

MORGAN STANLEY MUNICIPAL INCOME OPPORTUNITIES TRUST

Form N-CSR

August 09, 2006

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-05597

Morgan Stanley Municipal Income Opportunities Trust  
(Exact name of registrant as specified in charter)

1221 Avenue of the Americas, New York, New York 10020  
(Address of principal executive offices) (Zip code)

Ronald E. Robison  
1221 Avenue of the Americas, New York, New York 10020  
(Name and address of agent for service)

Registrant's telephone number, including area code: 212-762-4000

Date of fiscal year end: May 31, 2006

Date of reporting period: May 31, 2006

Item 1 - Report to Shareholders

Welcome, Shareholder:

In this report, you'll learn about how your investment in Morgan Stanley Municipal Income Opportunities Trust performed during the annual period. We will provide an overview of the market conditions, and discuss some of the factors that affected performance during the reporting period. In addition, this report includes the Fund's financial statements and a list of Fund investments.

MARKET FORECASTS PROVIDED IN THIS REPORT MAY NOT NECESSARILY COME TO PASS. THERE IS NO ASSURANCE THAT THE FUND WILL ACHIEVE ITS INVESTMENT OBJECTIVE. THE FUND IS SUBJECT TO MARKET RISK, WHICH IS THE POSSIBILITY THAT MARKET VALUES OF SECURITIES OWNED BY THE FUND WILL DECLINE AND, THEREFORE, THE VALUE OF THE FUND'S SHARES MAY BE LESS THAN WHAT YOU PAID FOR THEM. ACCORDINGLY, YOU CAN LOSE MONEY INVESTING IN THIS FUND.

INCOME EARNED BY CERTAIN SECURITIES IN THE PORTFOLIO MAY BE SUBJECT TO THE FEDERAL ALTERNATIVE MINIMUM TAX (AMT).

FUND REPORT

For the year ended May 31, 2006

MARKET CONDITIONS

Despite record oil prices, the Gulf Coast hurricanes and a slowdown in housing, the pace of U.S. economic growth remained resilient during the 12 months ended May 31, 2006. More recently, the market has focused on the change in leadership at the Federal Reserve Board and uncertainties created by inflationary pressures and forecasts of slower growth.

As the market had anticipated, the Federal Open Market Committee (the "Fed") continued to raise the federal funds target rate in 25 basis point increments at each of its eight meetings, bringing the rate to 5.00 percent as of the end of the period. Yields on short-term (two-year) municipal bonds generally followed the target rate and rose 95 basis points. In contrast, the yields of long-term bonds (30-year) traded in a relatively narrow range of 4.25 to 4.65 percent during the year. Accordingly, the slope of the municipal yield curve continued to flatten as the difference between short-term and long-term interest rates narrowed.

Investors' quest for yield favored lower-quality bonds over high-grade issues and kept credit spreads relatively tight. Credit spreads measure the incremental yield investors require to assume additional credit risk. When credit spreads tighten, lower-rated issues typically outperform high-grade issues.

Demand for municipal bonds strengthened among individual and institutional investors. Meanwhile, municipal bond issuance slowed significantly as the year progressed. New issue volume was robust in late 2005, supporting a record of more than \$400 billion of underwriting for the calendar year. However, volume in the first five months of 2006 fell by nearly 20 percent. The decline was largely attributable to a slowdown in refundings, as rising interest rates discouraged municipalities from refinancing debt. Improved fiscal conditions among many state and local governments also reduced borrowing needs. The market share of underwriting of bonds backed by insurance declined from 60 to 50 percent. Issuers in California, Texas, New York, Florida and Illinois accounted for over 40 percent of 2006 year-to-date underwriting volume.

Declining supply and sustained demand helped municipal bonds outperform U.S. Treasuries with comparable maturities during the period. As a result, the relative attractiveness of tax-exempt bonds ebbed and the 30-year municipal-to-Treasury yield ratio steadily declined from 98 to 87 percent. The municipal-to-Treasury yield ratio measures the relative attractiveness of the two sectors. Generally speaking, the higher the ratio, the greater the attractiveness of municipal yields relative to Treasury yields.

#### PERFORMANCE ANALYSIS

For the 12-month period ended May 31, 2006, the net asset value (NAV) of Morgan Stanley Municipal Income Opportunities Trust (OIA) moved from \$8.00 to \$8.02 per share. Based on this change plus reinvestment of tax-free dividends totaling \$0.53 per share, the Fund's total NAV return was 6.75 percent. OIA's value on the New York Stock Exchange (NYSE) moved from \$7.97 to \$8.76 per share during the same period. Based on this change plus reinvestment of dividends, the Fund's total market return was 17.04 percent. OIA's NYSE market price was at a 9.23 percent premium to its NAV. During the

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fiscal year, the Fund purchased and retired 8,200 shares of common stock at a weighted average market discount of 0.54 percent. Past performance is no guarantee of future results.

Monthly dividends for the second quarter of 2006, declared in March, were unchanged at \$0.045 per share. The dividend reflects the current level of the

Fund's net investment income. OIA's level of undistributed net investment income was \$0.137 per share on May 31, 2006, versus \$0.124 per share 12 months ago.(1) All holdings were accruing interest at the end of the fiscal year.

In anticipation of continued Fed tightening and generally higher interest rates, the Fund made modest ongoing adjustments to its portfolio to attempt to reduce volatility. For example, a U.S. Treasury futures hedge was used to reduce the portfolio's duration\* when deemed appropriate. At the end of May, the Fund's option-adjusted duration was 6.3 years. This duration positioning tempered the Fund's total returns when rates declined, but helped total returns when rates rose.

As discussed in previous reports, the Fund invests primarily in higher yielding municipal bonds. Consistent with its focus on higher yielding securities, the Fund's exposure to below investment grade or non-rated issues was gradually increased to nearly three quarters of long-term assets as of the end of the period. This security mix had a positive impact on results as high yield municipal bonds outperformed investment grade issues. A decline in high yield issuance, coupled with strong demand, served as catalysts for performance. In addition, three holdings representing approximately 6 percent of net assets appreciated significantly when they were prerefunded.

Reflecting a commitment to diversification, the Fund's net assets of approximately \$158 million were invested among 11 long-term sectors and 98 credits as of the end of the period.

OIA's procedure for reinvesting all dividends and distributions in common shares is through purchases in the open market. This method helps support the market value of the Fund's shares. In addition, we would like to remind you that the Trustees of the Fund have approved a procedure whereby the Fund may, when appropriate, purchase shares in the open market or in privately negotiated transactions at a price not above market value or net asset value, whichever is lower at the time of purchase.

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PERFORMANCE DATA QUOTED REPRESENTS PAST PERFORMANCE, WHICH IS NO GUARANTEE OF FUTURE RESULTS, AND CURRENT PERFORMANCE MAY BE LOWER OR HIGHER THAN THE FIGURES SHOWN. INVESTMENT RETURN, NET ASSET VALUE AND COMMON SHARE MARKET PRICE WILL FLUCTUATE AND FUND SHARES, WHEN SOLD, MAY BE WORTH MORE OR LESS THAN THEIR ORIGINAL COST.

There is no guarantee that any sectors mentioned will continue to perform as discussed herein or that securities in such sectors will be held by the Fund in the future.

(1) Income earned by certain securities in the portfolio may be subject to the federal alternative minimum tax (AMT).

\* A measure of the sensitivity of a bond's price to changes in interest rates, expressed in years. Each year of duration represents an expected 1 percent change in the price of a bond for every 1 percent change in interest rates. The longer a bond's duration, the greater the effect of interest-rate movements on its price. Typically, funds with shorter durations perform better in rising-interest-rate environments, while funds with longer durations perform better when rates decline.

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## TOP FIVE SECTORS

Retirement & Life Care Facilities	19.2%
Tax Allocation	14.0
Hospital	12.3
IDR/PCR*	12.2
Nursing & Health Related Facilities	10.8

## LONG-TERM CREDIT ANALYSIS

Aaa/AAA	1.1%
Aa/AA	5.6
A/A	2.2
Baa/BBB	16.5
Ba/BB or Less	8.8
NR	65.8

\* Industrial Development/Pollution Control Revenue

Data as of May 31, 2006. Subject to change daily. All percentages for top five sectors are as a percentage of net assets. All percentages for long-term credit analysis are as a percentage of total long-term investments. These data are provided for informational purposes only and should not be deemed a recommendation to buy or sell the securities mentioned. Morgan Stanley is a full-service securities firm engaged in securities trading and brokerage activities, investment banking, research and analysis, financing and financial advisory services.

## FOR MORE INFORMATION ABOUT PORTFOLIO HOLDINGS

EACH MORGAN STANLEY FUND PROVIDES A COMPLETE SCHEDULE OF PORTFOLIO HOLDINGS IN ITS SEMIANNUAL AND ANNUAL REPORTS WITHIN 60 DAYS OF THE END OF THE FUND'S SECOND AND FOURTH FISCAL QUARTERS. THE SEMIANNUAL REPORTS AND THE ANNUAL REPORTS ARE FILED ELECTRONICALLY WITH THE SECURITIES AND EXCHANGE COMMISSION (SEC) ON FORM N-CSRS AND FORM N-CSR, RESPECTIVELY. MORGAN STANLEY ALSO DELIVERS THE SEMIANNUAL AND ANNUAL REPORTS TO FUND SHAREHOLDERS AND MAKES THESE REPORTS AVAILABLE ON ITS PUBLIC WEB SITE, WWW.MORGANSTANLEY.COM. EACH MORGAN STANLEY FUND ALSO FILES A COMPLETE SCHEDULE OF PORTFOLIO HOLDINGS WITH THE SEC FOR THE FUND'S FIRST AND THIRD FISCAL QUARTERS ON FORM N-Q. MORGAN STANLEY DOES NOT DELIVER THE REPORTS FOR THE FIRST AND THIRD FISCAL QUARTERS TO SHAREHOLDERS, NOR ARE THE REPORTS POSTED TO THE MORGAN STANLEY PUBLIC WEB SITE. YOU MAY, HOWEVER, OBTAIN THE FORM N-Q FILINGS (AS WELL AS THE FORM N-CSR AND N-CSRS FILINGS) BY ACCESSING THE SEC'S WEB SITE, HTTP://WWW.SEC.GOV. YOU MAY ALSO REVIEW AND COPY THEM AT THE SEC'S PUBLIC REFERENCE ROOM IN WASHINGTON, DC. INFORMATION ON THE OPERATION OF THE SEC'S PUBLIC REFERENCE ROOM MAY BE OBTAINED BY CALLING THE SEC AT (800) SEC-0330. YOU CAN ALSO REQUEST COPIES OF THESE MATERIALS, UPON PAYMENT OF A DUPLICATING FEE, BY ELECTRONIC REQUEST AT THE SEC'S E-MAIL ADDRESS (PUBLICINFO@SEC.GOV) OR BY WRITING THE PUBLIC REFERENCE SECTION OF THE SEC, WASHINGTON, DC 20549-0102.

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## DISTRIBUTION BY MATURITY (% of Long-Term Portfolio) As of May 31, 2006

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WEIGHTED AVERAGE MATURITY: 20 YEARS(A)

0-5	15
6-10	8
11-15	10
16-20	9
21-25	21
26-30	28
31+	9

(a) Where applicable maturities reflect mandatory tender, put and call dates.

Portfolio structure is subject to change.

Geographic Summary of Investments  
Based on Market Value as a Percent of Total Investments

Alabama.....	0.7%
Arkansas.....	1.3
California.....	4.4
Colorado.....	3.8
Connecticut.....	1.3
District of Columbia....	0.2
Florida.....	10.2
Georgia.....	1.3
Hawaii.....	2.5
Illinois.....	4.2
Indiana.....	0.7
Iowa.....	2.5
Kansas.....	1.0
Kentucky.....	0.4
Louisiana.....	0.6
Maryland.....	1.3
Massachusetts.....	2.8
Michigan.....	0.4
Minnesota.....	6.2
Missouri.....	5.9
Nevada.....	3.5
New Hampshire.....	6.2
New Jersey.....	5.1
New York.....	11.8%
North Carolina.....	0.7
Ohio.....	0.6
Pennsylvania.....	6.3
South Carolina.....	1.0
Tennessee.....	2.8
Texas.....	4.3
Vermont.....	1.4
Virginia.....	4.8
Joint exemption*.....	(0.2)
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Total+.....	100.0%
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- \* Joint exemptions have been included in each geographic location.
- + Does not include open short futures contracts with an underlying face amount of \$6,242,813, with unrealized appreciation of \$17,647.

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## CALL AND COST (BOOK) YIELD STRUCTURE (Based on Long-Term Portfolio) As of May 31, 2006

YEAR BONDS CALLABLE -- WEIGHTED AVERAGE CALL PROTECTION: 5 YEARS

2006 (a)	14
2007	6
2008	8
2009	12
2010	4
2011	8
2012	8
2013	10
2014	7
2015	14
2016+	9

COST (BOOK) YIELD (B) -- WEIGHTED AVERAGE BOOK YIELD: 7.1%

2006 (a)	9.0
2007	6.8
2008	6.6
2009	6.5
2010	7.0
2011	7.1
2012	6.6
2013	6.8
2014	6.4
2015	7.4
2016+	6.3

- (a) May include issues initially callable in previous years.
- (b) Cost or "book" yield is the annual income earned on a portfolio investment based on its original purchase price before the Fund's operating expenses. For example, the Fund is earning a book yield of 9.0% on 14% of the long-term portfolio that is callable in 2006.

Portfolio structure is subject to change.

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INVESTMENT ADVISORY AGREEMENT APPROVAL

NATURE, EXTENT AND QUALITY OF SERVICES

The Board reviewed and considered the nature and extent of the investment advisory services provided by the Investment Adviser under the Advisory Agreement, including portfolio management, investment research and fixed income securities trading. The Board also reviewed and considered the nature and extent of the non-advisory, administrative services provided by the Fund's Administrator under the Administration Agreement, including accounting, clerical, bookkeeping, compliance, business management and planning, and the provision of supplies, office space and utilities at the Investment Adviser's expense. (The Investment Adviser and the Administrator together are referred to as the "Adviser" and the Advisory and Administration Agreements together are referred to as the "Management Agreement.") The Board also compared the nature of the services provided by the Adviser with similar services provided by non-affiliated advisers as reported to the Board by Lipper Inc. ("Lipper").

The Board reviewed and considered the qualifications of the portfolio managers, the senior administrative managers and other key personnel of the Adviser who provide the administrative and investment advisory services to the Fund. The Board determined that the Adviser's portfolio managers and key personnel are well qualified by education and/or training and experience to perform the services in an efficient and professional manner. The Board concluded that the nature and extent of the advisory and administrative services provided were necessary and appropriate for the conduct of the business and investment activities of the Fund. The Board also concluded that the overall quality of the advisory and administrative services was satisfactory.

#### PERFORMANCE RELATIVE TO COMPARABLE FUNDS MANAGED BY OTHER ADVISERS

On a regular basis, the Board reviews the performance of all funds in the Morgan Stanley Fund Complex, including the Fund, compared to their peers, paying specific attention to the underperforming funds. In addition, the Board specifically reviewed the Fund's performance for the one-, three- and five-year periods ended November 30, 2005, as shown in a report provided by Lipper (the "Lipper Report"), compared to the performance of comparable funds selected by Lipper (the "performance peer group"). The Board considered that the Fund is unleveraged and that eight of the fifteen funds comprising the performance peer group are leveraged funds. The Board discussed with the Adviser the performance goals and the actual results achieved in managing the Fund and concluded that the Fund's performance was acceptable.

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#### FEES RELATIVE TO OTHER PROPRIETARY FUNDS MANAGED BY THE ADVISER WITH COMPARABLE INVESTMENT STRATEGIES

The Board reviewed the advisory and administrative fee (together, the "management fee") rate paid by the Fund under the Management Agreement. The Board noted that the management fee rate was comparable to the management fee rates charged by the Adviser to other proprietary funds it manages with investment strategies comparable to those of the Fund.

#### FEES AND EXPENSES RELATIVE TO COMPARABLE FUNDS MANAGED BY OTHER ADVISERS

The Board reviewed the management fee rate and total expense ratio of the Fund as compared to the average management fee rate and average total expense ratio for funds, selected by Lipper (the "expense peer group"), managed by other advisers with investment strategies comparable to those of the Fund, as shown in the Lipper Report. The Board concluded that the Fund's management fee rate and total expense ratio were competitive with those of its expense peer group.

BREAKPOINTS AND ECONOMIES OF SCALE

The Board reviewed the structure of the Fund's management fee schedule under the Management Agreement and noted that it does not include any breakpoints. The Board considered that the Fund is a closed-end fund and, therefore, that the Fund's assets are not likely to grow with new sales or grow significantly as a result of capital appreciation. The Board concluded that economies of scale for the Fund were not a factor that needed to be considered at the present time.

PROFITABILITY OF ADVISER AND AFFILIATES

The Board considered information concerning the costs incurred and profits realized by the Adviser and affiliates during the last year from their relationship with the Fund and during the last two years from their relationship with the Morgan Stanley Fund Complex and reviewed with the Adviser the cost allocation methodology used to determine the profitability of the Adviser and affiliates. Based on its review of the information it received, the Board concluded that the profits earned by the Adviser and affiliates were not excessive in light of the advisory, administrative and other services provided to the Fund.

FALL-OUT BENEFITS

The Board considered so-called "fall-out benefits" derived by the Adviser and its affiliates from their relationship with the Fund and the Morgan Stanley Fund Complex, such as commissions on the purchase and sale of Fund Shares and "float" benefits derived from handling of checks for purchases and sales of Fund shares,

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through a broker-dealer affiliate of the Adviser. The Board concluded that the float benefits were relatively small and that the commissions were competitive with those of other broker-dealers.

SOFT DOLLAR BENEFITS

The Board considered whether the Adviser realizes any benefits from commissions paid to brokers who execute securities transactions for the Fund ("soft dollars"). The Board noted that the Fund invests only in fixed income securities, which do not generate soft dollars.

ADVISER FINANCIALLY SOUND AND FINANCIALLY CAPABLE OF MEETING THE FUND'S NEEDS

The Board considered whether the Adviser is financially sound and has the resources necessary to perform its obligations under the Management Agreement. The Board noted that the Adviser's operations remain profitable, although increased expenses in recent years have reduced the Adviser's profitability. The Board concluded that the Adviser has the financial resources necessary to fulfill its obligations under the Management Agreement.

HISTORICAL RELATIONSHIP BETWEEN THE FUND AND THE ADVISER

The Board also reviewed and considered the historical relationship between the Fund and the Adviser, including the organizational structure of the Adviser, the



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policies and procedures formulated and adopted by the Adviser for managing the Fund's operations and the Board's confidence in the competence and integrity of the senior managers and key personnel of the Adviser. The Board concluded that it is beneficial for the Fund to continue its relationship with the Adviser.

OTHER FACTORS AND CURRENT TRENDS

The Board considered the controls and procedures adopted and implemented by the Adviser and monitored by the Fund's Chief Compliance Officer and concluded that the conduct of business by the Adviser indicates a good faith effort on its part to adhere to high ethical standards in the conduct of the Fund's business.

GENERAL CONCLUSION

After considering and weighing all of the above factors, the Board concluded that it would be in the best interest of the Fund and its shareholders to approve renewal of the Management Agreement for another year.

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Morgan Stanley Municipal Income Opportunities Trust  
 PORTFOLIO OF INVESTMENTS - MAY 31, 2006

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	
-----				
	Tax-Exempt Municipal Bonds (97.1%)			
	Educational Facilities Revenue (3.7%)			
\$ 800	ABAG Finance Authority for Nonprofit Corporations, California, National Center for International Schools COPs.....	7.50%	05/01/11	\$
985	Bellalago Educational Facilities Benefits District, Florida, Bellalago Charter School Ser 2004 B.....	5.80	05/01/34	1,
500	Illinois Finance Authority, Fullerton Village Student Housing Ser 2004 A.....	5.125	06/01/35	
500	Maryland Industrial Development Financing Authority, Our Lady of Good Counsel High School Ser 2005 A.....	6.00	05/01/35	
1,000	Westchester County Industrial Development Agency, New York, Guiding Eyes for The Blind Inc Ser 2004.....	5.375	08/01/24	1,
2,000	Chattanooga Health Educational & Housing Facilities Board, Tennessee, Student Housing Refg Ser 2005 A.....	5.125	10/01/35	1,
	-----			
5,785				5,
	-----			
	Hospital Revenue (12.3%)			
1,000	Colbert County - Northwest Health Care Authority, Alabama, Helen Keller Hospital Ser 2003.....	5.75	06/01/27	1,
2,000	Baxter County, Arkansas, Baxter County Regional Hospital Impr & Refg Ser 1999 B.....	5.625	09/01/28	2,
2,000	Hawaii Department of Budget & Finance, Kuakini Health 2002 Ser A.....	6.375	07/01/32	2,
1,000	Indiana Health Facility Financing Authority, Riverview			

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600	Hospital Ser 2002.....	6.125	08/01/31	1,
	Gaylord Hospital Financing Authority, Michigan, Otsego			
1,500	Memorial Hospital Ser 2004.....	6.50	01/01/37	
	St Paul, Housing & Redevelopment Authority, Minnesota,			
2,335	HealthEast Ser 2005.....	6.00	11/15/35	1,
1,500	Henderson, Nevada, Catholic Health West 1998 Ser A.....	5.375	07/01/26	2,
	New Hampshire Higher Educational & Health Facilities			
2,000	Authority, Littleton Hospital Assn Ser 1998 A.....	6.00	05/01/28	1,
	New Jersey Health Care Facilities Financing Authority,			
955	Raritan Bay Medical Center Ser 1994.....	7.25	07/01/27	2,
	Nassau County Industrial Development Agency, New York,			
500	North Shore Health Ser B.....	5.875	11/01/11	1,
	Fulton County Industrial Development Authority,			
1,000	Pennsylvania, Fulton County Medical Center Ser 2006.....	5.875	07/01/31	
	Monroe County Hospital Authority, Pennsylvania, Pocono			
285	Medical Center Ser 2003.....	6.00	01/01/43	1,
	South Carolina Jobs - Economic Development Authority,			
	Palmetto Health Alliance Refg Ser 2003 C.....	6.875	08/01/27	

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust  
 PORTFOLIO OF INVESTMENTS - MAY 31, 2006 continued

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	V
\$ 1,000	Knox County Health, Educational & Housing Facility Board,			
	Tennessee, Baptist Health of East Tennessee Ser 2002....	6.50%	04/15/31	\$ 1,
1,000	Decatur Hospital Authority, Texas, Wise Regional Health			
	Ser 2004 A.....	7.125	09/01/34	1,
-----				-----
18,675				19,
-----				-----
2,000	Industrial Development/Pollution Control Revenue (12.2%)			
	California County Tobacco Securitization Agency, Gold			
260	County Settlement Funding Corp Ser 2006 (WI).....	0.00	06/01/33	
	Metropolitan Washington Airports Authority, District of			
1,500	Columbia & Virginia, CaterAir International Corp Ser			
1,000	1991 (AMT)++.....	10.125	09/01/11	
	Iowa Finance Authority, IPSCO Inc Ser 1997 (AMT).....	6.00	06/01/27	1,
	Nassau County Tobacco Settlement Corporation, New York,			
	Ser 2006 A-3.....	5.125	06/01/46	
2,000	New York City Industrial Development Agency, New York,			
2,000	7 World Trade Center LLC Ser 2005 A.....	6.50	03/01/35	2,
	American Airlines Inc Ser 2005 (AMT).....	7.75	08/01/31	2,
1,500	TSASC Inc, New York, Tobacco Settlement Ser 2006-1.....	5.125	06/01/42	1,
325	Zanesville-Muskingum County Port Authority, Ohio, Anchor			
	Glass Container Corp Ser 1989 B (AMT).....	10.25	12/01/08	
2,620	Carbon County Industrial Development Authority,			
	Pennsylvania, Panther Creek Partners Refg 2000 Ser			
	(AMT).....	6.65	05/01/10	2,

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1,000	Pennsylvania Economic Development Financing Authority, Reliant Energy Inc Ser 2001 A (AMT).....	6.75	12/01/36	1,
1,225	Lexington County, South Carolina, Ellett Brothers Inc Refg Ser 1988.....	7.50	09/01/08	1,
1,000	Brazos River Authority, Texas, Texas Utilities Electric Co Refg Ser 1999 A (AMT).....	7.70	04/01/33	1,
1,000	Chesterfield County Industrial Development Authority, Virginia, Virginia Electric & Power Co Ser 1985.....	5.50	10/01/09	1,
2,700	Pittsylvania County Industrial Development Authority, Virginia, Multi-Trade Pittsylvania County Ser 1994 A (AMT).....	7.45	01/01/09	2,
-----				19,
20,130				-----
-----				
Mortgage Revenue - Multi-Family (7.1%)				
Washington County Housing & Redevelopment Authority,				
3,885	Courtly Park Ser 1989 A.....	9.75	06/15/19	3,
1,165	Courtly Park Ser 1989 A (AMT).....	10.25	06/15/19	
24,080	Courtly Park Ser 1989 B.....	0.00	06/15/19	
8,678	Courtly Park Ser 1989 B (AMT).....	0.00	06/15/19	

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust  
PORTFOLIO OF INVESTMENTS - MAY 31, 2006 continued

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	V
-----				
White Bear Lake, Minnesota,				
\$ 3,715	White Bear Woods Apts Phase II Refg 1989 Ser A.....	9.75%	06/15/19	\$ 3,
19,771	White Bear Woods Apts Phase II Refg 1989 Ser B.....	0.00	06/15/19	
3,000	Brookhaven Industrial Development Agency, New York, Woodcrest Estates Ser 1998 A (AMT).....	6.375	12/01/37	3,
-----				11,
64,294				-----
-----				
Mortgage Revenue - Single Family (5.5%)				
Colorado Housing & Finance Authority,				
85	1996 Ser B (AMT).....	7.65	11/01/26	
530	Ser 1998 D-2 (AMT).....	6.35	11/01/29	
19,715	New Hampshire Housing Finance Authority, Residential 1983 Ser B.....	0.00	01/01/15	8,
-----				8,
20,330				-----
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	Nursing & Health Related Facilities Revenue (10.8%)			
	Escambia County, Florida,			
4,250	Pensacola Care Development Centers Ser 1989.....	10.25	07/01/11	4,
980	Pensacola Care Development Centers Ser 1989 A.....	10.25	07/01/11	
1,000	Orange County Health Facilities Authority, Florida,			
	Westminister Community Care Services Inc Ser 1999.....	6.75	04/01/34	1,
1,000	Pinellas County Health Facilities Authority, Florida, Oaks			
	of Clearwater Ser 2004.....	6.25	06/01/34	1,
1,925	Iowa Health Facilities Development Financing Authority,			
	Care Initiatives Ser 1996.....	9.25	07/01/25	2,
515	Kentucky Economic Development Financing Authority,			
	AHF/Kentucky-Iowa Inc Ser 2003.....	6.50#	01/01/29	
900	Westside Habilitation Center, Louisiana, Intermediate Care			
	Facility for the Mentally Retarded Refg Ser 1993.....	8.375	10/01/13	
1,725	Massachusetts Development Finance Agency, New England			
	Center for Children Ser 1998.....	5.875	11/01/18	1,
1,000	Massachusetts Health & Educational Facilities Authority,			
	The Learning Center for Deaf Children Ser C.....	6.125	07/01/29	1,
1,000	St Louis County Industrial Development Authority,			
	Missouri, Pediatric Rehabilitation Center Ser 2003 A....	6.625	11/15/35	1,
610	Mount Vernon Industrial Development Agency, New York,			
	Meadowview at the Wartburg Ser 1999.....	6.00	06/01/09	
1,500	Suffolk County Industrial Development Agency, New York,			
	Medford Hamlet Ser 2006.....	6.375	01/01/39	1,
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				16,
16,405				-----

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust  
 PORTFOLIO OF INVESTMENTS - MAY 31, 2006 continued

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	V
	Recreational Facilities Revenue (4.6%)			
\$ 2,000	Sacramento Financing Authority, California, Convention			
	Center Hotel 1999 Ser A.....	6.25%	01/01/30	\$ 2,
1,000	San Diego County, California, San Diego Natural History			
	Museum COPs.....	5.70	02/01/28	
	Mashantucket (Western) Pequot Tribe, Connecticut,			
1,010	Special 1996 Ser A (a).....	6.40	09/01/11	1,
1,000	Special 1997 Ser B (a).....	5.75	09/01/27	1,
2,000	Austin Convention Enterprises Inc, Texas, Convention			
	Center Hotel Ser 2000 A.....	6.70	01/01/32	2,
-----				-----
				7,
7,010				-----

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	Retirement & Life Care Facilities Revenue (19.2%)			
500	Orange County Health Facilities Authority, Florida, Orlando Lutheran Towers Inc Ser 2005**.....	5.70	07/01/26	
1,000	St Johns County Industrial Development Authority, Florida, Glenmoor Ser 1999 A.....	8.00	01/01/30	1,
1,000	Hawaii Department of Budget & Finance, Kahala Nui 2003 Ser A.....	8.00	11/15/33	1,
1,000	Illinois Finance Authority, Landing at Plymouth Ser 2005 A.....	6.00	05/15/37	1,
1,000	Luther Oaks Ser 2006 A.....	6.00	08/15/39	1,
1,500	Lenexa, Kansas, Lakeview Village - Southridge Ser 2002 C.....	6.875	05/15/32	1,
1,500	Maryland Health & Higher Educational Facilities Authority, Mercy Ridge 2003 Ser A.....	6.00	04/01/35	1,
1,500	Massachusetts Development Finance Agency, Loomis Communities Ser 1999 A.....	5.75	07/01/23	1,
1,500	Kansas City Industrial Development Agency, Missouri, Bishop Spencer 2004 Ser A.....	6.50	01/01/35	1,
1,000	New Jersey Economic Development Authority, Cedar Crest Village Inc Ser 2001 A.....	7.25	11/15/31	1,
1,000	Franciscan Oaks Ser 1997.....	5.70	10/01/17	1,
730	Lions Gate Ser 2005 A.....	5.875	01/01/37	
1,000	The Presbyterian Home at Montgomery Ser 2001 A.....	6.375	11/01/31	1,
2,000	United Methodist Homes of New Jersey Ser 1998.....	5.125	07/01/25	1,
750	Suffolk County Industrial Development Agency, New York, Jefferson's Ferry Ser 2006 (WI).....	5.00	11/01/28	
1,000	North Carolina Medical Care Commission, Given Estate Ser 2003 A.....	6.50	07/01/32	1,
1,500	Bucks County Industrial Development Authority, Pennsylvania, Ann's Choice Ser 2005 A.....	6.125	01/01/25	1,
1,000	Chester County Health & Education Facilities Authority, Pennsylvania, Jenner's Pond Inc Ser 2002.....	7.625	07/01/34	1,

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust  
PORTFOLIO OF INVESTMENTS - MAY 31, 2006 continued

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	V
\$ 1,000	Montgomery County Industry Development Authority, Pennsylvania, Whitmarsh Community Ser 2005.....	6.25%	02/01/35	\$ 1,
	Shelby County Health, Educational & Housing Facilities Board, Tennessee,			
500	Trezevant Manor Ser 2006 A.....	5.75	09/01/37	
750	Village at Germantown Ser 2003 A.....	7.25	12/01/34	
1,000	Houston Health Facilities Authority, Texas, Buckingham Senior Living Community Ser 2004 A.....	7.125	02/15/34	1,
1,000	Lubbock Health Facilities Development Corporation, Texas, Carillon Senior Lifecare Ser 2005 A.....	6.50	07/01/26	1,
2,100	Vermont Economic Development Authority, Wake Robin Corp Ser 1999 A.....	6.75	03/01/29	2,
1,250	Peninsula Ports Authority of Virginia, Virginia Baptist Homes Ser 2006 C.....	5.40	12/01/33	1,

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1,000	Virginia Beach Development Authority, Virginia, Westminister-Canterbury Refg Ser 2005 A.....	5.25	11/01/26	1,
-----				
29,080				30,
-----				
	Tax Allocation Revenue (14.0%)			
500	Carlsbad Assessment District No 2002-2001, California, Poinsettia Lane East Ser 2005 A.....	5.20	09/02/35	
1,000	San Marcos Community Facilities District #2002-01, California, University Commons Ser 2004.....	5.95	09/01/35	1,
1,000	Santa Ana Unified School District, Community Facilities District #2004-1, California, Central Park Ser 2005.....	5.10	09/01/35	
2,000	Elk Valley Public Improvement Corporation, Colorado, Ser 2001 A.....	7.35	09/01/31	2,
2,000	Northwest Metropolitan District #3, Colorado, Ser 2005....	6.25	12/01/35	2,
1,000	Southlands Metropolitan District #1, Colorado, Ser 2004...	7.125	12/01/34	1,
2,000	Beacon Lakes Community Development District, Florida, Ser 2003 A.....	6.90	05/01/35	2,
1,000	Midtown Miami Community Development District, Florida, Parking Garage Ser 2004 A.....	6.25	05/01/37	1,
1,000	Renaissance Commons Community Development District, Florida, 2005 Ser A.....	5.60	05/01/36	1,
2,000	Atlanta, Georgia, Eastside Ser 2005 B.....	5.60	01/01/30	2,
1,000	Bolingbrook, Illinois, Sales Tax Ser 2005.....	0.00#	01/01/24	
2,000	Chicago, Illinois, Lake Shore East Ser 2002.....	6.75	12/01/32	2,
725	Lincolnshire, Illinois, Service Area #1 Sedgebrook Ser 2004.....	6.25	03/01/34	
2,000	Des Peres, Missouri, West County Center Ser 2002.....	5.75	04/15/20	2,
1,980	Las Vegas District #808, Nevada, Summerlin Ser 2001.....	6.75	06/01/21	2,
-----				
21,205				22,
-----				

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust  
PORTFOLIO OF INVESTMENTS - MAY 31, 2006 continued

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	V
-----				
	Transportation Facilities Revenue (1.8%)			
\$ 1,650	Mid-Bay Bridge Authority, Florida, Sr Lien Crossover Refg Ser 1993 A (Ambac).....	5.85%	10/01/13	\$ 1,
1,000	Nevada Department of Business & Industry, Las Vegas Monorail 2nd Tier Ser 2000.....	7.375	01/01/40	1,
-----				
				2,

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2,650					
-----					
	Refunded (5.9%)				
3,850	Fenton, Missouri, Gravois Bluffs Redevelopment Ser 2001 A Refg.....	7.00	10/01/11+	4,	
3,250	Suffolk County Industrial Development Agency, New York, Jefferson's Ferry Ser 1999.....	7.25	11/01/09+	3,	
1,000	Peninsula Ports Authority of Virginia, Virginia Baptist Homes Ser 2003 A.....	7.375	12/01/13+	1,	
-----					
8,100					9,
-----					
213,664	Total Tax-Exempt Municipal Bonds (Cost \$160,316,676).....				153,
-----					
	Taxable Convertible Bond (0.4%)				
	Airlines				
633	UAL Corp. (Cost \$633,080) (b).....	5.00	02/01/21		
-----					
	Short Term Tax-Exempt Municipal Obligations (0.8%)				
600	Cuyahoga County, Ohio, University Hospital of Cleveland Ser 1985 (Demand 06/01/06).....	3.56*	01/01/16		
700	Geisinger Authority, Pennsylvania, Geisinger Health Ser 2000 B (Demand 06/01/06).....	3.56*	08/01/22		
-----					
1,300	Total Short-Term Tax-Exempt Municipal Obligations (Cost \$1,300,000).....				1,
-----					
\$215,597	Total Investments (Cost \$162,249,756) (c) (d).....		98.3%		15
=====	Other Assets in Excess of Liabilities.....		1.7		
	Net Assets.....		100.0%		\$15
			=====		=====

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust  
 PORTFOLIO OF INVESTMENTS - MAY 31, 2006 continued

-----

- AMT Alternative Minimum Tax.
- COPs Certificates of Participation.
- WI Security purchased on a when-issued basis.
- \* Current coupon of variable rate demand obligation.
- \*\* A portion of this security is physically segregated in

- connection with open futures contracts in the amount of \$26,000.
- + Prerefunded to call date shown.
- ++ Joint exemption in locations shown.
- # Security is a "step up" bond where the coupon increases on a predetermined future date.
- (a) Resale is restricted to qualified institutional investors.
- (b) Taxable convertible bond issued in reorganization.
- (c) Securities have been designated as collateral in an amount equal to \$7,402,395 in connection with open futures contracts and the purchase of when-issued securities.
- (d) The aggregate cost for federal income tax purposes is \$162,170,020. The aggregate gross unrealized appreciation is \$7,636,040 and the aggregate gross unrealized depreciation is \$14,608,000, resulting in net unrealized depreciation of \$6,971,960.

Bond Insurance:

-----

Ambac Ambac Assurance Corporation.

FUTURES CONTRACTS OPEN AT MAY 31, 2006:

NUMBER OF CONTRACTS	LONG/SHORT	DESCRIPTION, DELIVERY MONTH AND YEAR	UNDERLYING FACE AMOUNT AT VALUE	UNREALIZED APPRECIATION
40	Short	U.S. Treasury Note 5 Year September 2006	\$ (4,144,375)	\$11,452
20	Short	U.S. Treasury Note 10 Year September 2006	(2,098,438)	6,195
Total Unrealized Appreciation.....				\$17,647 =====

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust  
FINANCIAL STATEMENTS

Statement of Assets and Liabilities  
May 31, 2006

Assets:	
Investments in securities, at value (cost \$162,249,756).....	\$155,198,060
Cash.....	106,165
Receivable for:	
Interest.....	2,968,660
Investments sold.....	1,005,000
Variation margin.....	15,312
Prepaid expenses and other assets.....	19,449
Total Assets.....	159,312,646 -----
Liabilities:	



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Payable for:	
Investments purchased.....	1,167,770
Investment advisory fee.....	71,266
Administration fee.....	11,403
Transfer agent fee.....	6,198
Accrued expenses and other payables.....	128,119
	-----
Total Liabilities.....	1,384,756
	-----
Net Assets.....	\$157,927,890
	=====
Composition of Net Assets:	
Paid-in-capital.....	\$173,986,180
Net unrealized depreciation.....	(7,034,049)
Accumulated undistributed net investment income.....	2,703,247
Accumulated net realized loss.....	(11,727,488)
	-----
Net Assets.....	\$157,927,890
	=====
Net Asset Value Per Share, 19,685,043 shares outstanding (unlimited shares authorized of \$.01 par value).....	\$8.02
	=====

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust  
FINANCIAL STATEMENTS continued

Statement of Operations  
For the year ended May 31, 2006

Net Investment Income:	
Interest Income.....	\$11,780,730
	-----
Expenses	
Investment advisory fee.....	788,810
Administration fee.....	126,210
Professional fees.....	69,152
Shareholder reports and notices.....	40,191
Transfer agent fees and expenses.....	39,042
Registration fees.....	13,107
Trustees' fees and expenses.....	9,237
Custodian fees.....	7,103
Other.....	22,139
	-----
Total Expenses.....	1,114,991
	-----
Less: expense offset.....	(7,037)
	-----
Net Expenses.....	1,107,954
	-----
Net Investment Income.....	10,672,776
	-----
Net Realized and Unrealized Gain (Loss):	
Net Realized Gain (Loss) on:	
Investments.....	(13,709)

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Futures contracts.....	43,284
	-----
Net Realized Gain.....	29,575
	-----
Net Change in Unrealized Appreciation/Depreciation on:	
Investments.....	113,376
Futures contracts.....	17,647
	-----
Net Appreciation.....	131,023
	-----
Net Gain.....	160,598
	-----
Net Increase.....	\$10,833,374
	=====

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust  
FINANCIAL STATEMENTS continued

Statements of Changes in Net Assets

	FOR THE YEAR ENDED MAY 31, 2006	FOR THE YEAR ENDED MAY 31, 2005
	-----	-----
Increase (Decrease) in Net Assets:		
Operations:		
Net investment income.....	\$ 10,672,776	\$ 10,610,238
Net realized gain (loss).....	29,575	(1,978,394)
Net change in unrealized appreciation/depreciation.....	131,023	7,868,814
	-----	-----
Net Increase.....	10,833,374	16,500,658
Dividends to shareholders from net investment income.....	(10,435,062)	(10,055,170)
Decrease from transactions in shares of beneficial interest.....	(64,710)	(5,116,505)
	-----	-----
Net Increase.....	333,602	1,328,983
Net Assets:		
Beginning of period.....	157,594,288	156,265,305
	-----	-----
End of Period (Including accumulated undistributed net investment income of \$2,703,247 and \$2,451,611, respectively).....	\$157,927,890	\$157,594,288
	=====	=====

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust  
NOTES TO FINANCIAL STATEMENTS - MAY 31, 2006

1. Organization and Accounting Policies

Morgan Stanley Municipal Income Opportunities Trust (the "Fund") is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. The Fund's investment objective is to provide a high level of current income which is exempt from federal income tax. The Fund was organized as a Massachusetts business trust on June 22, 1988 and commenced operations on September 19, 1988.

The following is a summary of significant accounting policies:

A. Valuation of Investments -- (1) portfolio securities are valued by an outside independent pricing service approved by the Trustees. The pricing service uses both a computerized grid matrix of tax-exempt securities and evaluations by its staff, in each case based on information concerning market transactions and quotations from dealers which reflect the mean between the last reported bid and asked price. The portfolio securities are thus valued by reference to a combination of transactions and quotations for the same or other securities believed to be comparable in quality, coupon, maturity, type of issue, call provisions, trading characteristics and other features deemed to be relevant. The Trustees believe that timely and reliable market quotations are generally not readily available for purposes of valuing tax-exempt securities and that the valuations supplied by the pricing service are more likely to approximate the fair value of such securities; (2) futures are valued at the latest sale price on the commodities exchange on which they trade unless it is determined that such price does not reflect their market value, in which case they will be valued at their fair value as determined in good faith under procedures established by and under the supervision of the Trustees; and (3) short-term debt securities having a maturity date of more than sixty days at time of purchase are valued on a mark-to-market basis until sixty days prior to maturity and thereafter at amortized cost based on their value on the 61st day. Short-term debt securities having a maturity date of sixty days or less at the time of purchase are valued at amortized cost.

B. Accounting for Investments -- Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Realized gains and losses on security transactions are determined by the identified cost method. Discounts are accreted and premiums are amortized over the life of the respective securities. Interest income is accrued daily except where collection is not expected.

C. Federal Income Tax Policy -- It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable and nontaxable income to its shareholders. Accordingly, no federal income tax provision is required.

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Morgan Stanley Municipal Income Opportunities Trust  
NOTES TO FINANCIAL STATEMENTS - MAY 31, 2006 continued

D. Dividends and Distributions to Shareholders -- Dividends and distributions to shareholders are recorded on the ex-dividend date.

E. Futures Contracts -- A futures contract is an agreement between two parties to buy and sell financial instruments or contracts based on financial indices at a set price on a future date. Upon entering into such a contract, the Fund is required to pledge to the broker cash, U.S. Government securities or other liquid portfolio securities equal to the minimum initial margin requirements of

the applicable futures exchange. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in the value of the contract. Such receipts or payments known as variation margin are recorded by the Fund as unrealized gains and losses. Upon closing of the contract, the Fund realizes a gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

F. Use of Estimates -- The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

## 2. Investment Advisory/Administration Agreements

Pursuant to an Investment Advisory Agreement with Morgan Stanley Investment Advisors Inc. (the "Investment Adviser"), the Fund pays an advisory fee, calculated weekly and payable monthly, by applying the annual rate of 0.50% to the Fund's weekly net assets.

Pursuant to an Administration Agreement with Morgan Stanley Services Company Inc. (the "Administrator"), an affiliate of the Investment Adviser, the Fund pays an administration fee, calculated weekly and payable monthly, by applying the annual rate of 0.08% to the Fund's weekly net assets.

## 3. Security Transactions and Transactions with Affiliates

The cost of purchases and proceeds from sales of portfolio securities, excluding short-term investments, for the year ended May 31, 2006 aggregated \$29,604,852 and \$31,352,075, respectively. Included in the aforementioned transactions are purchases of \$1,995,320 with other Morgan Stanley funds.

Morgan Stanley Trust, an affiliate of the Investment Adviser and Administrator, is the Fund's transfer agent.

The Fund has an unfunded noncontributory defined benefit pension plan covering certain independent Trustees of the Fund who will have served as independent Trustees for at least five years at the time

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Morgan Stanley Municipal Income Opportunities Trust  
NOTES TO FINANCIAL STATEMENTS - MAY 31, 2006 continued

of retirement. Benefits under this plan are based on factors which include years of service and compensation. The Trustees voted to close the plan to new participants and eliminate the future benefits growth due to increases to compensation after July 31, 2003. Aggregate pension costs for the year ended May 31, 2006 included in Trustees' fees and expenses in the Statement of Operations amounted to \$7,493. At May 31, 2006, the Fund had an accrued pension liability of \$64,128 which is included in accrued expenses in the Statement of Assets and Liabilities.

The Fund has an unfunded Deferred Compensation Plan (the "Compensation Plan") which allows each independent Trustee to defer payment of all, or a portion, of the fees he receives for serving on the Board of Trustees. Each eligible Trustee generally may elect to have the deferred amounts credited with a return equal to the total return on one or more of the Morgan Stanley funds that are offered as investment options under the Compensation Plan. Appreciation/depreciation and distributions received from these investments are recorded with an offsetting increase/decrease in the deferred compensation obligation and do not affect the

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net asset value of the Fund.

4. Shares of Beneficial Interest

Transactions in shares of beneficial interest were as follows:

	SHARES	PAR VALUE OF SHARES	CAPITAL PAID IN EXCESS OF PAR VALUE
Balance, May 31, 2004.....	20,379,272	\$203,792	\$179,376,8
Treasury shares purchased and retired (weighted average discount 4.79%)*.....	(686,029)	(6,860)	(5,109,6
Balance, May 31, 2005.....	19,693,243	196,932	174,267,2
Treasury shares purchased and retired (weighted average discount 0.54%)*.....	(8,200)	(82)	(64,6
Reclassification due to permanent book/tax differences.....	--	--	(413,2
Balance May 31, 2006.....	19,685,043	\$196,850	\$173,789,3

\* The Trustees have voted to retire the shares purchased.

5. Dividends

The Fund declared the following dividends from net investment income:

DECLARATION DATE	AMOUNT PER SHARE	RECORD DATE	PAYABLE DATE
March 28, 2006	\$0.045	June 9, 2006	June 23, 2006
June 27, 2006	0.045	July 7, 2006	July 21, 2006
June 27, 2006	0.045	August 4, 2006	August 18, 2006
June 27, 2006	0.045	September 8, 2006	September 22, 2006

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Morgan Stanley Municipal Income Opportunities Trust  
 NOTES TO FINANCIAL STATEMENTS - MAY 31, 2006 continued

6. Expense Offset

The expense offset represents a reduction of custodian and transfer agent fees and expenses for earnings on cash balances maintained by the Fund.

7. Federal Income Tax Status

The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations which may differ from generally accepted accounting principles.

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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. Dividends and distributions which exceed net investment income and net realized capital gains for tax purposes are reported as distributions of paid-in-capital.

The tax character of distributions paid was as follows:

	FOR THE YEAR ENDED MAY 31, 2006	FOR THE YEAR ENDED MAY 31, 2005
	-----	-----
Tax-exempt income.....	\$10,435,062	\$10,017,495
Ordinary income.....	--	37,675
	-----	-----
Total distributions.....	\$10,435,062	\$10,055,170
	=====	=====

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Morgan Stanley Municipal Income Opportunities Trust  
NOTES TO FINANCIAL STATEMENTS - MAY 31, 2006 continued

As of May 31, 2006, the tax-basis components of accumulated losses were as follows:

Undistributed tax-exempt income.....	\$ 2,717,666
Retained ordinary income.....	31,233
	-----
Net accumulated earnings.....	2,748,899
Capital loss carryforward*.....	(11,456,366)
Post-October losses.....	(253,460)
Temporary differences.....	(125,403)
Net unrealized depreciation.....	(6,971,960)
	-----
Total accumulated losses.....	(\$16,058,290)
	=====

-----

\* During the year ended May 31, 2006, the Fund utilized \$286,855 of its net capital loss carryforward. As of May 31, 2006, the Fund had a net capital loss carryforward of \$11,456,366 of which \$87,017 will expire on May 31, 2008, \$4,628,820 will expire on May 31, 2009, \$1,864,080 will expire on May 31, 2011 and \$4,876,449 will expire on May 31, 2013 to offset future capital gains to the extent provided by regulations.

As of May 31, 2006, the Fund had temporary book/tax differences primarily attributable to post-October losses (capital losses incurred after October 31 within the taxable year which are deemed to arise on the first business day of the Fund's next taxable year), book amortization of discounts on debt securities, mark-to-market of open futures contracts and interest on bonds in default and permanent book/tax differences primarily attributable to tax

adjustments on debt securities sold by the Fund and an expired capital loss carryforward. To reflect reclassifications arising from the permanent differences, paid-in-capital was charged \$413,264, accumulated net realized loss was credited \$399,342 and accumulated undistributed net investment income was credited \$13,922.

8. Risks Relating to Certain Financial Instruments

The Fund may invest a portion of its assets in residual interest bonds, which are inverse floating rate municipal obligations. The prices of these securities are subject to greater market fluctuations during periods of changing prevailing interest rates than are comparable fixed rate obligations.

To hedge against adverse interest rate changes, the Fund may invest in financial futures contracts or municipal bond index futures contracts ("futures contracts").

These futures contracts involve elements of market risk in excess of the amount reflected in the Statement of Assets and Liabilities. The Fund bears the risk of an unfavorable change in the value of the underlying securities. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

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Morgan Stanley Municipal Income Opportunities Trust  
FINANCIAL HIGHLIGHTS

Selected ratios and per share data for a share of beneficial interest outstanding throughout each period:

	FOR THE YEAR EN		
	2006	2005	2004
Selected Per Share Data:			
Net asset value, beginning of the period.....	\$8.00	\$ 7.67	\$ 7.9
Income (loss) from investment operations:			
Net investment income*.....	0.54	0.53	0.5
Net realized and unrealized gain (loss).....	0.01	0.29	(0.2
Total income from investment operations.....	0.55	0.82	0.2
Less dividends from net investment income.....	(0.53)	(0.50)	(0.5
Anti-dilutive effect of acquiring treasury shares*....	--	0.01	-
Net asset value, end of period.....	\$8.02	\$ 8.00	\$ 7.6

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Market value, end of period.....	\$8.76 =====	\$ 7.97 =====	\$ 7.0 =====
Total Return+.....	17.04%	20.12%	(2.3
Ratios to Average Net Assets:			
Total expenses (before expense offset).....	0.71%	0.83%	0.9
Net investment income.....	6.78%	6.76%	6.6
Supplemental Data:			
Net assets, end of period, in thousands.....	\$157,928	\$157,594	\$156,26
Portfolio turnover rate.....	19%	12%	1

-----

- \* The per share amounts were computed using an average number of shares outstanding during the period.
- + Total return is based upon the current market value on the last day of each period reported. Dividends are assumed to be reinvested at the prices obtained under the Fund's dividend reinvestment plan. Total return does not reflect brokerage commissions.
- (1) Does not reflect the effect of expense offset of 0.01%.

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust  
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Trustees of  
Morgan Stanley Municipal Income Opportunities Trust:

We have audited the accompanying statement of assets and liabilities of Morgan Stanley Municipal Income Opportunities Trust (the "Fund"), including the portfolio of investments, as of May 31, 2006, and the related statements of operations for the year then ended and changes in net assets 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. The Fund is not required to have, nor were we engaged to perform, an audit of its 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, assessing the accounting principles



used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of May 31, 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 Morgan Stanley Municipal Income Opportunities Trust as of May 31, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP  
New York, New York  
July 20, 2006

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Morgan Stanley Municipal Income Opportunities Trust  
REVISED INVESTMENT POLICY (UNAUDITED)

On August 24, 2005, the Trustees of Morgan Stanley Municipal Income Opportunities Trust (the "Fund") approved a change to the Fund's investment policy with respect to inverse floating rate municipal obligations whereby the Fund now would be permitted to invest up to 15% of its assets in inverse floating rate municipal obligations. The inverse floating rate municipal obligations in which the Fund will invest are typically created through a division of a fixed rate municipal obligation into two separate instruments, a short-term obligation and a long-term obligation. The interest rate on the short-term obligation is set at periodic auctions. The interest rate on the long-term obligation is the rate the issuer would have paid on the fixed income obligation: (i) plus the difference between such fixed rate and the rate on the short-term obligation, if the short-term rate is lower than the fixed rate; or (ii) minus such difference if the interest rate on the short-term obligation is higher than the fixed rate. The interest rates on these obligations generally move in the reverse direction of market interest rates. If market interest rates fall, the interest rate on the obligation will increase and if market interest rates increase, the interest rate on the obligation will fall. Inverse floating rate municipal obligations offer the potential for higher income than is available from fixed rate obligations of comparable maturity and credit rating. They also carry greater risks. In particular, the prices of inverse floating rate municipal obligations are more volatile, i.e., they increase and decrease in response to changes in interest rates to a greater extent than comparable fixed rate obligations.

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Morgan Stanley Municipal Income Opportunities Trust  
SHAREHOLDER VOTING RESULTS (UNAUDITED)

On December 13, 2005, an annual meeting of the Fund's shareholders was held for the purpose of voting on the following matter, the results of which were as follows:

Election of Trustees:

FOR

WITHHELD

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Michael Bozic.....	16,440,675	312,081
Charles A. Fiumefreddo.....	16,467,481	285,275
James F. Higgins.....	16,449,913	302,843

The following Trustees were not standing for reelection at this meeting: Edwin J. Garn, Wayne E. Hedien, Dr. Manuel H. Johnson, Joseph J. Kearns, Michael E. Nugent and Fergus Reid.

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Morgan Stanley Municipal Income Opportunities Trust  
TRUSTEE AND OFFICER INFORMATION

Independent Trustees:

Name, Age and Address of Independent Trustee	Position(s) Held with Registrant	Term of Office and Length of Time Served*	Principal Occupation(s) During Past 5 Years**
----- Michael Bozic (65) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 1177 Avenue of the Americas New York, NY 10036	Trustee	Since April 1994	Private Investor; Chairman of the Insurance Committee (since July 2006) and Director or Trustee of the Retail Funds (since April 1994) and the Institutional Funds (since July 2003); formerly Vice Chairman of Kmart Corporation (December 1998-October 2000) Chairman and Chief Executive Officer of Levitz Furniture Corporation (November 1995-November 1998) and President and Chief Executive Officer of Hills Department Stores (March 1991-July 1995); formerly variously Chairman, Chief Executive Officer, President and Chief Operating Officer (1987-1991) of the Sears, Merchandise Group of Sears, Roebuck & Co.
Edwin J. Garn (73) 1031 N. Chartwell Court Salt Lake City, UT 84103	Trustee	Since January 1993	Consultant; Director or Trustee of the Retail Funds (since January 1993) and the Institutional Funds (since July 2003); member of the U.S. Regional Advisory Board of Pacific Corp. (utility company); formerly Managing Director of Summit Ventures LLC (2000-2004) (lobbying and consulting firm); United States Senator (R-Utah)

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(1974-1992) and Chairman, Senate Banking Committee (1980-1986), Mayor of Salt Lake City, Utah (1971-1974) Astronaut, Space Shuttle Discovery (April 12-19, 1984) and Vice Chairman, Huntsman Corporation (chemical company).

Name, Age and Address of Independent Trustee	Other Directorships Held by Trustee
Michael Bozic (65) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 1177 Avenue of the Americas New York, NY 10036 Edwin J. Garn (73) 1031 N. Chartwell Court Salt Lake City, UT 84103	Director of various business organizations.  Director of Franklin Covey (time management systems), BMW Bank of North America, Inc. (industrial loan corporation), Escrow Bank USA (industrial loan corporation); United Space Alliance (joint venture between Lockheed Martin and the Boeing Company) and Nuskin Asia Pacific (multilevel marketing); member of the board of various civic and charitable organizations.

Morgan Stanley Municipal Income Opportunities Trust  
 TRUSTEE AND OFFICER INFORMATION continued

Name, Age and Address of Independent Trustee	Position(s) Held with Registrant	Term of Office and Length of Time Served*	Principal Occupation(s) During Past 5 Years**
Wayne E. Hedien (72) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 1177 Avenue of the Americas New York, NY 10036	Trustee	Since September 1997	Retired; Director or Trustee of the Retail Funds (since September 1997) and the Institutional Funds (since July 2003); formerly associated with the Allstate Companies (1966-1994), most recently as Chairman of The Allstate Corporation (March 1993-December 1994) and Chairman and Chief Executive Officer of its wholly-owned subsidiary, Allstate Insurance Company (July 1989-December 1994)

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1994).

Dr. Manuel H. Johnson (57)  
 c/o Johnson Smick Group, Inc.  
 888 16th Street, NW  
 Suite 740  
 Washington, D.C. 20006

Trustee Since July  
 1991

Senior Partner, Johnson Smick International, Inc., a consulting firm; Chairman of the Audit Committee and Director or Trustee of the Retail Funds (since July 1994) and the Institutional Funds (since July 2003); Co-Chairman and a founder of the Group of Seven Council (G7C) an international economic commission; formerly Vice Chairman of the Board of Governors of the Federal Reserve System and Assistant Secretary of the U.S. Treasury.

Joseph J. Kearns (63)  
 c/o Kearns & Associates LLC  
 PMB754  
 23852 Pacific Coast Highway  
 Malibu, CA 90265

Trustee Since July  
 2003

President, Kearns & Associates LLC (investment consulting); Deputy Chairman of the Audit Committee and Director or Trustee of the Retail Funds (since July 2003) and the Institutional Funds (since August 1994); previously Chairman of the Audit Committee of the Institutional Funds (October 2001-July 2003); formerly CFO of the Paul Getty Trust.

Name, Age and Address of  
 Independent Trustee

Other Directorships Held by Trustee

Wayne E. Hedien (72)  
 c/o Kramer Levin Naftalis & Frankel LLP  
 Counsel to the Independent Trustees  
 1177 Avenue of the Americas  
 New York, NY 10036

Director of The PMI Group Inc. (private mortgage insurance); Trustee and Vice Chairman of The Field Museum of Natural History; director of various other business and charitable organizations.

Dr. Manuel H. Johnson (57)  
 c/o Johnson Smick Group, Inc.  
 888 16th Street, NW  
 Suite 740  
 Washington, D.C. 20006

Director of NVR, Inc. (home construction); Director of KFX Energy; Director of RBS Greenwich Capital Holdings (financial holding company).

Joseph J. Kearns (63)  
 c/o Kearns & Associates LLC  
 PMB754  
 23852 Pacific Coast Highway  
 Malibu, CA 90265

Director of Electro Rent Corporation (equipment leasing), The Ford Family Foundation, and the UCLA Foundation.

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TRUSTEE AND OFFICER INFORMATION continued

Name, Age and Address of Independent Trustee	Position(s) Held with Registrant	Term of Office and Length of Time Served*	Principal Occupation(s) During Past 5 Years**
Michael E. Nugent (70) c/o Triumph Capital, L.P. 445 Park Avenue New York, NY 10022	Chairman of the Board and Trustee	Chairman of the Board (since July 2006) and Trustee (since July 1991)	General Partner of Triumph Capital, L.P., a private investment partnership; Chairman of the Board of the Retail Funds and Institutional Funds (since July 2006) and Director or Trustee of the Retail Funds (since July 1991) and the Institutional Funds (since July 2001); formerly Chairman of the Insurance Committee (July 1991-July 2006) Vice President, Bankers Trust Company and BT Capital Corporation (1984-1988).
Fergus Reid (73) c/o Lumelite Plastics Corporation 85 Charles Colman Blvd. Pawling, NY 12564	Trustee	Since July 2003	Chairman of Lumelite Plastics Corporation; Chairman of the Governance Committee and Director or Trustee of the Retail Funds (since July 2003) and the Institutional Funds (since June 1992).

Name, Age and Address of Independent Trustee	Other Directorships Held by Trustee
Michael E. Nugent (70) c/o Triumph Capital, L.P. 445 Park Avenue New York, NY 10022	None.
Fergus Reid (73) c/o Lumelite Plastics Corporation 85 Charles Colman Blvd. Pawling, NY 12564	Trustee and Director of certain investment companies in the JPMorgan Funds complex managed by J.P. Morgan Investment Management Inc.

Morgan Stanley Municipal Income Opportunities Trust  
TRUSTEE AND OFFICER INFORMATION continued

Interested Trustees:

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Name, Age and Address of Interested Trustee	Position(s) Held with Registrant	Term of Office and Length of Time Served*	Principal Occupation(s) During Past 5 Years**
Charles A. Fiumefreddo (73) c/o Morgan Stanley Trust Harborside Financial Center Plaza Two Jersey City, NJ 07311	Trustee	Since July 1991	Director or Trustee of the Retail Funds (since July 1991) and the Institutional Funds (since July 2003); formerly Chairman of the Retail Funds (July 1991-July 2006) and the Institutional Funds (July 2003-July 2006) and Chief Executive Officer of the Retail Funds (until September 2002).
James F. Higgins (58) c/o Morgan Stanley Trust Harborside Financial Center Plaza Two Jersey City, NJ 07311	Trustee	Since June 2000	Director or Trustee of the Retail Funds (since June 2000) and the Institutional Funds (since July 2003); Senior Advisor of Morgan Stanley (since August 2000).

Name, Age and Address of Interested Trustee	Other Directorships Held by Trustee
Charles A. Fiumefreddo (73) c/o Morgan Stanley Trust Harborside Financial Center Plaza Two Jersey City, NJ 07311	None.
James F. Higgins (58) c/o Morgan Stanley Trust Harborside Financial Center Plaza Two Jersey City, NJ 07311	Director of AXA Financial, Inc. and The Equitable Life Assurance Society of the United States (financial services).

\* This is the earliest date the Trustee began serving the funds advised by Morgan Stanley Investment Advisors Inc. (the "Investment Adviser") (the "Retail Funds").

\*\* The dates referenced below indicating commencement of services as Director/Trustee for the Retail Funds and the funds advised by Morgan Stanley Investment Management Inc. and Morgan Stanley AIP GP LP (the "Institutional Funds") reflect the earliest date the Director/Trustee began serving the Retail or Institutional Funds, as applicable.

\*\*\* The Fund Complex includes all open-end and closed-end funds (including all of their portfolios) advised by the Investment Adviser and any funds that have an investment adviser that is an affiliated person of the Investment Adviser (including, but not limited to, Morgan Stanley Investment Management Inc.).

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TRUSTEE AND OFFICER INFORMATION continued

Officers:

Name, Age and Address of Executive Officer	Position(s) Held with Registrant	Term of Office and Length of Time Served*	Principal Occupation(s) Du
Ronald E. Robison (67) 1221 Avenue of the Americas New York, NY 10020	President and Principal Executive Officer	President (since September 2005) and Principal Executive Officer (since May 2003)	President (since September 2005) Officer (since May 2003) of funds President (since September 2005) Officer (since May 2003) of the V Director, Director and/or Officer and various entities affiliated w Director of Morgan Stanley SICAV Executive Vice President (July 20 funds in the Fund Complex and the President and Director of the Ins 2001 to July 2003); Chief Global Stanley Investment Management Inc Officer of Morgan Stanley Investm Administrative Officer of Morgan Inc.
J. David Germany (51) Morgan Stanley Investment Management Ltd. 25 Cabot Square Canary Wharf, London United Kingdom E144QA	Vice President	Since February 2006	Managing Director and (since Dece Officer -- Global Fixed Income of Management; Managing Director and Investment Management Ltd.; Vice 2006) of the Retail and Institutio
Dennis F. Shea (53) 1221 Avenue of the Americas New York, NY 10020	Vice President	Since February 2006	Managing Director and (since Febr Officer -- Global Equity of Morga Management; Vice President (since Retail and Institutional Funds. F and Director of Global Equity Res
Barry Fink (51) 1221 Avenue of the Americas New York, NY 10020	Vice President	Since February 1997	Managing Director and General Cou Investment Management; Managing D Adviser and various entities affi Adviser; Vice President of the Re 2003) the Institutional Funds. Fo Counsel and/or Director of the In various entities affiliated with Secretary and General Counsel of
Amy R. Doberman (44) 1221 Avenue of the Americas New York, NY 10020	Vice President	Since July 2004	Managing Director and General Cou Management of Morgan Stanley Inve July 2004); Vice President of the Institutional Funds (since July 2 Van Kampen Funds (since August 20 February 2006) and Managing Direc the Investment Adviser and variou the Investment Adviser. Formerly, General Counsel -- Americas, UBS (July 2000 to July 2004).
Carsten Otto (42)	Chief	Since October	Managing Director and U.S. Direct

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1221 Avenue of the Americas New York, NY 10020	Compliance Officer	2004	Stanley Investment Management (si Director and Chief Compliance Off Investment Management. Formerly, Assistant General Counsel of the
Stefanie V. Chang Yu (39) 1221 Avenue of the Americas New York, NY 10020	Vice President	Since July 2003	Executive Director of the Investm entities affiliated with the Inve President of the Retail Funds (si Institutional Funds (since Decemb Secretary of various entities aff Adviser.

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Morgan Stanley Municipal Income Opportunities Trust  
TRUSTEE AND OFFICER INFORMATION continued

Name, Age and Address of Executive Officer	Position(s) Held with Registrant	Term of Office and Length of Time Served*	Principal Occupation(s) Du
Francis J. Smith (40) c/o Morgan Stanley Trust Harborside Financial Center Plaza Two Jersey City, NJ 07311	Treasurer and Chief Financial Officer	Treasurer (since July 2003) and Chief Financial Officer (since September 2002)	Executive Director of the Investm entities affiliated with the Inve and Chief Financial Officer of th 2003). Formerly, Vice President o (September 2002 to July 2003).
Mary E. Mullin (39) 1221 Avenue of the Americas New York, NY 10020	Secretary	Since July 2003	Executive Director of the Investm entities affiliated with the Inve of the Retail Funds (since July 2 Funds (since June 1999).

\* This is the earliest date the Officer began serving the Retail Funds. Each Officer serves an indefinite term, until his or her successor is elected.

\*\* The dates referenced below indicating commencement of service as an Officer for the Retail and Institutional Funds reflect the earliest date the Officer began serving the Retail or Institutional Funds, as applicable.

In accordance with Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, the Fund's Annual CEO Certification certifying as to compliance with NYSE's corporate governance Listing Standards was submitted to the Exchange on January 9, 2006.

The Fund's Principal Executive Officer and Principal Financial Officer Certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 were filed with the Fund's N-CSR and are available on the Securities and Exchange Commission's Web site at <http://www.sec.gov>.

2006 FEDERAL TAX NOTICE (UNAUDITED)



For the year ended May 31, 2006, all of the Fund's dividends from net investment income were exempt interest dividends, excludable from gross income for Federal income tax purposes.

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TRUSTEES

Michael Bozic  
Charles A. Fiumefreddo  
Edwin J. Garn  
Wayne E. Hedien  
James F. Higgins  
Dr. Manuel H. Johnson  
Joseph J. Kearns  
Michael E. Nugent  
Fergus Reid

OFFICERS

Michael E. Nugent  
Chairman of the Board

Ronald E. Robison  
President and Principal Executive Officer

J. David Germany  
Vice President

Dennis F. Shea  
Vice President

Barry Fink  
Vice President

Amy R. Doberman  
Vice President

Carsten Otto  
Chief Compliance Officer

Stefanie V. Chang Yu  
Vice President

Francis J. Smith  
Treasurer and Chief Financial Officer

Mary E. Mullin  
Secretary

TRANSFER AGENT

Morgan Stanley Trust  
Harborside Financial Center, Plaza Two  
Jersey City, New Jersey 07311

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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Deloitte & Touche LLP  
Two World Financial Center  
New York, New York 10281

INVESTMENT ADVISER

Morgan Stanley Investment Advisors Inc.  
1221 Avenue of the Americas  
New York, New York 10020

Investments and services offered through Morgan Stanley DW Inc., member SIPC.

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[MORGAN STANLEY LOGO]

MORGAN STANLEY FUNDS

Morgan Stanley  
Municipal Income  
Opportunities Trust

Annual Report  
May 31, 2006

[MORGAN STANLEY LOGO]

OIARPT-38532RPT-RA06-00596P-Y05/06

Item 2. Code of Ethics.

- (a) The Fund has adopted a code of ethics (the "Code of Ethics") that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the Fund or a third party.
- (b) No information need be disclosed pursuant to this paragraph.
- (c) Not applicable.
- (d) Not applicable.
- (e) Not applicable.
- (f)
  - (1) The Fund's Code of Ethics is attached hereto as Exhibit 12 A.
  - (2) Not applicable.
  - (3) Not applicable.

Item 3. Audit Committee Financial Expert.

The Fund's Board of Trustees has determined that it has two "audit committee financial experts" serving on its audit committee, each of whom are "independent" Trustees: Dr. Manuel H. Johnson and Joseph J. Kearns. Under applicable securities laws, a person who is determined to be an audit committee financial expert will not be deemed an "expert" for any purpose, including

without limitation for the purposes of Section 11 of the Securities Act of 1933, as a result of being designated or identified as an audit committee financial expert. The designation or identification of a person as an audit committee financial expert does not impose on such person any duties, obligations, or liabilities that are greater than the duties, obligations, and liabilities imposed on such person as a member of the audit committee and Board of Trustees in the absence of such designation or identification.

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Item 4. Principal Accountant Fees and Services.

(a) (b) (c) (d) and (g). Based on fees billed for the periods shown:

2006 ----	REGISTRANT -----	COVERED ENTITIES (1) -----
AUDIT FEES.....	\$ 31,132	N/A
NON-AUDIT FEES		
AUDIT-RELATED FEES.....	\$ 531 (2)	\$ 5,190,300 (2)
TAX FEES.....	\$ 4,449 (3)	\$ 2,044,491 (4)
ALL OTHER FEES.....	\$ --	\$ --
TOTAL NON-AUDIT FEES.....	\$ 4,980	\$ 7,234,791
TOTAL.....	\$ 36,112	\$ 7,234,791

2005 ----	REGISTRANT -----	COVERED ENTITIES (1) -----
AUDIT FEES.....	\$ 30,048	N/A
NON-AUDIT FEES		
AUDIT-RELATED FEES.....	\$ 540 (2)	\$ 3,215,745 (2)
TAX FEES.....	\$ 4,585 (3)	\$ 24,000 (4)
ALL OTHER FEES.....	\$ --	\$ --
TOTAL NON-AUDIT FEES.....	\$ 5,125	\$ 3,239,745
TOTAL.....	\$ 35,173	\$ 3,239,745

N/A- Not applicable, as not required by Item 4.

- (1) Covered Entities include the Adviser (excluding sub-advisors) and any entity controlling, controlled by or under common control with the Adviser that provides ongoing services to the Registrant.
- (2) Audit-Related Fees represent assurance and related services provided that are reasonably related to the performance of the audit of the financial statements of the Covered Entities' and funds advised by the Adviser or its affiliates, specifically data verification and agreed-upon procedures related to asset securitizations and agreed-upon procedures engagements.

- (3) Tax Fees represent tax compliance, tax planning and tax advice services provided in connection with the preparation and review of the Registrant's tax returns.
- (4) Tax Fees represent tax compliance, tax planning and tax advice services provided in connection with the review of Covered Entities' tax returns.

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- (e)(1) The audit committee's pre-approval policies and procedures are as follows:

APPENDIX A

AUDIT COMMITTEE  
AUDIT AND NON-AUDIT SERVICES  
PRE-APPROVAL POLICY AND PROCEDURES  
OF THE  
MORGAN STANLEY RETAIL AND INSTITUTIONAL FUNDS

AS ADOPTED AND AMENDED JULY 23, 2004, (1)

1. STATEMENT OF PRINCIPLES

The Audit Committee of the Board is required to review and, in its sole discretion, pre-approve all Covered Services to be provided by the Independent Auditors to the Fund and Covered Entities in order to assure that services performed by the Independent Auditors do not impair the auditor's independence from the Fund.

The SEC has issued rules specifying the types of services that an independent auditor may not provide to its audit client, as well as the audit committee's administration of the engagement of the independent auditor. The SEC's rules establish two different approaches to pre-approving services, which the SEC considers to be equally valid. Proposed services either: may be pre-approved without consideration of specific case-by-case services by the Audit Committee ("general pre-approval"); or require the specific pre-approval of the Audit Committee or its delegate ("specific pre-approval"). The Audit Committee believes that the combination of these two approaches in this Policy will result in an effective and efficient procedure to pre-approve services performed by the Independent Auditors. As set forth in this Policy, unless a type of service has received general pre-approval, it will require specific pre-approval by the Audit Committee (or by any member of the Audit Committee to which pre-approval authority has been delegated) if it is to be provided by the Independent Auditors. Any proposed services exceeding pre-approved cost levels or budgeted amounts will also require specific pre-approval by the Audit Committee.

The appendices to this Policy describe the Audit, Audit-related, Tax and All Other services that have the general pre-approval of the Audit Committee. The term of any general pre-approval is 12 months from the date of pre-approval, unless the Audit Committee considers and provides a different period and states otherwise. The Audit Committee will annually review and pre-approve the services that may be provided by the Independent Auditors without obtaining specific pre-approval from the Audit Committee. The Audit Committee will add to or subtract from the list of general pre-approved services from time to time, based on subsequent determinations.

- 
- (1) This Audit Committee Audit and Non-Audit Services Pre-Approval Policy and Procedures (the "Policy"), adopted as of the date above, supersedes and replaces all prior versions that may have been adopted from time to time.

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The purpose of this Policy is to set forth the policy and procedures by which the Audit Committee intends to fulfill its responsibilities. It does not delegate the Audit Committee's responsibilities to pre-approve services performed by the Independent Auditors to management.

The Fund's Independent Auditors have reviewed this Policy and believes that implementation of the Policy will not adversely affect the Independent Auditors' independence.

## 2. DELEGATION

As provided in the Act and the SEC's rules, the Audit Committee may delegate either type of pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

## 3. AUDIT SERVICES

The annual Audit services engagement terms and fees are subject to the specific pre-approval of the Audit Committee. Audit services include the annual financial statement audit and other procedures required to be performed by the Independent Auditors to be able to form an opinion on the Fund's financial statements. These other procedures include information systems and procedural reviews and testing performed in order to understand and place reliance on the systems of internal control, and consultations relating to the audit. The Audit Committee will approve, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope, Fund structure or other items.

In addition to the annual Audit services engagement approved by the Audit Committee, the Audit Committee may grant general pre-approval to other Audit services, which are those services that only the Independent Auditors reasonably can provide. Other Audit services may include statutory audits and services associated with SEC registration statements (on Forms N-1A, N-2, N-3, N-4, etc.), periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings.

The Audit Committee has pre-approved the Audit services in Appendix B.1. All other Audit services not listed in Appendix B.1 must be specifically pre-approved by the Audit Committee (or by any member of the Audit Committee to which pre-approval has been delegated).

## 4. AUDIT-RELATED SERVICES

Audit-related services are assurance and related services that are reasonably related to the performance of the audit or review of the Fund's financial statements and, to the extent they are Covered Services, the Covered Entities or that are traditionally performed by the Independent Auditors. Because the Audit Committee believes that the provision of Audit-related services does not impair the independence of the auditor and is consistent with the SEC's rules on

auditor independence, the Audit Committee may grant general pre-approval to Audit-related services. Audit-related services include, among others, accounting consultations related to accounting, financial reporting or disclosure matters

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not classified as "Audit services"; assistance with understanding and implementing new accounting and financial reporting guidance from rulemaking authorities; agreed-upon or expanded audit procedures related to accounting and/or billing records required to respond to or comply with financial, accounting or regulatory reporting matters; and assistance with internal control reporting requirements under Forms N-SAR and/or N-CSR.

The Audit Committee has pre-approved the Audit-related services in Appendix B.2. All other Audit-related services not listed in Appendix B.2 must be specifically pre-approved by the Audit Committee (or by any member of the Audit Committee to which pre-approval has been delegated).

#### 5. TAX SERVICES

The Audit Committee believes that the Independent Auditors can provide Tax services to the Fund and, to the extent they are Covered Services, the Covered Entities, such as tax compliance, tax planning and tax advice without impairing the auditor's independence, and the SEC has stated that the Independent Auditors may provide such services.

Pursuant to the preceding paragraph, the Audit Committee has pre-approved the Tax Services in Appendix B.3. All Tax services in Appendix B.3 must be specifically pre-approved by the Audit Committee (or by any member of the Audit Committee to which pre-approval has been delegated).

#### 6. ALL OTHER SERVICES

The Audit Committee believes, based on the SEC's rules prohibiting the Independent Auditors from providing specific non-audit services, that other types of non-audit services are permitted. Accordingly, the Audit Committee believes it may grant general pre-approval to those permissible non-audit services classified as All Other services that it believes are routine and recurring services, would not impair the independence of the auditor and are consistent with the SEC's rules on auditor independence.

The Audit Committee has pre-approved the All Other services in Appendix B.4. Permissible All Other services not listed in Appendix B.4 must be specifically pre-approved by the Audit Committee (or by any member of the Audit Committee to which pre-approval has been delegated).

#### 7. PRE-APPROVAL FEE LEVELS OR BUDGETED AMOUNTS

Pre-approval fee levels or budgeted amounts for all services to be provided by the Independent Auditors will be established annually by the Audit Committee. Any proposed services exceeding these levels or amounts will require specific pre-approval by the Audit Committee. The Audit Committee is mindful of the overall relationship of fees for audit and non-audit services in determining whether to pre-approve any such services.

#### 8. PROCEDURES

All requests or applications for services to be provided by the Independent Auditors that do not require specific approval by the Audit Committee will be submitted to the Fund's Chief Financial Officer and must include a detailed description of the services to be

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rendered. The Fund's Chief Financial Officer will determine whether such services are included within the list of services that have received the general pre-approval of the Audit Committee. The Audit Committee will be informed on a timely basis of any such services rendered by the Independent Auditors. Requests or applications to provide services that require specific approval by the Audit Committee will be submitted to the Audit Committee by both the Independent Auditors and the Fund's Chief Financial Officer, and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC's rules on auditor independence.

The Audit Committee has designated the Fund's Chief Financial Officer to monitor the performance of all services provided by the Independent Auditors and to determine whether such services are in compliance with this Policy. The Fund's Chief Financial Officer will report to the Audit Committee on a periodic basis on the results of its monitoring. Both the Fund's Chief Financial Officer and management will immediately report to the chairman of the Audit Committee any breach of this Policy that comes to the attention of the Fund's Chief Financial Officer or any member of management.

#### 9. ADDITIONAL REQUIREMENTS

The Audit Committee has determined to take additional measures on an annual basis to meet its responsibility to oversee the work of the Independent Auditors and to assure the auditor's independence from the Fund, such as reviewing a formal written statement from the Independent Auditors delineating all relationships between the Independent Auditors and the Fund, consistent with Independence Standards Board No. 1, and discussing with the Independent Auditors its methods and procedures for ensuring independence.

#### 10. COVERED ENTITIES

Covered Entities include the Fund's investment adviser(s) and any entity controlling, controlled by or under common control with the Fund's investment adviser(s) that provides ongoing services to the Fund(s). Beginning with non-audit service contracts entered into on or after May 6, 2003, the Fund's audit committee must pre-approve non-audit services provided not only to the Fund but also to the Covered Entities if the engagements relate directly to the operations and financial reporting of the Fund. This list of Covered Entities would include:

- Morgan Stanley Retail Funds
- Morgan Stanley Investment Advisors Inc.
- Morgan Stanley & Co. Incorporated
- Morgan Stanley DW Inc.
- Morgan Stanley Investment Management Inc.
- Morgan Stanley Investment Management Limited
- Morgan Stanley Investment Management Private Limited
- Morgan Stanley Asset & Investment Trust Management Co., Limited
- Morgan Stanley Investment Management Company
- Van Kampen Asset Management

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Morgan Stanley Services Company, Inc.  
Morgan Stanley Distributors Inc.  
Morgan Stanley Trust FSB

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Morgan Stanley Institutional Funds  
Morgan Stanley Investment Management Inc.  
Morgan Stanley Investment Advisors Inc.  
Morgan Stanley Investment Management Limited  
Morgan Stanley Investment Management Private Limited  
Morgan Stanley Asset & Investment Trust Management Co., Limited  
Morgan Stanley Investment Management Company  
Morgan Stanley & Co. Incorporated  
Morgan Stanley Distribution, Inc.  
Morgan Stanley AIP GP LP  
Morgan Stanley Alternative Investment Partners LP

- (e) (2) Beginning with non-audit service contracts entered into on or after May 6, 2003, the audit committee also is required to pre-approve services to Covered Entities to the extent that the services are determined to have a direct impact on the operations or financial reporting of the Registrant. 100% of such services were pre-approved by the audit committee pursuant to the Audit Committee's pre-approval policies and procedures (attached hereto).
- (f) Not applicable.
- (g) See table above.
- (h) The audit committee of the Board of Trustees has considered whether the provision of services other than audit services performed by the auditors to the Registrant and Covered Entities is compatible with maintaining the auditors' independence in performing audit services.

### Item 5. Audit Committee of Listed Registrants.

- (a) The Fund has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act whose members are: Michael Bozic, Edwin J. Garn, Wayne E. Hedien, Manual H. Johnson, Joseph J. Kearns, Michael Nugent and Fergus Reid.
- (b) Not applicable.

### Item 6.

See Item 1.

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### Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.



The Fund invests in exclusively non-voting securities and therefore this item is not applicable.

Item 8. Portfolio Managers of Closed-End Management Investment Companies

FUND MANAGEMENT

PORTFOLIO MANAGEMENT. As of the date of this report, the Fund is managed by members of the Municipal Fixed Income team. The team consists of portfolio managers and analysts. Current members of the team jointly and primarily responsible for the day-to-day management of the Fund's portfolio are James F. Willison and Wayne Godlin, Managing Directors of the Investment Adviser and Gerard J. Lian, an Executive Director of the Investment Adviser.

Mr. Willison has been associated with the Investment Adviser in an investment management capacity since January 1980 and began managing the Fund at inception. Mr. Godlin has been associated with the Investment Adviser in an investment management capacity since May 1988 and began managing the Fund in October 2001. Mr. Lian has been associated with the Investment Adviser in an investment management capacity since December 1991 and began managing the Fund in May 2003.

The composition of the team may change without notice from time to time.

OTHER ACCOUNTS MANAGED BY THE PORTFOLIO MANAGERS

The following information is as of May 31, 2006.

As of May 31, 2006, Mr. Willison managed 22 mutual funds with a total of approximately \$7.3 billion in assets; no pooled investment vehicles other than mutual funds; and no other accounts.

As of May 31, 2006, Mr. Godlin managed five mutual funds with a total of approximately \$6.4 billion in assets; no pooled investment vehicles other than mutual funds; and no other accounts.

As of May 31, 2006, Mr. Lian managed three mutual funds with a total of approximately \$390.9 million in assets; no pooled investment vehicles other than mutual funds; and no other accounts.

Because the portfolio managers may manage assets for other investment companies, pooled investment vehicles, and/or other accounts (including institutional clients, pension plans and certain high net worth individuals), there may be an incentive to favor one

client over another resulting in conflicts of interest. For instance, the Investment Adviser may receive fees from certain accounts that are higher than the fee it receives from the Fund, or it may receive a performance-based fee on certain accounts. In those instances, the portfolio manager may have an incentive to favor the higher and/or performance-based fee accounts over the Fund. The Investment Adviser has adopted trade allocation and other policies and procedures that it believes are reasonably designed to address these and other conflicts of interest.

PORTFOLIO MANAGER COMPENSATION STRUCTURE

Portfolio managers receive a combination of base compensation and discretionary compensation, comprising of a cash bonus and several deferred compensation programs described below. The methodology used to determine portfolio manager compensation is applied across all funds/accounts managed by the portfolio manager.

Base salary compensation. Generally, portfolio managers receive base salary compensation based on the level of their position with the Investment Adviser.

Discretionary compensation. In addition to base compensation, portfolio managers may receive discretionary compensation.

Discretionary compensation can include:

- Cash Bonus.
- Morgan Stanley's Equity Incentive Compensation Program (EICP) awards -- a mandatory program that defers a portion of discretionary year-end compensation into restricted stock units or other awards based on Morgan Stanley common stock that are subject to vesting and other conditions.
- Investment Management Deferred Compensation Plan (IMDCP) awards -- a mandatory program that defers a portion of discretionary year-end compensation and notionally invests it in designated Funds advised by the Investment Adviser or its affiliates. The award is subject to vesting and other conditions. Portfolio managers must notionally invest a minimum of 25% to a maximum of 75% of the IMDCP deferral into a combination of the designated open-end mutual funds they manage that are included in the IMDCP Fund menu, which may or may not include the Fund.
- Voluntary Deferred Compensation Plans -- voluntary programs that permit certain employees to elect to defer a portion of their discretionary year-end compensation and directly or notionally invest the deferred amount: (1) across a range of designated investment Funds, including Funds advised by the Investment Adviser or its affiliates; and/or (2) in Morgan Stanley stock units.

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Several factors determine discretionary compensation, which can vary by portfolio management team and circumstances. In order of relative importance, these factors include:

- Investment performance. A portfolio manager's compensation is linked to the pre-tax investment performance of the funds/accounts managed by the portfolio manager. Investment performance is calculated for one-, three- and five-year periods measured against a fund's/account's primary benchmark, indices and/or peer groups where applicable. Generally, the greatest weight is placed on the three- and five-year periods.
- Revenues generated by the investment companies, pooled investment vehicles and other accounts managed by the portfolio manager.
- Contribution to the business objectives of the Investment Adviser.
- The dollar amount of assets managed by the portfolio manager.
- Market compensation survey research by independent third parties.

- Other qualitative factors, such as contributions to client objectives.
- Performance of Morgan Stanley and Morgan Stanley Investment Management, and the overall performance of the investment team(s) of which the portfolio manager is a member.

SECURITIES OWNERSHIP OF PORTFOLIO MANAGERS

- (1) As of May 31, 2005, the portfolio managers did not own any shares of the Fund.

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Item 9. Closed-End Fund Repurchases

REGISTRANT PURCHASE OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
June 1, 2005- June 30, 2005	--	--	N/A	N/A
July 1, 2005- July 31, 2005	--	--	N/A	N/A
August 1, 2005- August 31, 2005	--	--	N/A	N/A
September 1, 2005- September 30, 2005	--	--	N/A	N/A
October 1, 2005- October 31, 2005	--	--	N/A	N/A
November 1, 2005- November 30, 2005	8,200	\$7.8905	N/A	N/A
December 1, 2005 - December 31, 2005	--	--	N/A	N/A
January 1, 2006-- January 31, 2006	--	--	N/A	N/A
February 1, 2006 - February 28, 2006	--	--	N/A	N/A

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March 1, 2006 -				
March 31, 2006	--	--	N/A	N/A
April 1, 2006 -				
April 30, 2006	--	--	N/A	N/A
May 1, 2006 -				
May 31, 2006	--	--	N/A	N/A
	-----	-----	---	---
Total	8,200	\$7.8905	N/A	N/A
	=====	=====	===	===

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Item 10. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 11. Controls and Procedures

- (a) The Fund's principal executive officer and principal financial officer have concluded that the Fund's disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the Fund in this Form N-CSR was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, based upon such officers' evaluation of these controls and procedures as of a date within 90 days of the filing date of the report.
- (b) There were no changes in the registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 12. Exhibits

- (a) The Code of Ethics for Principal Executive and Senior Financial Officers is attached hereto.
- (b) A separate certification for each principal executive officer and principal financial officer of the registrant are attached hereto as part of EX-99.CERT.

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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.

Morgan Stanley Municipal Income Opportunities Trust

/s/ Ronald E. Robison

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Ronald E. Robison  
Principal Executive Officer  
July 20, 2006

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

/s/ Ronald E. Robison

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Ronald E. Robison  
Principal Executive Officer  
July 20, 2006

/s/ Francis Smith

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Francis Smith  
Principal Financial Officer  
July 20, 2006