the Fund compared to other funds (the "Performance Universe") selected by Lipper over the one-, three-, five-, ten-year and since inception periods ended April 30, 2006. The board was provided with a description of the methodology Lipper used to determine the similarity of the Fund with the funds included in its Performance Universe. The board also noted that it had received information throughout the year at periodic intervals with respect to the Fund's performance, including in most cases with respect to its benchmark index.

The comparative Lipper information showed that the Fund's performance was in the fifth quintile for the one-, three-, five- and ten-year periods and since inception (with the first quintile representing that fifth of the funds in the Performance Universe with the highest performance and the fifth

INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

BOARD APPROVAL OF INVESTMENT ADVISORY AND ADMINISTRATION AGREEMENT (UNAUDITED)

quintile representing that fifth of the funds in the Performance Universe with the lowest performance). In its review, the board noted the Fund's performance as compared to the average return for the Fund's Performance Universe and benchmark index, taking the volatility in returns for the Performance Universe and the index into account. In addition, the board noted that in the past the Fund has been managed with a more conservative view when compared to its Performance Universe. Management noted that, as had been approved by the Board, it had taken certain steps to increase the Fund's exposure to interest rates by increasing the average life of the investments that it holds by over two years. Management also noted that the Fund has increased its investment in lower quality issues and added approximately 8% exposure to AMT securities. Management explained that it believed that these initiatives were positive contributors to the Fund's performance and should make the Fund more competitive in the future as compared to its Performance Group. Based on its review, and management's explanation and changes to the investment strategies of the Fund, the board concluded that the Fund's investment performance was acceptable.

ADVISER PROFITABILITY--The board received and considered a profitability analysis of UBS Global AM and its affiliates in providing services to the Fund. The board also received profitability information with respect to the UBS New York fund complex as a whole. In addition, the board received information with respect to UBS Global AM's allocation methodologies used in preparing this profitability data. UBS Global AM's profitability was considered not excessive in light of the nature, extent and quality of the services provided to the Fund.

ECONOMIES OF SCALE--The board received and considered information from management regarding whether it has achieved economies of scale with respect to the management of the Fund, whether the Fund has appropriately benefited from any economies of scale, and whether there is potential realization of further economies of scale. The board considered whether economies of scale in the provision of services to the Fund were being passed along to shareholders. The board also considered whether alternative fee structures (such as breakpoints) would be more appropriate or reasonable taking into consideration economies of scale or other efficiencies.

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

BOARD APPROVAL OF INVESTMENT ADVISORY AND ADMINISTRATION AGREEMENT (UNAUDITED)

In conducting its review, the board noted that the Fund's Contractual Management Fee did not contain any breakpoints. Further, the board noted that advisory agreements of closed-end funds usually do not contain breakpoints. Management informed the board that the Fund, as a closed-end investment company, was not expected to materially increase in size; thus, UBS Global AM would not benefit from economies of scale. The Board members considered whether economies of scale could be realized because UBS Global AM advises other similar funds, and, based on their experience, the board accepted UBS Global AM's explanation that significant economies of scale would not be realized because the nature of the market in which the Fund invests did not provide significant savings.

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OTHER BENEFITS TO UBS GLOBAL AM--The board considered other benefits received by UBS Global AM and its affiliates as a result of its relationship with the Fund, including the opportunity to offer additional products and services to Fund shareholders.

In light of the costs of providing investment management, administrative and other services to the Fund and UBS Global AM's ongoing commitment to the Fund, the profits and other ancillary benefits that UBS Global AM and its affiliates received were considered reasonable.

In light of all of the foregoing, the board approved the Advisory and Administration Agreement to continue for another year.

In making its decision, the board identified no single factor as being determinative in approving the Investment Advisory and Administration Agreement. The Independent Directors were advised by separate independent legal counsel throughout the entire process. The board discussed the proposed continuance of the Investment Advisory and Administration Agreement in a private session with their independent legal counsel at which no representatives of UBS Global AM were present.

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

SUPPLEMENTAL INFORMATION (UNAUDITED)

BOARD OF DIRECTORS & OFFICERS

The Fund is governed by a Board of Directors which oversees the Fund's operations. Each director serves until the next annual meeting of shareholders or until his or her successor is elected and qualified or until he or she resigns or is otherwise removed. Officers are appointed by the directors and serve at the pleasure of the Board. The table below shows, for each director and officer, his or her name, address and age, the position held with the Fund, the length of time served as a director and officer of the Fund, the director's or officer's principal occupations during the last five years, the number of funds in the UBS Fund complex overseen by the director or for which a person served as an officer, and other directorships held by the director.

INTERESTED DIRECTOR

Name, address, and age	Position(s) held with Fund	Term of office+ and length of time served	Principal occupation(s) during past 5 years
Meyer Feldberg++; 64 Morgan Stanley 1585 Broadway 33rd Floor New York, NY 10036	Director	Since 1992	Professor Feldberg is Dean Emeritus and Sanford Bernstein Professor of Leadership and Ethics at Columbia Business School, although on a two year leave of absence. He is also a senior advisor to Morgan Stanley (financial services) (since March 2005). Prior to July 2005 he was Dean and Professor of

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Management of the Graduate
School of Business at Columbia
University (since 1989).

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

SUPPLEMENTAL INFORMATION (UNAUDITED)

Number of portfolios in fund complex
overseen by director

Other directorships held by director

Professor Feldberg is a director or trustee of 29 investment companies (consisting of 49 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

Professor Feldberg is also a director of Primedia Inc. (publishing), Federated Department Stores, Inc. (operator of department stores), Revlon, Inc. (cosmetic) and SAPPI, Ltd. (producer of paper).

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

SUPPLEMENTAL INFORMATION (UNAUDITED)

INDEPENDENT DIRECTORS

Name, address, and age	Position(s) held with Fund	Term of office+ and length of time served	Principal occupation(s) during past 5 years
Richard Q. Armstrong; 71 c/o Willkie Farr & Gallagher LLP 787 Seventh Avenue New York, NY 10019-6099	Director and Chairman of the Board of Directors	Since 1995 (Director) Since 2004 (Chairman of the Board of Directors)	Mr. Armstrong is chairman and principal of R.Q.A. Enterprise (management consulting firm) (since April 1991 and principal occupation since March 1995).
Alan S. Bernikow; 65 207 Benedict Ave. Staten Island, NY 10314	Director	Since 2006	Mr. Bernikow is a consultant on non-management matters for the firm of Deloitte & Touche (international accounting and consulting firm) (since June 2006). Previously, he was Deputy Chief Executive Officer at Deloitte Touche.
Richard R. Burt; 59 1275 Pennsylvania Ave., N.W.	Director	Since 1995	Mr. Burt is chairman of Diligent Inc. (information and risk

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Washington, D.C. 20004

management firm) and IEP
Advisors (international
investments and consulting fir

Bernard H. Garil; 66
6754 Casa Grande Way
Delray Beach, FL 33446

Director

Since 2006

Mr. Garil is retired (since 2006). He was a Managing Director at PIMCO Advisory Services (from 1999 to 2001) where he served as President of closed-end funds and Vice-President of the variable insurance product funds advised by OpCap Advisors (until 2001).

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

SUPPLEMENTAL INFORMATION (UNAUDITED)

Number of portfolios in fund complex
overseen by director

Other directorships held by director

Mr. Armstrong is a director or trustee of 16 investment companies (consisting of 36 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

None

Mr. Bernikow is a director or trustee of 16 investment companies (consisting of 36 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

Mr. Bernikow is also a director of Revlon, Inc. (cosmetics) (and serves as the chair of its audit committee), a director of Mack-Cali Realty Corporation (real estate investment trust) (and serves as the chair of its audit committee) and a director of the Casual Ma Retail Group, Inc. (menswear).

Mr. Burt is a director or trustee of 16 investment companies (consisting of 36 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

Mr. Burt is also a director of The Central European Fund, Inc., The Germany Fund, Inc., The New Germany Fund, Inc., IGT, Inc. (provides technology to gaming and wagering industry) and The Protective Group, Inc. (produces armor products).

Mr. Garil is a director or trustee of 16 investment companies (consisting of 36 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

Mr. Garil is also a director of OFI Trust Company (commercial trust company) and a trustee for the Brooklyn College Foundation, Inc. (charitable foundation).

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

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SUPPLEMENTAL INFORMATION (UNAUDITED)

INDEPENDENT DIRECTORS (CONCLUDED)

Name, address, and age	Position(s) held with Fund	Term of office+ and length of time served	Principal occupation(s) during past 5 years
Heather R. Higgins; 47 255 E. 49th St., Suite 23D New York, NY 10017	Director	Since 2006	Ms. Higgins is the President and Director of The Randolph Founda- (charitable foundation) (since Ms. Higgins also serves on the boards of several non-profit charitable groups, including the Independent Women's Forum (chairman), the Philanthropy Roundtable (vice chairman) and the Hoover Institution (executive committee).

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

SUPPLEMENTAL INFORMATION (UNAUDITED)

Number of portfolios in fund complex overseen by director	Other directorships held by director
Ms. Higgins is a director or trustee of 16 investment companies (consisting of 36 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.	None

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

SUPPLEMENTAL INFORMATION (UNAUDITED)

OFFICERS

Name, address, and age	Position(s) held with Fund	Term of office+ and length of time served	Principal occupation(s) during past 5 years; number of portfo in fund complex for which pers serves as officer
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Joseph Allessie*; 41	Vice President and Assistant Secretary	Since 2005	Mr. Allessie is a director and general counsel at UBS Global Management (US) Inc. and UBS Global Asset Management (Americas) Inc. (collectively, "UBS Global AM--Americas region") (since 2005). Prior to 2004, Mr. Allessie was senior vice president and general counsel of Kenmar Advisory Corporation (2004 to 2005). Prior to that Mr. Allessie was general counsel and secretary of UBS Global AM--Americas region (from 1999 to 2004). Mr. Allessie is a vice president and assistant secretary of 20 investment companies (consisting of 92 portfolios) for which UBS Global AM--Americas region or one of its affiliates serves as investment advisor, sub-advisor or manager.
Rose Ann Bubloski*; 38	Vice President and Assistant Treasurer	Since 2006	Ms. Bubloski is an associate director and a senior manager (since 2006) in the US mutual fund treasury administration department of UBS Global AM--Americas region. Ms. Bubloski is vice president and assistant treasurer of 20 investment companies (consisting of 92 portfolios) for which UBS Global AM--Americas region or one of its affiliates serves as investment advisor, sub-advisor or manager.

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

SUPPLEMENTAL INFORMATION (UNAUDITED)

OFFICERS (CONTINUED)

Name, address, and age	Position(s) held with Fund	Term of office+ and length of time served	Principal occupation(s) during past 5 years; number of portfolios in fund complex for which serves as officer
Thomas Disbrow*; 40	Vice President and Treasurer	Since 2000 (Vice President) Since 2004 (Treasurer)	Mr. Disbrow is a director and head of the US mutual fund administration department (since September 2006) of UBS Global Asset Management (Americas) Inc. Mr. Disbrow is vice president and treasurer and accounting officer of 20 investment companies (consisting of 92 portfolios) for which UBS Global AM--Americas region or one of its affiliates serves as investment advisor, sub-advisor or manager.

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for which UBS Global AM--Americas region or one of its affiliates serves as investment advisor, sub-advisor or manager.

Michael J. Flook*; 41	Vice President and Assistant Treasurer	Since 2006
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Mr. Flook is an associate senior manager of the US municipal treasury administration department of UBS Global AM--Americas region (since 2006). Prior to joining UBS Americas region, he was a senior manager with The Reserve (asset manager) from May 2005 to May 2006. Prior to that he was a senior manager of Worldwide since October 2004. He is a vice president and assistant manager of 20 investment companies (consisting of 92 portfolios) for which UBS Americas region or one of its affiliates serves as investment advisor, sub-advisor or manager.

Elbridge T. Gerry III*; 49	Vice President	Since 1996
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Mr. Gerry is a managing director of municipal fixed income of UBS Global AM--Americas region (since 1996). Mr. Gerry is a vice president and assistant manager of 20 investment companies (consisting of 10 portfolios) for which UBS Americas region or one of its affiliates serves as investment advisor, sub-advisor or manager.

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

SUPPLEMENTAL INFORMATION (UNAUDITED)

OFFICERS (CONTINUED)

Name, address, and age	Position(s) held with Fund	Term of office+ and length of time served	Principal occupation(s) during past 5 years; number of portfolios in fund complex for which person serves as officer
---------------------------	----------------------------------	----------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------

Mark F. Kemper**; 48	Vice President and Secretary	Since 2004
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Mr. Kemper is general counsel of UBS Global AM--Americas region (since 2004). Mr. Kemper also is a managing director of UBS Global AM--Americas region (since 2006). He was deputy general counsel of UBS Global Asset Management (AG) Inc. ("UBS Global AM--Americas") from July 2001 to July 2004. He has been secretary of UBS Global AM--Americas since 1999 and assistant secretary of UBS Global Asset Management Trust since 2004.

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since 1993. Mr. Kemper is secret
UBS Global AM--Americas region
2004). Mr. Kemper is vice pres
secretary of 20 investment com
(consisting of 92 portfolios)
UBS Global AM--Americas region
one of its affiliates serves a
advisor, sub-advisor or manage

Joanne M. Kilkeary*; 38 Vice President
and Assistant
Treasurer Since 2004

Ms. Kilkeary is an associate d
(since 2000) and a senior mana
(since 2004) of the US mutual
treasury administration depart
UBS Global AM--Americas region
Ms. Kilkeary is a vice preside
assistant treasurer of 20 inve
companies (consisting of 92 po
which UBS Global AM--Americas
or one of its affiliates serve
advisor, sub-advisor or manage

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

SUPPLEMENTAL INFORMATION (UNAUDITED)

OFFICERS (CONTINUED)

Name, address, and age	Position(s) held with Fund	Term of office+ and length of time served	Principal occupation(s) during past 5 years; number of portfo in fund complex for which pers serves as officer
Tammie Lee*; 35	Vice President and Assistant Secretary	Since 2005	Ms. Lee is a director and asso general counsel of UBS Global Americas region (since 2005). joining UBS Global AM--America region, she was vice president counsel at Deutsche Asset Management/Scudder Investments 2003 to 2005. Prior to that sh assistant vice president and o Deutsche Asset Management/Scud Investments from 2000 to 2003. is a vice president and assist of 20 investment companies (co 92 portfolios) for which UBS G AM--Americas region or one of affiliates serves as investmen sub-advisor or manager.
Joseph McGill*; 44	Vice President and Chief Compliance Officer	Since 2004	Mr. McGill is a managing direc 2006) and chief compliance off (since 2003) at UBS Global AM-- Americas region. Prior to join

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Global AM--Americas region, he assistant general counsel at J Investment Management (from 19 2003). Mr. McGill is a vice pr chief compliance officer of 20 companies (consisting of 92 po for which UBS Global AM--Ameri region or one of its affiliate investment advisor, sub-adviso manager.

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

SUPPLEMENTAL INFORMATION (UNAUDITED)

OFFICERS (CONTINUED)

Name, address, and age	Position(s) held with Fund	Term of office+ and length of time served	Principal occupation(s) during past 5 years; number of portfo in fund complex for which pers serves as officer
Kevin McIntyre*; 40	Vice President	Since 2005	Mr. McIntyre is a director (si portfolio manager (since 2005) Global AM--Americas region. He Head of Municipal Trading sinc Prior to that he was a trader portfolio manager with UBS Glo Americas region. Mr. McIntyre president of two investment co (consisting of two portfolios) Global AM--Americas region or affiliates serves as investmen sub-advisor or manager.
Eric Sanders*; 41	Vice President and Assistant Secretary	Since 2005	Mr. Sanders is a director and general counsel of UBS Global Americas region (since 2005). until June 2005, he held vario at Fred Alger & Company, Incon the most recent being assistan president and associate genera Mr. Sanders is a vice presiden assistant secretary of 20 inve companies (consisting of 92 po for which UBS Global AM--Ameri region or one of its affiliate investment advisor, sub-adviso manager.

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

SUPPLEMENTAL INFORMATION (UNAUDITED)

OFFICERS (CONTINUED)

Name, address, and age	Position(s) held with Fund	Term of office+ and length of time served	Principal occupation(s) during past 5 years; number of portfo in fund complex for which pers serves as officer
Andrew Shoup*; 50	Vice President and Chief Operating Officer	Since 2006	Mr. Shoup is a managing direct senior member of the Global Tr Administration department of U AM--Americas region (since Jul Prior to joining UBS Global AM region, he was Chief Administr Officer for the Legg Mason Par (formerly Smith Barney, Salomo Brothers, and CitiFunds mutual from November 2003 to July 200 to that, he held various posit Citigroup Asset Management and companies with their domestic offshore mutual funds since 19 Additionally, he has worked fo mutual fund complex as well as eleven years in public account Mr. Shoup is a vice president investment companies (consisti 92 portfolios) for which UBS G Americas region or one of its serves as investment advisor, or manager.

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

SUPPLEMENTAL INFORMATION (UNAUDITED)

OFFICERS (CONTINUED)

Name, address, and age	Position(s) held with Fund	Term of office+ and length of time served	Principal occupation(s) during past 5 years; number of portfo in fund complex for which pers serves as officer
Kai R. Sotorp**; 47	President	Since 2006	Mr. Sotorp is the Head of the for UBS Global Asset Managemen 2004); a member of the UBS Gro Managing Board (since 2003) an

member of the UBS Global Asset Management Executive Committee (2001). Prior to his current role, Mr. Sotorp was Head of UBS Global Asset Management--Asia Pacific (2002-2004) covering Australia, Japan, Hong Kong, Singapore and Taiwan; Head of UBS Global Asset Management (Japan) (2001-2004) and Representative and President of UBS Global Asset Management (Japan) Ltd. (2000-2001). Mr. Sotorp is president of 20 companies (consisting of 92 portfolios) for which UBS Global Asset Management--Americas region or one of its affiliates serves as investment advisor, sub-advisor or manager.

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

SUPPLEMENTAL INFORMATION (UNAUDITED)

OFFICERS (CONCLUDED)

Name, address, and age	Position(s) held with Fund	Term of office+ and length of time served	Principal occupation(s) during past 5 years; number of portfolios in fund complex for which person serves as officer
Keith A. Weller*; 45	Vice President and Assistant Secretary	Since 1995	Mr. Weller is an executive director and senior associate general counsel of UBS Global AM--Americas region (since 1995) and has been an attorney with several law firms and entities since 1995. Mr. Weller is president and assistant secretary of several investment companies (consisting of several portfolios) for which UBS Global AM--Americas region or one of its affiliates serves as investment advisor, sub-advisor or manager.

* This person's business address is 51 West 52nd Street, New York, New York 10019-6114.

** This person's business address is One North Wacker Drive, Chicago, Illinois 60606.

+ Each director holds office until the next annual meeting of shareholders or until his or her successor is elected and qualified, or until he or she resigns or is otherwise removed. Each director who has attained the age of seventy-four (74) years will be subject to retirement on the last day of the month in which he or she attains such age. Officers are appointed by the directors and serve at the pleasure of the board.

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++ Professor Feldberg is deemed an "interested person" of the Fund as defined in the Investment Company Act because he is a senior advisor to Morgan Stanley, a financial services firm with which the Fund may conduct transactions.

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INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

NEW YORK STOCK EXCHANGE CERTIFICATIONS (UNAUDITED)

Investment Grade Municipal Income Fund Inc. (the "Fund") is listed on the New York Stock Exchange ("NYSE"). As a result, it is subject to certain corporate governance rules and related interpretations issued by the exchange. Pursuant to those requirements, the Fund must include information in this report regarding certain certifications. The Fund's president and treasurer have filed certifications with the SEC regarding the quality of the Fund's public disclosure. Those certifications were made pursuant to Section 302 of the Sarbanes-Oxley Act ("Section 302 Certifications"). The Section 302 Certifications were filed as exhibits to the Fund's annual report on Form N-CSR, which included a copy of this annual report along with other information about the Fund. After the Fund's 2006 annual meeting of shareholders, it filed a certification with the NYSE on February 28, 2006 stating that its president was unaware of any violation of the NYSE's Corporate Governance listing standards.

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DIRECTORS

Richard Q. Armstrong
Chairman

Meyer Feldberg

Bernard H. Garil

Alan S. Bernikow

Heather R. Higgins

Richard R. Burt

PRINCIPAL OFFICERS

Kai R. Sotorp
President

Elbridge T. Gerry III
Vice President

Mark F. Kemper
Vice President and Secretary

Kevin McIntyre
Vice President

Thomas Disbrow
Vice President and Treasurer

INVESTMENT ADVISOR AND ADMINISTRATOR
UBS Global Asset Management (Americas) Inc.
51 West 52nd Street
New York, New York 10019-6114

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that from time to time the Fund may purchase shares of its common stock in the open market at market prices.

This report is sent to the shareholders of the Fund for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.

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[LOGO OF UBS] UBS

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COMPUTERSHARE

UBS GLOBAL ASSET MANAGEMENT (AMERICAS) INC.
51 West 52nd Street
New York, New York 10019-6114

ITEM 2. CODE OF ETHICS.

The registrant has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions pursuant to Section 406 of the Sarbanes-Oxley Act of 2002. (The registrant has designated the code of ethics adopted pursuant to Sarbanes-Oxley as a "Code of Conduct" to lessen the risk of confusion with its separate code of ethics adopted pursuant to Rule 17j-1 under the Investment Company Act of 1940, as amended.)

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The registrant's Board has determined that the following person serving on the registrant's Audit Committee is an "audit committee financial expert" as defined in item 3 of Form N-CSR: Alan S. Bernikow. Mr. Bernikow is independent as defined in item 3 of Form N-CSR.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

(a) Audit Fees:

For the fiscal years ended September 30, 2006 and September 30, 2005, the aggregate Ernst & Young LLP (E&Y) audit fees for professional services rendered to the registrant were approximately \$38,500 and \$28,600, respectively.

Fees included in the audit fees category are those associated with the annual audits of financial statements and services that are normally provided in connection with statutory and regulatory filings.

(b) Audit-Related Fees:

In each of the fiscal years ended September 30, 2006 and September 30, 2005, the aggregate audit-related fees billed by E&Y for services rendered to the registrant that are reasonably related to the performance of the audits of the financial statements, but not reported as audit fees, were approximately \$8,773 and \$7,712, respectively.

Fees included in the audit-related category are those associated with
(1) the reading and providing of comments on the 2006 and 2005

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semiannual financial statements, (2) review of the consolidated 2005 and 2004 report on the profitability of the UBS Funds to UBS Global Asset Management (US) Inc. ("UBS Global AM") and its affiliates to assist the board members in their annual advisory/administration contract reviews and (3) auction preferred shares testing for the registrant's fiscal years ended 2006 and 2005.

There were no audit-related fees required to be approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X during the fiscal years indicated above.

(c) Tax Fees:

In each of the fiscal years ended September 30, 2006 and September 30, 2005, the aggregate tax fees billed by E&Y for professional services rendered to the registrant were approximately \$8,000 and \$11,150, respectively.

Fees included in the tax fees category comprise all services performed by professional staff in the independent accountant's tax division except those services related to the audits. This category comprises fees for review of tax compliance, tax return preparation and excise tax calculations.

There were no tax fees required to be approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X during the fiscal years indicated above.

(d) All Other Fees:

In each of the fiscal years ended September 30, 2006 and September 30, 2005, there were no fees billed by E&Y for products and services, other than the services reported in Item 4(a)-(c) above, rendered to the registrant.

Fees included in the all other fees category would consist of services related to internal control reviews, strategy and other consulting, financial information systems design and implementation, consulting on other information systems, and other tax services unrelated to the registrant.

There were no "all other fees" required to be approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X during the fiscal years indicated above.

(e) (1) Audit Committee Pre-Approval Policies and Procedures:

The registrant's Audit Committee ("audit committee") has adopted an "Audit Committee Charter (Amended and Restated as of May 12, 2004-Revised as of February 3, 2006)" (the "charter"). The charter contains the audit committee's pre-approval policies and procedures. Reproduced below is an excerpt from the charter regarding pre-approval policies and procedures:

The [audit]Committee shall:

...

2. Pre-approve (a) all audit and permissible non-audit services(1) to be provided to the Fund and (b) all permissible non-audit services to be provided by the Fund's

independent auditors to UBS Global [AM] and any Covered Service Providers, if the engagement relates directly to the operations and financial reporting of the Fund. In carrying out this responsibility, the Committee shall seek periodically from UBS Global [AM] and from the independent auditors a list of such audit and permissible non-audit services that can be expected to be rendered to the Fund, UBS Global [AM] or any Covered Service Providers by the Fund's independent auditors, and an estimate of the fees sought to be paid in connection with such services. The Committee may delegate its responsibility to pre-approve any such audit and permissible non-audit services to a sub-committee consisting of the Chairperson of the Committee and two other members of the Committee as the Chairperson,

from time to time, may determine and appoint, and such sub-committee shall report to the Committee, at its next regularly scheduled meeting after the sub-committee's meeting, its decision(s). From year to year, the Committee shall report to the Board whether this system of pre-approval has been effective and efficient or whether this Charter should be amended to allow for pre-approval pursuant to such policies and procedures as the Committee shall approve, including the delegation of some or all of the Committee's pre-approval responsibilities to other persons (other than UBS Global [AM] or the Fund's officers).

(1) The Committee will not approve non-audit services that the Committee believes may taint the independence of the auditors. Currently, permissible non-audit services include any professional services (including tax services) that are not prohibited services as described below, provided to the Fund by the independent auditors, other than those provided to the Fund in connection with an audit or a review of the financial statements of the Fund. Permissible non-audit services may not include: (i) bookkeeping or other services related to the accounting records or financial statements of the Fund; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

Pre-approval by the Committee of any permissible non-audit services is not required so long as: (i) the aggregate amount of all such permissible non-audit services provided to the Fund, UBS Global [AM] and any service providers controlling, controlled by or under common control with UBS Global [AM] that provide ongoing services to the Fund ("Covered Service Providers") constitutes not more than 5% of the total amount of revenues paid to the independent auditors

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(during the fiscal year in which the permissible non-audit services are provided) by (a) the Fund, (b) its investment adviser and (c) any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the Fund during the fiscal year in which the services are provided that would have to be approved by the Committee; (ii) the permissible non-audit services were not recognized by the Fund at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee (or its delegate(s)) prior to the completion of the audit.

- (e) (2) Services approved pursuant to paragraph (c) (7) (i) (C) of Rule 2-01 of Regulation S-X:

Audit-Related Fees:

There were no amounts that were approved by the audit committee pursuant to the de minimis exception for the fiscal years ended September 30, 2006 and September 30, 2005 on behalf of the registrant.

There were no amounts that were required to be approved by the audit committee pursuant to the de minimis exception for the fiscal years ended September 30, 2006 and September 30, 2005 on behalf of the registrant's service providers that relate directly to the operations and financial reporting of the registrant.

Tax Fees:

There were no amounts that were approved by the audit committee pursuant to the de minimis exception for the fiscal years ended September 30, 2006 and September 30, 2005 on behalf of the registrant.

There were no amounts that were required to be approved by the audit committee pursuant to the de minimis exception for the fiscal years ended September 30, 2006 and September 30, 2005 on behalf of the registrant's service providers that relate directly to the operations and financial reporting of the registrant.

All Other Fees:

There were no amounts that were approved by the audit committee pursuant to the de minimis exception for the fiscal years ended September 30, 2006 and September 30, 2005 on behalf of the registrant.

There were no amounts that were required to be approved by the audit committee pursuant to the de minimis exception for the fiscal years ended September 30, 2006 and September 30, 2005 on behalf of the registrant's service providers that relate directly to the operations and financial reporting of the registrant.

- (f) According to E&Y, for the fiscal year ended September 30, 2006, the percentage of hours spent on the audit of the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons who are not full-time, permanent employees of E&Y was 0%.

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- (g) For the fiscal years ended September 30, 2006 and September 30, 2005, the aggregate fees billed by E&Y of \$24,773 and \$72,362, respectively, for non-audit services rendered on behalf of the registrant ("covered"), its investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) and any entity controlling, controlled by, or under common control with the adviser ("non-covered") that provides ongoing services to the registrant for each of the last two fiscal years of the registrant is shown in the table below:

	2006 ----	2005 ----
Covered Services	\$16,773	\$18,862
Non-Covered Services	8,000	53,500

- (h) The registrant's audit committee was not required to consider whether the provision of non-audit services that were rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under

common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c) (7) (ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant's independence.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

The registrant has a separately designated standing audit committee (the "Audit Committee") established in accordance with Section 3(a) (58) (A) of the Securities Exchange Act of 1934, as amended. The Audit Committee is comprised of the following board members: Mr. Armstrong, Mr. Bernikow, Mr. Burt, Mr. Garil and Ms. Higgins.

ITEM 6. SCHEDULE OF INVESTMENTS.

Included as part of the report to shareholders filed under Item 1 of this form.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

The registrant's Board of Directors believes that the voting of proxies on securities held by the registrant is an important element of the overall investment process. As such, the Board has delegated the responsibility to vote such proxies to the registrant's advisor. Following is a summary of the proxy voting policy of the advisor.

CORPORATE GOVERNANCE PHILOSOPHY, VOTING GUIDELINES AND POLICY SUMMARY

The proxy voting policy of UBS Global AM is based on its belief that voting rights have economic value and must be treated accordingly. Generally, UBS

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Global AM expects the boards of directors of companies issuing securities held by its clients to act as stewards of the financial assets of the company, to exercise good judgment and practice diligent oversight with the management of the company. While there is no absolute set of rules that determines appropriate corporate governance under all circumstances and no set of rules will guarantee ethical behavior, there are certain benchmarks, which, if substantial progress is made toward, give evidence of good corporate governance. UBS Global AM may delegate to an independent proxy voting and research service the authority to exercise the voting rights associated with certain client holdings. Any such delegation shall be made with the direction that the votes be exercised in accordance with UBS Global AM's proxy voting policy.

When UBS Global AM's view of a company's management is favorable, UBS Global AM generally supports current management initiatives. When UBS Global AM's view is that changes to the management structure would probably increase shareholder value, UBS Global AM may not support existing management proposals. In general, UBS Global AM (1) opposes proposals which act to entrench management; (2) believes that boards should be independent of company management and composed of persons with requisite skills, knowledge and experience; (3) opposes structures which impose financial constraints on changes in control; (4) believes remuneration should be commensurate with responsibilities and performance; and (5) believes that appropriate steps should be taken to ensure the independence of auditors.

UBS Global AM has implemented procedures designed to identify whether it has a conflict of interest in voting a particular proxy proposal, which may arise as a result of its or its affiliates' client relationships,

marketing efforts or banking and broker/dealer activities. To address such conflicts, UBS Global AM has imposed information barriers between it and its affiliates who conduct banking, investment banking and broker/dealer activities and has implemented procedures to prevent business, sales and marketing issues from influencing our proxy votes. Whenever UBS Global AM is aware of a conflict with respect to a particular proxy, its appropriate local corporate governance committee is required to review and agree to the manner in which such proxy is voted.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

- (a) (1) Name - Kevin McIntyre
Title - Vice President
Length of Service - Since 2005

Business Experience Last 5 Years - Mr. McIntyre is a director (since 2003) and portfolio manager (since 2005) of UBS Global Asset Management (Americas) Inc. and UBS Global Asset Management (US) Inc. (collectively, the "UBS Global AM - Americas Region"). He is also Head of Municipal Trading for UBS Global AM-Americas Region since 2002. Prior to that he was a trader and assistant portfolio manager with UBS Global AM - Americas Region. Mr. McIntyre is a vice president of two investment companies (consisting of two portfolios) for which UBS Global AM - Americas Region or one of its affiliates serves as investment advisor, sub-advisor or manager.

Information is as of - November 29, 2006

- (a) (2) (i) Portfolio Manager

Kevin McIntyre

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(a) (2) (ii) (A) Registered Management Investment Companies

The portfolio manager is responsible for one additional Registered Management Investment Company having \$519,622,141 in net assets as of September 30, 2006.

(a) (2) (ii) (B) Other Pooled Investment Vehicles

None

(a) (2) (ii) (C) Other Accounts

None

(a) (2) (iii) Accounts with respect to which an advisory fee is based on the performance of the account.

None

(a) (2) (iv) Conflicts.

The management of the registrant and other accounts by a portfolio manager could result in potential conflicts of interest if the registrant and other accounts have different objectives, benchmarks and fees because the portfolio manager and his team must allocate time and investment expertise across multiple accounts, including the registrant. The portfolio manager and his team manage the registrant and other accounts utilizing an approach that groups similar accounts by characteristics and objectives. The Advisor manages accounts according to their respective objectives, including where possible, those accounts that have specific investment restrictions. Accordingly, portfolio holdings, position sizes, and industry and sector exposures tend to be similar across accounts, which may minimize the potential for conflicts of interest.

If a portfolio manager identifies a limited investment opportunity that may be suitable for more than one account, the registrant may not be able to take full advantage of that opportunity due to an allocation of filled purchase or sale orders across all eligible portfolios and accounts. To deal with these situations, the Advisor has adopted procedures for allocating portfolio trades across multiple accounts to provide fair treatment to all accounts.

The management of personal accounts by a portfolio manager may also give rise to potential conflicts of interest. The Advisor and the registrant have adopted a Code of Ethics that governs such personal trading, but there is no assurance that the Code will adequately address all such conflicts.

(a) (3) Compensation.

The compensation received by portfolio managers at UBS Global AM - Americas Region, including Mr. McIntyre, includes a base salary and incentive compensation as detailed below. Overall compensation can be grouped into three categories: base salary, annual bonuses and UBS AG equity. Base salary is fixed compensation used to recognize the experience, skills and knowledge that the investment professionals bring to their roles. Annual bonuses are correlated with performance and are based on three components: 1) the firm's overall business success; 2) the performance of the respective asset class and/or investment mandate; and 3) an individual's specific contribution to the firm's results. Senior investment professionals may receive a portion of their annual performance-based incentive in the form of deferred or restricted UBS AG shares or employee stock options. Broader equity share ownership is

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encouraged for all employees through "Equity Plus." This long-term incentive program gives employees the opportunity to purchase UBS stock with after-tax funds from their bonus or salary. Two UBS stock options are given for each share acquired and held for two years.

- (a) (4) Dollar Range of Securities of Registrant Beneficially Owned by Portfolio Manager.

None

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT

COMPANY AND AFFILIATED PURCHASERS.

There were no purchases made by or on behalf of the registrant or any "affiliated purchaser," as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, of shares of the registrant's equity securities made in the period covered by this report.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The registrant's Board has established a Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee will consider nominees recommended by shareholders if a vacancy occurs among those board members who are not "interested persons" as defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended. In order to recommend a nominee, a shareholder should send a letter to the chairperson of the Nominating and Corporate Governance Committee, Richard R. Burt, care of the Secretary of the registrant at UBS Global Asset Management, 51 West 52nd Street, New York, New York 10019-6114, and indicate on the envelope "Nominating and Corporate Governance Committee." The shareholder's letter should state the nominee's name and should include the nominee's resume or curriculum vitae, and must be accompanied by a written consent of the individual to stand for election if nominated for the Board and to serve if elected by shareholders.

ITEM 11. 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) are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.
- (b) The registrant's principal executive officer and principal financial officer are aware of no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940, as amended) that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 12. EXHIBITS.

- (a) (1) Code of Ethics as required pursuant to Section 406 of the Sarbanes-Oxley Act of 2002 (and designated by registrant as a "Code of Conduct") is incorporated by reference herein from Exhibit EX-99.CODE

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ETH to the registrant's Report on Form N-CSR filed November 24, 2004
(Accession Number: 0000950136-04-004154) (SEC File No. 811-07096).

- (a) (2) Certifications of principal executive officer and principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 is attached hereto as Exhibit EX-99.CERT.
- (a) (3) Written solicitation to purchase securities under Rule 23c-1 under the Investment Company Act of 1940 sent or given during the period covered by the report by or on behalf of the registrant to 10 or more persons - The registrant has not engaged in such a solicitation during the period covered by this report.
- (b) Certifications of principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is attached hereto as Exhibit EX-99.906CERT.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Investment Grade Municipal Income Fund Inc.

By: /s/ Kai R. Sotorp

 Kai R. Sotorp
 President

Date: November 29, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Kai R. Sotorp

 Kai R. Sotorp
 President

Date: November 29, 2006

By: /s/ Thomas Disbrow

 Thomas Disbrow
 Vice President and Treasurer

Date: November 29, 2006
