

SCUDDER MUNICIPAL INCOME TRUST  
Form N-CSR  
February 08, 2005

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

FORM N-CSR

Investment Company Act file number 811-05655

SCUDDER MUNICIPAL INCOME TRUST

-----  
(Exact Name of Registrant as Specified in Charter)

222 South Riverside Plaza, Chicago, IL 60606

-----  
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, including Area Code: (617) 295-2663  
-----

Salvatore Schiavone  
Two International Place  
Boston, Massachusetts 02110

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(Name and Address of Agent for Service)

Date of fiscal year end: 11/30

Date of reporting period: 11/30/04

|   |  |
|---|--|
| <b>Scudder Municipal<br/>Income Trust</b> |  |
|   |  |
|   | <b>Annual<br/>Report to<br/>Shareholders</b> |
|   | <b>November 30,<br/>2004</b>                 |

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*Investments in funds involve risk. Certain investors' income may be subject to the federal Alternative Minimum Tax (AMT), and state and local taxes may also apply. Shares of closed-end funds frequently trade at a discount to net asset value. The price of the fund's shares is determined by a number of factors, several of*

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which are beyond the control of the fund. Therefore, the fund cannot predict whether its shares will trade at, below or above net asset value. The fund invests individual bonds whose yields and market values fluctuate, so that your investment may be worth more or less than its original cost.

Scudder Investments is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Investment Management Americas Inc., Deutsche Asset Management Inc., Deutsche Asset Management Investment Services Ltd., Deutsche Bank Trust Company Americas and Scudder Trust Company.

Fund shares are not FDIC-insured and are not deposits or other obligations of, or guaranteed by, any bank. Fund shares involve investment risk, including possible loss of principal.

### Performance Summary November 30, 2004

Performance is historical, assumes reinvestment of all dividends and capital gains, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when sold, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit [scudder.com](http://scudder.com) for the Fund's most recent performance.

#### Average Annual Total Returns as of 11/30/04

| Scudder Municipal Income Trust                    | 1-Year | 3-Year | 5-Year | 10-Year |
|---|--------|--------|--------|---------|
| Based on Net Asset Value <sup>(a)</sup>           | 5.50%  | 8.44%  | 9.52%  | 8.27%   |
| Based on Market Price                             | 7.57%  | 8.87%  | 10.30% | 8.04%   |
| Lehman Brothers Municipal Bond Index <sup>+</sup> | 4.07%  | 5.68%  | 6.78%  | 7.16%   |

Sources: Lipper Inc. and Deutsche Investment Management Americas Inc.

#### Net Asset Value and Market Price

|                 | As of 11/30/04 | As of 11/30/03 |
|-----------------|----------------|----------------|
| Net Asset Value | \$ 12.42       | \$ 12.59       |
| Market Price    | \$ 12.03       | \$ 11.96       |

#### Distribution Information

|  |          |
|--|----------|
| Twelve Months:   |          |
| Income Dividends (common shareholders) as of 11/30/04  | \$ .81   |
| November Income Dividend (common shareholders)   | \$ .0675 |
| Current Annualized Distribution Rate (based on Net Asset Value) as of 11/30/04 <sup>++</sup> | 6.52%    |
| Current Annualized Distribution Rate (based on Market Price) as of 11/30/04 <sup>++</sup>    | 6.73%    |
| Tax Equivalent Distribution Rate (based on Net Asset Value) as of 11/30/04 <sup>++</sup>     | 10.03%   |
| Tax Equivalent Distribution Rate (based on Market Price) as of 11/30/04 <sup>++</sup>        | 10.35%   |

<sup>a</sup> Total investment returns reflect changes in net asset value per share during each period and assume that dividends and capital gains distributions, if any, were reinvested. These percentages are not an indication of the performance of a shareholder's investment in the Fund based on market price.

<sup>+</sup> The unmanaged Lehman Brothers Municipal Bond Index is a market-value-weighted measure of municipal bonds issued across the United States. Index issues have a credit rating of at least Baa and a maturity of at least two years. Index returns assume reinvestment of dividends and, unlike Fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

<sup>++</sup> Current annualized distribution rate is the latest monthly dividend shown as an annualized percentage of net asset value/market price on November 30, 2004. Distribution rate simply measures the level of dividends and is not a complete measure of performance. Tax equivalent distribution rate is based on the Fund's distribution rate and a marginal income tax rate of 35%. Distribution rates are historical and will fluctuate.

### Portfolio Management Review

#### Scudder Municipal Income Trust: A Team Approach to Investing

Deutsche Investment Management Americas Inc. ("DeIM" or the "Advisor"), which is part of Deutsche Asset Management, is the investment advisor for Scudder Municipal Income Trust. DeIM and its predecessors have more than 80 years of experience managing mutual funds and DeIM provides a full range of investment advisory services to institutional and retail clients. DeIM is also responsible for selecting brokers and dealers and for negotiating brokerage commissions and dealer charges.

Deutsche Asset Management is a global asset management organization that offers a wide range of investing expertise and resources. This well-resourced global investment platform brings together a wide variety of experience and investment insight across industries, regions, asset classes and investing styles.

DeIM is an indirect, wholly owned subsidiary of Deutsche Bank AG. Deutsche Bank AG is a major global banking institution that is engaged in a wide range of financial services, including investment management, mutual funds, retail, private and commercial banking, investment banking and insurance.

## Portfolio Management Team

*Philip G. Condon*

Managing Director of Deutsche Asset Management and Co-Lead Portfolio Manager of the fund.

Joined Deutsche Asset Management in 1983 and the fund team in 1998.

Over 28 years of investment industry experience.

MBA, University of Massachusetts at Amherst.

*Eleanor R. Brennan*

Director of Deutsche Asset Management and Co-Lead Portfolio Manager of the fund.

Joined Deutsche Asset Management in 1995 and the fund team in 1998.

Over 18 years of investment industry experience.

MS, Drexel University.

Philip G. Condon and Eleanor R. Brennan serve as Co-Lead Portfolio Managers of Scudder Municipal Income Trust. In the following interview, Scudder's municipal bond team discusses the fund's performance for the period and the market environment for municipal bonds.

### **Q: Will you describe the general market environment during the annual period ended November 30, 2004?**

**A:** Municipal bonds and the broad bond market, in general, delivered strong results for the 12-month period ended November 30, 2004. The municipal bond market, as measured by the Lehman Brothers Municipal Bond Index, returned 4.07% for the annual period ended November 30, 2004.<sup>1</sup> The broad bond market, as measured by the Lehman Brothers Aggregate Bond Index, returned 4.44% for the same period.<sup>2</sup>

<sup>1</sup> *The unmanaged Lehman Brothers Municipal Bond Index is a market-value-weighted measure of municipal bonds issued across the United States. Index issues have a credit rating of at least Baa and a maturity of at least two years.*

<sup>2</sup> *The Lehman Brothers Aggregate Bond Index is an unmanaged index representing domestic taxable investment-grade bonds, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities with average maturities of one year or more.*

*Index returns assume reinvestment of dividends and, unlike fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

Municipal bond new issue supply was lower for the 11-month (calendar year-to-date) period ended November 30, 2004, versus the same period in 2003. Because of concerns about rising interest rates, municipal bond demand was low among mutual fund investors. However, demand from institutional investors was strong. This combination of declining supply and solid demand helped municipal bonds outperform many taxable alternatives. Supply and demand factors are important because they are one way a bond's price can be driven higher or lower. High demand or low supply can cause a bond's price to rise, while lessened demand or a flood of supply can cause a bond's price to decline. A bond's yield moves in the opposite direction of its price.

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During the period, the Federal Reserve Board increased the federal funds rate, the benchmark for market interest rates, to 2.00% in four increments of 0.25 percentage points. However, slowing economic growth and rising oil prices helped keep yields in the bond market from rising as much as investors anticipated and caused yields to decline in some maturities. (A rise in interest rates causes the price of a bond in the market to fall, which would make bonds a less attractive security to own.)

Overall, the municipal bond yield curve flattened during the period.<sup>3</sup> Generally, municipal bond yields with shorter maturities rose, while yields of 15- and 20-year bonds declined slightly. Yields of bonds with maturities of 30 years rose slightly. A flattening curve means that the difference in yields between longer-term and shorter-term maturities is decreasing, and investors have less incentive to tie their money up in longer-maturity bonds, which can be more sensitive to interest rate changes. The fund's portfolio managers track the movements of the yield curve and position the fund's investments based upon their expectations for future yield curve fluctuations, while also working to keep the fund's duration similar to that of its benchmark, the Lehman Brothers Municipal Bond Index.<sup>4</sup> (See the graph on the following page for municipal bond yield changes from the beginning to the end of the period.)

<sup>3</sup> The yield curve is a graph with a left-to-right line that shows how high or low yields are, from the shortest to the longest maturities. Typically (and when the yield curve is characterized as "steep," this is especially true) the line rises from left to right as investors who are willing to tie up their money for a longer period are rewarded with higher yields.

<sup>4</sup> Duration is a measure of bond price volatility. Duration can be defined as the approximate percentage change in price for a 100-basis-point (one single percentage point) change in market interest rate levels. A duration of 1.25, for example, means that the price of a bond or bond portfolio should rise by approximately 1.25% for a one-percentage-point drop in interest rates. And, that it should fall by 1.25% for a one-percentage-point rise in interest rates.

### **AAA Municipal bond yield curve (as of 11/30/03 and 11/30/04)**

Source: Municipal Market Data

This chart is not intended to represent the yield of any Scudder fund.

#### **Q: How did Scudder Municipal Income Trust perform for the 12-month period ended November 30, 2004?**

**A:** Scudder Municipal Income Trust delivered strong absolute and relative results. The fund's total return based on net asset value was 5.50% for the annual period. The fund posted a total return based on market value of 7.57%. The fund's benchmark, the unmanaged Lehman Brothers Municipal Bond Index, returned 4.07%. (Past performance is no guarantee of future results. Please see page 3 for more complete performance information.)

#### **Q: How was the fund positioned, and how did this positioning contribute to its performance for the annual period ended November 30, 2004?**

**A:** Strong individual credit selection helped deliver the fund's strong returns. During the period, we added to our California Bond holdings, which were positive contributors, as their spreads tightened.<sup>5</sup>

<sup>5</sup> The yield spread is the difference between the yield of a municipal bond and the yield of an AAA-rated municipal credit. A large spread indicates that investors require yields substantially above those of Treasuries in order to invest in high-yield bonds. This is generally indicative of a higher-risk environment. A smaller spread generally indicates a more positive environment, since investors are less concerned about risk and therefore willing to accept lower yields. A tightening in the yield spread is a positive.

The fund's returns were held back somewhat by more defensive positioning in terms of the coupon, duration and credit quality of the bonds we chose. Generally, we held bonds with higher relative credit quality. The fund's results benefited from some of our holdings in longer-maturity bonds. We are comfortable with this positioning and believe it will help the fund deliver attractive overall longer-term results.

Overall, we believe municipal bond valuations relative to Treasuries and agencies remain attractive.

The views expressed in this report reflect those of the portfolio managers only through the end of the period of the report as stated on the cover. The managers' views are subject to change at any time based on market and other conditions and should not be construed as a recommendation.

**Portfolio Summary** November 30, 2004

| Portfolio Composition | 11/30/04 | 11/30/03 |
|-----------------------|----------|----------|
| Revenue Bonds         | 62%      | 67%      |
| ETM/Prerefunded Bonds | 16%      | 12%      |
| US Government Secured | 15%      | 15%      |
| Lease Obligations     | 7%       | 6%       |
|                       | 100%     | 100%     |

| Quality   | 11/30/04 | 11/30/03 |
|-----------|----------|----------|
| AAA       | 70%      | 72%      |
| AA        | 5%       | 4%       |
| A         | 14%      | 9%       |
| BBB       | 9%       | 12%      |
| BB        | 1%       | 1%       |
| Not Rated | 1%       | 2%       |
|           | 100%     | 100%     |

| Interest Rate Sensitivity | 11/30/04  | 11/30/03  |
|---------------------------|-----------|-----------|
| Average Maturity          | 6.8 years | 8.3 years |
| Duration                  | 5.4 years | 5.6 years |

| Top Five State Allocations (Percentage of Investment Portfolio) | 11/30/04 | 11/30/03 |
|---|----------|----------|
| Texas   | 13%      | 13%      |
| California  | 11%      | 6%       |
| New York  | 9%       | 7%       |
| New Jersey  | 7%       | 7%       |
| Illinois  | 6%       | 7%       |

Portfolio composition, quality, interest rate sensitivity and top five state allocations are subject to change.

The quality ratings represent the lower of Moody's Investors Services, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality. The Fund's credit quality does not remove market risk.

For more complete details about the Fund's investment portfolio, see page 10. A quarterly Fact Sheet is available upon request. Please see the Additional Information section for contact information.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at [www.sec.gov](http://www.sec.gov), and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

**Investment Portfolio** as of November 30, 2004

|   | Principal Amount (\$) | Value (\$)        |
|---|-----------------------|-------------------|
| <b>Municipal Investments 152.7%</b>   |                       |                   |
| <b>Alabama 5.2%</b>   |                       |                   |
| Alabama, Port Authority Revenue, Docks Department, AMT, 6.3%, 10/1/2021 (b)   | 8,250,000             | 8,906,452         |
| Camden, AL, Industrial Development Board Revenue, AMT, Series B, 6.375%, 12/1/2024  | 1,000,000             | 1,075,810         |
| Huntsville, AL, Hospital & Healthcare Revenue, Health Care Authority, Series A, 5.75%, 6/1/2031                           | 5,500,000             | 5,725,775         |
| Huntsville, AL, Water & Sewer Revenue, AMT, 5.75%, 10/1/2011 (b)  | 8,560,000             | 9,428,241         |
|   |                       | <b>25,136,278</b> |
| <b>Arizona 1.6%</b>   |                       |                   |
| Arizona, Hospital & Healthcare Revenue, Health Facilities Authority, Catholic Healthcare West, Series A, 6.625%, 7/1/2020 | 7,000,000             | <b>7,772,590</b>  |

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| <b>California 16.1%</b>  |            |                   |
|--|------------|-------------------|
| California, Electric Revenue, Department of Water Resources and Power Supply, Series A, 5.375%, 5/1/2022                           | 7,350,000  | 7,820,106         |
| California, General Obligation, 5.125%, 4/1/2024   | 4,400,000  | 4,554,880         |
| California, General Obligation, Economic Recovery, Series A, 5.0%, 7/1/2015 (b)  | 8,500,000  | 9,294,920         |
| California, Hospital & Healthcare Revenue, Health Facilities Funding Authority, Adventist Health Systems, Series A, 5.0%, 3/1/2028 | 1,000,000  | 993,530           |
| California, Special Assessment Revenue, Golden State Tobacco Securitization Corp.:   |            |                   |
| Series B, 5.625%, 6/1/2038   | 7,080,000  | 7,435,982         |
| Series 2003-A-1, 6.75%, 6/1/2039   | 11,730,000 | 11,733,754        |
| California, State General Obligation:  |            |                   |
| 5.0%, 12/1/2020  | 4,600,000  | 4,821,582         |
| 5.25%, 2/1/2021  | 1,000,000  | 1,061,020         |
| 5.25%, 12/1/2021   | 10,215,000 | 10,887,453        |
| 5.25%, 4/1/2030  | 6,250,000  | 6,392,688         |
| California, State Revenue Lease, Public Works Board, Department of Corrections, Series C, 5.5%, 6/1/2021                           | 2,500,000  | 2,705,500         |
| California, State Revenue Lease, Public Works Board, University of California Projects, Series F, 5.0%, 11/1/2025                  | 1,000,000  | 1,022,330         |
| Palmdale, CA, Water District Revenue, Certificates of Participation, 5.0%, 10/1/2034 (b)   | 3,570,000  | 3,609,877         |
| Sacramento County, CA, Airport Revenue, AMT, Series A, 5.9%, 7/1/2024 (b)  | 5,000,000  | 5,294,000         |
|  |            | <b>77,627,622</b> |
| <b>Colorado 8.3%</b>   |            |                   |
| Adams County, CO, Multi-Family Housing Revenue, Oasis Park Apartments Project, Series A, 6.15%, 1/1/2026                           | 6,000,000  | 6,189,720         |
| Colorado, Hospital & Healthcare Revenue, Portercare Adventist Health Project, 6.5%, 11/15/2031                                     | 1,000,000  | 1,095,850         |
| Colorado, Hospital & Healthcare Revenue, Poudre Valley Health Facilities:  |            |                   |
| Series A, 5.5%, 12/1/2017 (b)  | 6,145,000  | 6,708,005         |
| Series A, 6.0%, 12/1/2015 (b)  | 5,705,000  | 6,422,460         |
| Series A, 6.0%, 12/1/2016 (b)  | 2,000,000  | 2,251,520         |
| Colorado, Single Family Housing Revenue, AMT, Series B2, 7.25%, 10/1/2031  | 375,000    | 386,584           |
| Colorado, Transportation/Tolls Revenue, Anticipation Note, Prerefunded, 6.0%, 6/15/2011 (b)  | 10,000,000 | 11,502,200        |
| Denver, CO, Airport Revenue, AMT, Series A, 6.0%, 11/15/2014 (b)   | 5,000,000  | 5,554,200         |
|  |            | <b>40,110,539</b> |
| <b>District of Columbia 7.5%</b>   |            |                   |
| District of Columbia, Core City General Obligation, Series B, 5.5%, 6/1/2011 (b)   | 20,000,000 | 22,435,600        |
| District of Columbia, ETM, Series A, Prerefunded, 5.5%, 6/1/2014 (b)   | 640,000    | 706,432           |
| District of Columbia, State General Obligation:  |            |                   |
| Series A, 5.25%, 6/1/2027 (b)  | 10,830,000 | 11,185,657        |
| Series A, 5.5%, 6/1/2014 (b)   | 1,860,000  | 2,052,622         |
|  |            | <b>36,380,311</b> |
| <b>Florida 6.4%</b>  |            |                   |
| Dade County, FL, Airport Revenue, AMT, Series A, 5.75%, 10/1/2026 (b)  | 13,000,000 | 13,762,710        |
| Dade County, FL, Special Assessment Revenue:   |            |                   |
| Series B, Prerefunded, Zero Coupon, 10/1/2022 (b)  | 7,735,000  | 2,992,749         |
| Series B, Prerefunded, Zero Coupon, 10/1/2024 (b)  | 16,955,000 | 5,777,755         |
| Hillsborough County, FL, Industrial Development Revenue, University Community Hospital Project, Series A, 5.625%, 8/15/2023        | 1,000,000  | 1,003,480         |
| Miami-Dade County, FL, Transportation/Tolls Revenue, Expressway Authority:   |            |                   |
| 6.0%, 7/1/2013 (b)   | 1,665,000  | 1,899,582         |
| 6.0%, 7/1/2014 (b)   | 1,000,000  | 1,140,890         |
| Orange County, FL, Hospital & Healthcare Revenue, Health Facilities Authority, Orlando Regional Healthcare, 5.75%, 12/1/2032       | 1,000,000  | 1,053,410         |
| Palm Beach County, FL, School District Revenue Lease, Series A, Prerefunded, 5.75%, 8/1/2017 (b)                                   | 2,850,000  | 3,261,312         |
|  |            | <b>30,891,888</b> |
| <b>Georgia 1.1%</b>  |            |                   |
| Atlanta, GA, Water & Wastewater Revenue, Water Utilities Improvements, 5.0%, 11/1/2024 (b)   | 4,000,000  | 4,156,840         |
| Burke County, GA, Development Authority Pollution Control Revenue, Oglethorpe Power Corp., 1.69%, 1/1/2021 (b) (c)                 | 785,000    | 785,000           |
| Monroe County, GA, Development Authority Pollution Control Revenue, Oglethorpe Power, Series B, 1.69%, 1/1/2020 (b) (c)            | 200,000    | 200,000           |
|  |            | <b>5,141,840</b>  |
| <b>Hawaii 7.4%</b>   |            |                   |
| Hawaii, Airports System Revenue, AMT, Series B, 6.5%, 7/1/2013 (b)   | 8,800,000  | 10,049,512        |
| Hawaii, Electric Revenue, Department of Budget & Finance, AMT:   |            |                   |
| Series D, 6.15%, 1/1/2020 (b)  | 2,195,000  | 2,425,080         |

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|  |            |                   |
|--|------------|-------------------|
| Series A, 6.2%, 5/1/2026 (b)   | 13,200,000 | 13,916,628        |
| Hawaii, Port Authority Revenue, AMT:   |            |                   |
| Series A, 6.0%, 7/1/2011 (b)   | 2,950,000  | 3,320,667         |
| Series A, 6.0%, 7/1/2012 (b)   | 3,135,000  | 3,468,282         |
| Hawaii, State General Obligation, Series CT, Prerefunded, 5.75%, 9/1/2014 (b)  | 2,310,000  | 2,622,012         |
|  |            | <b>35,802,181</b> |
| <b>Idaho 0.1%</b>  |            |                   |
| Idaho, Single Family Housing Revenue, AMT, Series C2, 6.9%, 7/1/2025   | 410,000    | <b>410,504</b>    |
| <b>Illinois 8.9%</b>   |            |                   |
| Chicago, IL, Airport Revenue, O'Hare International Airport, AMT, 5.5%, 1/1/2014 (b)  | 10,000,000 | 10,804,900        |
| Chicago, IL, Core City General Obligation:   |            |                   |
| Series A, Prerefunded, 6.0%, 1/1/2014 (b)  | 2,085,000  | 2,407,550         |
| Series A, Prerefunded, 6.125%, 1/1/2015 (b)  | 2,000,000  | 2,322,120         |
| Series A, 6.125%, 1/1/2016 (b)   | 2,000,000  | 2,288,900         |
| Chicago, IL, Other General Obligation, Neighborhoods Alive 21 Project:   |            |                   |
| Series A, Prerefunded, 6.0%, 1/1/2015 (b)  | 1,000,000  | 1,154,700         |
| Series A, 6.0%, 1/1/2017 (b)   | 1,000,000  | 1,135,960         |
| Illinois, Higher Education Revenue, DePaul University, Educational Facilities Authority:   |            |                   |
| Prerefunded, 5.625%, 10/1/2013 (b)   | 2,695,000  | 3,071,168         |
| Prerefunded, 5.625%, 10/1/2015 (b)   | 1,710,000  | 1,948,682         |
| Illinois, Hospital & Healthcare Revenue, Adventist Health System, 5.5%, 11/15/2020   | 2,500,000  | 2,620,675         |
| Illinois, Hospital & Healthcare Revenue, Children's Memorial Hospital, Series A, Prerefunded, 5.625%, 8/15/2019 (b)                        | 4,000,000  | 4,498,040         |
| Illinois, Pollution Control Revenue, Commonwealth Edison Co. Project, Series D, 6.75%, 3/1/2015  | 4,220,000  | 4,348,878         |
| Illinois, Sales & Special Tax Revenue, Metropolitan Pier & Exposition Authority:   |            |                   |
| Series A, ETM, 5.5%, 6/15/2017 (b)   | 1,955,000  | 2,251,359         |
| Series A, 5.5%, 6/15/2017 (b)  | 1,555,000  | 1,769,232         |
| Will County, IL, Industrial Development Revenue, Mobil Oil Refining Corp. Project, AMT, 6.0%, 2/1/2027                                     | 2,000,000  | 2,074,860         |
|  |            | <b>42,697,024</b> |
| <b>Indiana 1.1%</b>  |            |                   |
| Indiana, Hospital & Healthcare Revenue, Health Facilities Authority, 5.5%, 11/1/2031   | 5,000,000  | <b>5,136,950</b>  |
| <b>Kansas 0.6%</b>   |            |                   |
| Overland Park, KS, Industrial Development Revenue, Development Corp., Series A, 7.375%, 1/1/2032   | 3,000,000  | <b>3,055,890</b>  |
| <b>Kentucky 1.5%</b>   |            |                   |
| Breckinridge County, KY, Lease Program Revenue, Kentucky Association Counties Leasing Trust, Series A, 1.68%, 2/1/2032, US Bank NA (c) (d) | 585,000    | 585,000           |
| Kentucky, Hospital & Healthcare Revenue, Economic Development Finance Authority, Norton Healthcare, Inc.:                                  |            |                   |
| Series A, 6.5%, 10/1/2020  | 2,000,000  | 2,166,120         |
| Series A, 6.625%, 10/1/2028  | 4,000,000  | 4,287,400         |
|  |            | <b>7,038,520</b>  |
| <b>Louisiana 0.5%</b>  |            |                   |
| Louisiana, Electric Revenue, 5.75%, 1/1/2013 (b)   | 2,000,000  | <b>2,294,000</b>  |
| <b>Maine 1.7%</b>  |            |                   |
| Maine, Hospital & Healthcare Revenue, Series D, 5.7%, 7/1/2013 (b)   | 1,550,000  | 1,585,402         |
| Maine, Transportation/Tolls Revenue, 5.0%, 7/1/2017 (b)  | 6,165,000  | 6,543,161         |
|  |            | <b>8,128,563</b>  |
| <b>Maryland 0.5%</b>   |            |                   |
| Maryland, Hospital & Healthcare Revenue, University of Maryland Medical System, 6.75%, 7/1/2030  | 2,500,000  | <b>2,814,250</b>  |
| <b>Massachusetts 3.5%</b>  |            |                   |
| Massachusetts, Airport Revenue, AMT, Series B, 5.5%, 7/1/2009 (b)  | 8,000,000  | 8,773,440         |
| Massachusetts, Airport Revenue, U.S. Airways, Inc. Project, AMT, Series A, 5.875%, 9/1/2023 (b)  | 5,000,000  | 5,152,750         |
| Massachusetts, Port Authority Revenue, AMT, Series B, 5.5%, 7/1/2015 (b)   | 3,000,000  | 3,221,010         |
|  |            | <b>17,147,200</b> |
| <b>Michigan 2.2%</b>   |            |                   |
| Chippewa County, MI, Hospital & Healthcare Revenue, Chippewa County War Memorial, Series B, 5.625%, 11/1/2014                              | 1,500,000  | 1,504,830         |
| Michigan, Industrial Development Revenue:  |            |                   |
| 5.5%, 6/1/2018 (b)   | 3,425,000  | 3,749,930         |
| 5.75%, 6/1/2016 (b)  | 4,640,000  | 5,171,976         |
|  |            | <b>10,426,736</b> |
| <b>Minnesota 1.6%</b>  |            |                   |



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|  |            |                   |
|--|------------|-------------------|
| Minneapolis and St. Paul, MN, Airport Revenue, AMT, Series B, 6.0%, 1/1/2012 (b)   | 4,395,000  | 4,849,795         |
| Minneapolis and St. Paul, MN, Port Authority Revenue, AMT, Series B, 5.625%, 1/1/2015 (b)  | 2,500,000  | 2,704,850         |
|  |            | <b>7,554,645</b>  |
| <b>Missouri 1.2%</b>   |            |                   |
| Missouri, Hospital & Healthcare Revenue, Lake of the Ozarks General Hospital:  |            |                   |
| Prerefunded, 6.5%, 2/15/2021   | 760,000    | 811,718           |
| 6.5%, 2/15/2021  | 365,000    | 377,290           |
| St. Louis, MO, Industrial Development Authority Revenue, St. Louis Convention Center:  |            |                   |
| AMT, Series A, 6.875%, 12/15/2020  | 1,500,000  | 1,199,145         |
| AMT, Series A, 7.2%, 12/15/2028  | 4,000,000  | 3,218,600         |
|  |            | <b>5,606,753</b>  |
| <b>Nevada 2.5%</b>   |            |                   |
| Las Vegas, NV, Core City General Obligation, Water & Sewer Revenue, 5.375%, 4/1/2014 (b)   | 2,705,000  | 2,989,241         |
| Nevada, State General Obligation, Capital Improvement and Cultural Affairs Project, Series A, 5.5%, 2/1/2014   | 2,575,000  | 2,837,727         |
| Washoe County, NV, School District General Obligation, Prerefunded, 5.75%, 6/1/2014 (b)  | 5,450,000  | 6,164,441         |
|  |            | <b>11,991,409</b> |
| <b>New Jersey 11.1%</b>  |            |                   |
| New Jersey, Casino Reinvestment Development Authority, Hotel Room Fee Revenue, 5.0%, 1/1/2025 (b)  | 4,000,000  | 4,130,040         |
| New Jersey, Economic Development Authority Revenue, Cigarette Tax, 5.75%, 6/15/2034  | 1,090,000  | 1,113,479         |
| New Jersey, Hospital & Healthcare Revenue, General Hospital Center at Passaic, ETM, 6.75%, 7/1/2019 (b)  | 5,000,000  | 6,312,550         |
| New Jersey, Industrial Development Revenue, American Water Co., Inc. Project, AMT, Series A, 6.875%, 11/1/2034 (b)                                       | 10,775,000 | 11,029,936        |
| New Jersey, Industrial Development Revenue, Economic Development Authority, Harrogate, Inc., Series A, 5.875%, 12/1/2026                                 | 1,400,000  | 1,411,494         |
| New Jersey, Resource Recovery Revenue, Tobacco Settlement Financing Corp., 5.75%, 6/1/2032   | 2,465,000  | 2,341,232         |
| New Jersey, State Agency General Obligation Lease, Transportation Trust Fund Authority, Series A, Prerefunded, 5.75%, 6/15/2017                          | 10,000,000 | 11,339,100        |
| New Jersey, Transportation/Tolls Revenue, Economic Development Authority, Series A, Prerefunded, 5.75%, 5/1/2013 (b)                                     | 6,000,000  | 6,717,060         |
| New Jersey, Transportation/Tolls Revenue, Garden State Parkway Project, Prerefunded, 5.6%, 1/1/2017 (b)  | 8,000,000  | 9,028,800         |
|  |            | <b>53,423,691</b> |
| <b>New York 13.8%</b>  |            |                   |
| Nassau County, NY, Hospital & Healthcare, 6.0%, 8/1/2015 (b)   | 3,390,000  | 3,918,704         |
| New York, State Agency General Obligation Lease, Higher Education Revenue, Dormitory Authority, Bronx-Lebanon Hospital Center, Series E, 5.2%, 2/15/2016 | 1,770,000  | 1,846,216         |
| New York, State Agency General Obligation Lease, Higher Education Revenue, Dormitory Authority, City University, Series A, 5.625%, 7/1/2016              | 1,500,000  | 1,702,560         |
| New York, State Agency General Obligation Lease, Higher Education Revenue, Dormitory Authority, Jamaica Hospital, Series F, 5.2%, 2/15/2016              | 1,000,000  | 1,043,060         |
| New York, State General Obligation, Tobacco Settlement Financing Corp.:  |            |                   |
| Series A-1, 5.25%, 6/1/2022  | 10,000,000 | 10,619,400        |
| Series A-1, 5.5%, 6/1/2019   | 7,400,000  | 8,112,717         |
| New York, Transportation/Tolls Revenue:  |            |                   |
| Prerefunded, 5.625%, 4/1/2013 (b)  | 5,000,000  | 5,622,550         |
| Prerefunded, 5.75%, 4/1/2014 (b)   | 2,000,000  | 2,259,160         |
| New York, NY, Core City General Obligation:  |            |                   |
| Series F, 5.25%, 8/1/2015 (b)  | 10,380,000 | 11,160,368        |
| Series F, 5.25%, 8/1/2015  | 5,000,000  | 5,347,850         |
| New York, NY, General Obligation, Series D, 5.0%, 11/1/2024  | 7,500,000  | 7,691,400         |
| New York, NY, Sales & Special Tax Revenue, Transitional Finance Authority:   |            |                   |
| Series B, Prerefunded, 6.125%, 11/15/2014  | 1,645,000  | 1,911,951         |
| Series B, 6.125%, 11/15/2014   | 355,000    | 405,921           |
| Series B, Prerefunded, 6.125%, 11/15/2015  | 3,000,000  | 3,486,840         |
| Niagara Falls, NY, School District General Obligation, 5.6%, 6/15/2014 (b)   | 1,180,000  | 1,302,862         |
|  |            | <b>66,431,559</b> |
| <b>North Carolina 1.7%</b>   |            |                   |
| Charlotte, NC, Airport Revenue, AMT:   |            |                   |
| Series B, 5.75%, 7/1/2013 (b)  | 2,480,000  | 2,729,166         |
| Series B, 5.875%, 7/1/2014 (b)   | 1,140,000  | 1,257,112         |
| North Carolina, Electric Revenue, Municipal Power Agency:  |            |                   |
| Series C, 5.375%, 1/1/2017   | 1,000,000  | 1,056,290         |
| Series B, 6.375%, 1/1/2013   | 3,000,000  | 3,360,390         |

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|  |           |                   |
|--|-----------|-------------------|
|  |           | <b>8,402,958</b>  |
| <b>North Dakota 0.8%</b>   |           |                   |
| Grand Forks, ND, Hospital & Healthcare Revenue, Altru Health Care System, 7.125%, 8/15/2024  | 3,400,000 | <b>3,705,150</b>  |
| <b>Ohio 2.4%</b>   |           |                   |
| Cuyahoga County, OH, Hospital Revenue, Meridia Health Systems, Prerefunded, 6.25%, 8/15/2024   | 2,350,000 | 2,465,832         |
| Green Springs, OH, Senior Care Revenue, St. Francis Health Care Center Project, Series A, 7.125%, 5/15/2025                                    | 6,000,000 | 5,221,440         |
| <b>Ohio, Higher Education Revenue, University of Findlay Project:</b>  |           |                   |
| 6.125%, 9/1/2016   | 2,000,000 | 2,021,920         |
| 6.15%, 9/1/2011  | 1,635,000 | 1,680,943         |
|  |           | <b>11,390,135</b> |
| <b>Oregon 3.3%</b>   |           |                   |
| <b>Oregon, Other Revenue Lease, Department of Administrative Services:</b>   |           |                   |
| Series A, 5.5%, 5/1/2010 (b)   | 2,245,000 | 2,419,504         |
| Series A, 5.6%, 5/1/2011 (b)   | 2,120,000 | 2,289,324         |
| Oregon, State General Obligation Lease, Department of Administrative Services, Series A, Prerefunded, 6.25%, 5/1/2017 (b)                      | 1,000,000 | 1,164,360         |
| Oregon, State Revenue Lease, Department of Administrative Services, Series A, Prerefunded, 6.25%, 5/1/2018 (b)                                 | 1,000,000 | 1,164,360         |
| <b>Portland, OR, Special Assessment Revenue, Downtown Waterfront:</b>  |           |                   |
| Series A, 5.625%, 6/15/2015 (b)  | 3,100,000 | 3,459,414         |
| Series A, 5.75%, 6/15/2018 (b)   | 2,225,000 | 2,499,031         |
| Series A, 5.75%, 6/15/2019 (b)   | 2,820,000 | 3,167,311         |
|  |           | <b>16,163,304</b> |
| <b>Pennsylvania 2.2%</b>   |           |                   |
| Pennsylvania, Hospital & Healthcare Revenue, Economic Development Financing Authority, UPMC Health System, Series A, 6.0%, 1/15/2031           | 2,570,000 | 2,734,866         |
| Philadelphia, PA, Gas Works Revenue, Series A-1, 5.0%, 9/1/2029 (b)  | 5,000,000 | 5,028,400         |
| Philadelphia, PA, Municipal Authority Revenue, Series B, 5.25%, 11/15/2018 (b)   | 2,500,000 | 2,677,875         |
|  |           | <b>10,441,141</b> |
| <b>Rhode Island 0.8%</b>   |           |                   |
| Rhode Island, Special Assessment Revenue, Series A, 6.125%, 6/1/2032   | 4,000,000 | <b>3,741,200</b>  |
| <b>South Carolina 2.5%</b>   |           |                   |
| Greenwood County, SC, Hospital & Healthcare Revenue, South Carolina Memorial Hospital, 5.5%, 10/1/2031   | 1,500,000 | 1,538,070         |
| <b>South Carolina, Hospital &amp; Healthcare Revenue, Jobs Economic Development Authority, Palmetto Health Alliance:</b>                       |           |                   |
| Series C, 7.0%, 8/1/2030   | 5,420,000 | 6,031,376         |
| Series A, Prerefunded, 7.375%, 12/15/2021  | 2,000,000 | 2,460,400         |
| South Carolina, Tobacco Settlement Revenue Management Authority, Series B, 6.0%, 5/15/2022   | 2,000,000 | 1,964,940         |
|  |           | <b>11,994,786</b> |
| <b>Tennessee 2.9%</b>  |           |                   |
| Clarksville, TN, Public Building Authority Revenue, Pooled Financing Program, 1.68%, 7/1/2031, Bank of America NA (c) (d)                      | 500,000   | 500,000           |
| Memphis-Shelby County, TN, Airport Revenue, AMT, Series D, 6.25%, 3/1/2017 (b)   | 4,690,000 | 5,246,140         |
| <b>Shelby County, TN, Health Educational &amp; Housing Facility Board, Hospital Revenue, Methodist Health Care:</b>                            |           |                   |
| 6.5%, 9/1/2026   | 2,615,000 | 3,100,527         |
| Prerefunded, 6.5%, 9/1/2026  | 4,385,000 | 5,253,055         |
|  |           | <b>14,099,722</b> |
| <b>Texas 19.2%</b>   |           |                   |
| <b>Austin, TX, Sales &amp; Special Tax Revenue, Hotel Occupancy Tax:</b>   |           |                   |
| 6.0%, 11/15/2013 (b)   | 3,190,000 | 3,590,249         |
| 6.0%, 11/15/2015 (b)   | 3,480,000 | 3,917,471         |
| 6.0%, 11/15/2016 (b)   | 3,625,000 | 4,080,699         |
| Brazos River, TX, Pollution Control Revenue, Brazos River Authority, Texas Utilities Electric Co. Project, AMT, Series C, 5.75%, 5/1/2036      | 3,965,000 | 4,287,077         |
| Dallas-Fort Worth, TX, Airport Revenue, International Airport, AMT, Series A, 5.875%, 11/1/2016 (b)  | 6,500,000 | 7,244,640         |
| <b>El Paso, TX, State General Obligation:</b>  |           |                   |
| 5.875%, 8/15/2012 (b)  | 1,000,000 | 1,082,470         |
| 5.875%, 8/15/2013 (b)  | 1,570,000 | 1,699,478         |
| 5.875%, 8/15/2014 (b)  | 1,665,000 | 1,802,312         |
| Harris County, TX, Health Facilities Development Corp., Hospital Revenue, Memorial Hermann Healthcare Systems, Series A, 5.125%, 12/1/2022     | 1,000,000 | 1,014,070         |
| Harris County, TX, Hospital & Healthcare Revenue, Health Facilities Development Corp., Memorial Hermann Healthcare, Series A, 6.375%, 6/1/2029 | 5,500,000 | 6,019,365         |
| Houston, TX, Airport Revenue, People Mover Project, AMT, Series A, 5.5%, 7/15/2017 (b)   | 3,300,000 | 3,453,450         |

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|  |            |                   |
|--|------------|-------------------|
| Houston, TX, Port Authority Revenue, Airport Revenue, AMT, Series A, 5.875%, 7/1/2014 (b)  | 3,960,000  | 4,354,258         |
| Lower Neches Valley, TX, Industrial Development Revenue, Mobil Oil Refining Corp. Project, AMT, 6.4%, 3/1/2030                         | 17,000,000 | 17,410,210        |
| Red River, TX, School District Revenue Lease, St. Mark's School Project, 6.0%, 8/15/2019   | 5,390,000  | 5,942,259         |
| Tarrant County, TX, Hospital & Healthcare Revenue, Health Facilities Development Corp., 6.7%, 11/15/2030                               | 4,500,000  | 4,906,665         |
| Texas, Industrial Development Revenue, Waste Disposal Authority, AMT, Series A, 6.1%, 8/1/2024   | 2,000,000  | 2,100,360         |
| Texas, State General Obligation, College Student Loans, AMT, 5.0%, 8/1/2021  | 4,015,000  | 4,030,337         |
| Texas, State Turnpike Authority, Dallas Northway Revenue, 5.5%, 1/1/2015 (b)   | 14,605,000 | 15,923,248        |
|  |            | <b>92,858,618</b> |
| <b>Utah 0.0%</b>   |            |                   |
| Utah, Single Family Housing Revenue, Housing Finance Agency, AMT, Series B2, 6.65%, 7/1/2026   | 45,000     | <b>45,344</b>     |
| <b>Washington 5.8%</b>   |            |                   |
| Seattle, WA, Airport Revenue, AMT, Series B, 6.0%, 2/1/2013 (b)  | 7,355,000  | 8,315,269         |
| Seattle, WA, Special Assessment Revenue, AMT:  |            |                   |
| Series B, 5.5%, 9/1/2011 (b)   | 1,085,000  | 1,180,968         |
| Series B, 5.75%, 9/1/2013 (b)  | 1,045,000  | 1,148,351         |
| Skagit County, WA, School District General Obligation, School District No. 1, Burlington Edison, 5.625%, 12/1/2014 (b)                 | 1,570,000  | 1,761,571         |
| Snohomish County, WA, Electric Revenue, Public Utility District No. 1, 5.375%, 12/1/2024 (b)   | 3,000,000  | 3,207,000         |
| Washington, Electric Revenue, Energy Northwest Columbia Generating, Series B, 6.0%, 7/1/2018 (b)                                       | 3,000,000  | 3,424,950         |
| Washington, Hospital & Healthcare Revenue, Group Health Coop of Puget Sound, 5.375%, 12/1/2017 (b)                                     | 1,500,000  | 1,613,400         |
| Washington, State General Obligation:  |            |                   |
| Series A, 5.5%, 7/1/2013   | 2,000,000  | 2,198,740         |
| Series A, 5.5%, 7/1/2016   | 4,835,000  | 5,285,187         |
|  |            | <b>28,135,436</b> |
| <b>West Virginia 4.5%</b>  |            |                   |
| West Virginia, Hospital Finance Authority, Charleston Medical Center:  |            |                   |
| Prerefunded, 6.75%, 9/1/2022   | 9,645,000  | 11,496,743        |
| Prerefunded, 6.75%, 9/1/2030   | 3,605,000  | 4,297,124         |
| West Virginia, Hospital & Healthcare Revenue, Hospital Finance Authority, Charleston Medical Center:                                   |            |                   |
| Series A, 6.75%, 9/1/2022  | 2,355,000  | 2,610,541         |
| 6.75%, 9/1/2030  | 395,000    | 432,225           |
| West Virginia, Water & Sewer Revenue, Water Development Authority, Series B, 5.25%, 11/1/2023 (b)                                      | 2,740,000  | 2,940,294         |
|  |            | <b>21,776,927</b> |
| <b>Wisconsin 2.2%</b>  |            |                   |
| Badger, WI, Tobacco Asset Securitization Corp., 6.125%, 6/1/2027   | 4,650,000  | 4,613,544         |
| Wisconsin, Hospital & Healthcare Revenue, Health & Education Facilities Authority, Aurora Health Care, Inc., Series A, 5.6%, 2/15/2029 | 6,000,000  | 6,053,580         |
|  |            | <b>10,667,124</b> |

|  | % of Net Assets | Value (\$)           |
|--|-----------------|----------------------|
| <b>Total Investment Portfolio</b> (Cost \$677,469,701) (a) | 152.7           | <b>736,442,788</b>   |
| <b>Other Assets and Liabilities, Net</b>                   | 2.3             | <b>10,723,449</b>    |
| <b>Preferred Stock, at Redemption Value</b>                | (55.0)          | <b>(265,000,000)</b> |
| <b>Net Assets Applicable to Common Shareholders</b>        | 100.0           | <b>482,166,237</b>   |

(a) The cost for federal income tax purposes was \$677,272,967. At November 30, 2004, net unrealized appreciation for all securities based on tax cost was \$59,169,821. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$61,440,629 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$2,270,808.

(b) Bond is insured by one of these companies:

|                           |                                      | As a % of<br>Total<br>Investment<br>Portfolio |
|---------------------------|--------------------------------------|---|
| <b>Insurance Coverage</b> |                                      |   |
| AMBAC                     | AMBAC Assurance Corp.                | 16.1  |
| FGIC                      | Financial Guaranty Insurance Company | 11.8  |
| FSA                       | Financial Security Assurance         | 16.3  |
| MBIA                      | Municipal Bond Investors Assurance   | 15.9  |

(c) Variable rate demand notes are securities whose interest rates are reset periodically at market levels. These securities are often payable on demand and are shown at their current rates as of November 30, 2004.

(d) Security incorporates a letter of credit from a major bank.

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AMT: Subject to alternative minimum tax

ETM: Bonds bearing the description ETM (escrowed to maturity) are collateralized by US Treasury securities which are held in escrow and used to pay principal and interest on bonds so designated.

Prerefunded: Bonds which are prerefunded are collateralized by US Treasury securities which are held in escrow and are used to pay principal and interest on tax-exempt issues and to retire the bonds in full at the earliest refunding date.

*The accompanying notes are an integral part of the financial statements.*

## Financial Statements

### Statement of Assets and Liabilities as of November 30, 2004

| <b>Assets</b>  |                       |
|--|-----------------------|
| Investments in securities, at value (cost \$677,469,701)   | \$ 736,442,788        |
| Receivable for investments sold  | 45,000                |
| Interest receivable  | 12,673,750            |
| Other assets   | 38,467                |
| <b>Total assets</b>  | <b>749,200,005</b>    |
| <b>Liabilities</b>   |                       |
| Due to custodian bank  | 35,010                |
| Payable for investments purchased  | 1,029,249             |
| Dividends payable  | 179,021               |
| Accrued management fee   | 342,655               |
| Other accrued expenses and payables  | 447,833               |
| <b>Total liabilities</b>   | <b>2,033,768</b>      |
| <b>Remarketed preferred shares, at redemption value</b>  | <b>265,000,000</b>    |
| <b>Net assets applicable to common shareholders</b>  | <b>\$ 482,166,237</b> |
| <b>Net Assets</b>  |                       |
| Net assets applicable to common shareholders consist of:   |                       |
| Undistributed net investment income  | 4,224,233             |
| Net unrealized appreciation (depreciation) on investments  | 58,973,087            |
| Accumulated net realized gain (loss)   | (7,375,738)           |
| Paid-in capital  | 426,344,655           |
| <b>Net assets applicable to common shareholders</b>  | <b>\$ 482,166,237</b> |
| <b>Net Asset Value</b>   |                       |
| <b>Net Asset Value</b> per common share (\$482,166,237 ÷ 38,832,628 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized) | <b>\$ 12.42</b>       |

*The accompanying notes are an integral part of the financial statements.*

### Statement of Operations for the year ended November 30, 2004

| <b>Investment Income</b>    |               |
|-----------------------------|---------------|
| Income:                     |               |
| Interest                    | \$ 39,807,166 |
| Expenses:                   |               |
| Management fee              | 4,126,908     |
| Services to shareholders    | 73,649        |
| Custodian fees              | 31,554        |
| Auditing                    | 49,495        |
| Legal                       | 25,015        |
| Trustees' fees and expenses | 32,833        |
| Reports to shareholders     | 49,195        |
| Remarketing agent fee       | 658,225       |

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|   |                      |
|---|----------------------|
| Stock exchange listing fees   | 30,697               |
| Other   | 46,731               |
| Total expenses, before expense reductions                                   | 5,124,302            |
| Expense reductions  | (4,248)              |
| Total expenses, after expense reductions                                    | 5,120,054            |
| <b>Net investment income</b>  | <b>34,687,112</b>    |
| <b>Realized and Unrealized Gain (Loss) on Investment Transactions</b>       |                      |
| Net realized gain (loss) from investments                                   | 3,351,025            |
| Net unrealized appreciation (depreciation) during the period on investments | (10,049,752)         |
| <b>Net gain (loss) on investment transactions</b>                           | <b>(6,698,727)</b>   |
| <b>Dividends on remarketed preferred shares</b>                             | <b>(3,295,705)</b>   |
| <b>Net increase (decrease) in net assets resulting from operations</b>      | <b>\$ 24,692,680</b> |

The accompanying notes are an integral part of the financial statements.

| <b>Statement of Changes in Net Assets</b>  |                                 |                       |
|--|---------------------------------|-----------------------|
| <b>Increase (Decrease) in Net Assets</b>   | <b>Years Ended November 30,</b> |                       |
|  | <b>2004</b>                     | <b>2003</b>           |
| Operations:  |                                 |                       |
| Net investment income  | \$ 34,687,112                   | \$ 35,554,384         |
| Net realized gain (loss) on investment transactions  | 3,351,025                       | (1,562,075)           |
| Net unrealized appreciation (depreciation) on investment transactions during the period                                  | (10,049,752)                    | 15,500,754            |
| Dividends on remarketed preferred shares   | (3,295,705)                     | (2,886,268)           |
| <b>Net increase (decrease) in net assets resulting from operations</b>   | <b>24,692,680</b>               | <b>46,606,795</b>     |
| Distributions to common shareholders from:   |                                 |                       |
| Net investment income  | (31,454,429)                    | (30,568,443)          |
| Net realized gains   |                                 | (194,163)             |
| <b>Increase (decrease) in net assets</b>   | <b>(6,761,749)</b>              | <b>15,844,189</b>     |
| Net assets at beginning of period  | 488,927,986                     | 473,083,797           |
| Net assets at end of period (including undistributed net investment income of \$4,224,233 and \$4,141,544, respectively) | <b>\$ 482,166,237</b>           | <b>\$ 488,927,986</b> |
| <b>Other Information</b>   |                                 |                       |
| Common shares outstanding at beginning of period   | 38,832,628                      | 38,832,628            |
| Common shares outstanding at end of period   | 38,832,628                      | 38,832,628            |

The accompanying notes are an integral part of the financial statements.

## Financial Highlights

| <b>Years Ended November 30,</b>  | <b>2004</b>     | <b>2003</b>     | <b>2002<sup>a</sup></b> | <b>2001<sup>b</sup></b> | <b>2000<sup>b</sup></b> |
|--|-----------------|-----------------|-------------------------|-------------------------|-------------------------|
| <b>Selected Per Share Data</b>   |                 |                 |                         |                         |                         |
| <b>Net asset value, beginning of period</b>                                | <b>\$ 12.59</b> | <b>\$ 12.18</b> | <b>\$ 11.87</b>         | <b>\$ 11.30</b>         | <b>\$ 11.03</b>         |
| <i>Income (loss) from investment operations:</i>                           |                 |                 |                         |                         |                         |
| Net investment income <sup>c</sup>   | .89             | .92             | .91                     | .91                     | .93                     |
| Net realized and unrealized gain (loss) on investment transactions         | (.16)           | .36             | .22                     | .59                     | .42                     |
| <i>Dividends on remarketed preferred shares (common share equivalent):</i> |                 |                 |                         |                         |                         |
| From net investment income   | (.09)           | (.07)           | (.10)                   | (.21)                   | (.28)                   |
| <b>Total from investment operations</b>                                    | <b>.64</b>      | <b>1.21</b>     | <b>1.03</b>             | <b>1.29</b>             | <b>1.07</b>             |
| <i>Less distributions from:</i>  |                 |                 |                         |                         |                         |
| Net investment income to common shareholders                               | (.81)           | (.79)           | (.72)                   | (.72)                   | (.80)                   |
| Net realized gains on investment transactions to common shareholders       |                 | (.01)           |                         |                         |                         |
| <b>Total distributions</b>   | <b>(.81)</b>    | <b>(.80)</b>    | <b>(.72)</b>            | <b>(.72)</b>            | <b>(.80)</b>            |
| <b>Net asset value, end of period</b>                                      | <b>\$ 12.42</b> | <b>\$ 12.59</b> | <b>\$ 12.18</b>         | <b>\$ 11.87</b>         | <b>\$ 11.30</b>         |

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|   |                 |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Market value, end of period</b>        | <b>\$ 12.03</b> | <b>\$ 11.96</b> | <b>\$ 11.06</b> | <b>\$ 11.37</b> | <b>\$ 10.25</b> |
| <b>Total Return</b>                       |                 |                 |                 |                 |                 |
| Based on net asset value (%) <sup>d</sup> | 5.50            | 10.53           | 9.36            | 11.93           | 10.40           |
| Based on market value (%) <sup>d</sup>    | 7.57            | 15.63           | 3.76            | 18.10           | 7.11            |

| <b>Years Ended November 30,</b><br>(continued)   | <b>2004</b> | <b>2003</b> | <b>2002<sup>a</sup></b> | <b>2001<sup>b</sup></b> | <b>2000<sup>b</sup></b> |
|--|-------------|-------------|-------------------------|-------------------------|-------------------------|
| <b>Ratios to Average Net Assets and Supplemental Data</b>  |             |             |                         |                         |                         |
| Net assets, end of period (\$ millions)  | 482         | 489         | 473                     | 461                     | 439                     |
| Ratio of expenses (%) (based on net assets of common shares)   | 1.06        | 1.05        | 1.07                    | 1.09                    | 1.24                    |
| Ratio of expenses (%) (based on net assets of common and remarketed preferred shares)  | .68         | .68         | .69                     | .69                     | .77                     |
| Ratio of net investment income (%) (based on net assets of common shares)  | 7.15        | 7.35        | 7.51                    | 7.72                    | 8.48                    |
| Ratio of net investment income (%) (based on net assets of common and remarketed preferred shares)   | 4.62        | 4.75        | 4.80                    | 4.90                    | 5.23                    |
| Portfolio turnover rate (%)  | 25          | 7           | 7                       | 10                      | 38                      |
| Remarketed preferred shares information at end of period:  |             |             |                         |                         |                         |
| Aggregate amount outstanding (\$ millions)   | 265         | 265         | 265                     | 265                     | 265                     |
| Asset coverage per share (\$)*   | 14,097      | 14,225      | 13,900                  | 13,700                  | 13,300                  |
| Liquidation and market value per share (\$)  | 5,000       | 5,000       | 5,000                   | 5,000                   | 5,000                   |
| <sup>a</sup> As required, effective December 1, 2001, the Fund has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began accreting market discount on debt securities. The effect of this change for the year ended November 30, 2002 was to increase net investment income by an amount less than \$.005 and decrease net realized and unrealized gain (loss) per share by an amount less than \$.005. Per share data and ratios for periods prior to December 1, 2001 have not been restated to reflect this change in presentation. |             |             |                         |                         |                         |
| <sup>b</sup> In 2001 the Fund changed its method of classifying remarketed preferred shares.   |             |             |                         |                         |                         |
| <sup>c</sup> Based on average common shares outstanding during the period.   |             |             |                         |                         |                         |
| <sup>d</sup> Total return based on net asset value reflects changes in the Fund's net asset value during the period. Total return based on market value reflects changes in market value. Each figure includes reinvestment of dividends. These figures will differ depending upon the level of any discount from or premium to net asset value at which the Fund's shares trade during the period.  |             |             |                         |                         |                         |
| * Asset coverage per share equals net assets of common shares plus the redemption value of the remarketed preferred shares divided by the total number of remarketed preferred shares outstanding at the end of the period.  |             |             |                         |                         |                         |

## Notes to Financial Statements

### A. Significant Accounting Policies

Scudder Municipal Income Trust (the "Fund") is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as a closed-end, diversified management investment company organized as a Massachusetts business trust.

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial

statements.

**Security Valuation.** Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading. Debt securities are valued by independent pricing services approved by the Trustees of the Fund. If the pricing services are unable to provide valuations, the securities are valued at the most recent bid quotation or evaluated price, as applicable, obtained from a broker-dealer. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost. Investments in open-end investment companies are valued at their net asset value each business day.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Trustees.

**Federal Income Taxes.** The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable and tax-exempt income to its shareholders. Accordingly, the Fund paid no federal income taxes and no federal income tax provision was required.

At November 30, 2004, the Fund had a net tax basis capital loss carryforward of approximately \$7,300,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until November 30, 2007 (\$2,400,000), November 30, 2008 (\$3,600,000) and November 30, 2011 (\$1,300,000), the respective expiration dates, whichever occurs first.

**Distribution of Income and Gains.** Net investment income of the Fund is declared and distributed to shareholders monthly. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the Fund if not distributed, and, therefore, will be distributed to shareholders at least annually.

The timing and characterization of certain income and capital gains distributions are determined annually in accordance with federal tax regulations which may differ from accounting principles generally accepted in the United States of America. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, the Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

At November 30, 2004, the Fund's components of distributable earnings (accumulated losses) on a tax-basis were as follows:

|   |                |
|---|----------------|
| Undistributed ordinary income*                            | \$             |
| Undistributed tax-exempt income                           | \$ 4,443,249   |
| Undistributed long-term capital gains                     | \$             |
| Capital loss carryforwards                                | \$ (7,300,000) |
| Net unrealized appreciation (depreciation) on investments | \$ 59,169,821  |

In addition, the tax character of distributions paid to shareholders by the Fund is summarized as follows:

|                                     | Years Ended<br>November 30, |            |
|-------------------------------------|-----------------------------|------------|
|                                     | 2004                        | 2003       |
| Distributions from ordinary income* | \$ 239,756                  | \$ 218,596 |

|                                      |            |            |
|--------------------------------------|------------|------------|
| Distributions from tax-exempt income | 34,510,378 | 33,430,278 |
|--------------------------------------|------------|------------|

\* For tax purposes, short-term capital gains distributions are considered ordinary taxable income distributions.

**Remarketed Preferred Shares.** The Fund has issued and outstanding 10,800 Series A, 10,700 Series B, 10,800 Series C, 10,700 Series D and 10,000 Series E remarketed preferred shares, each at a liquidation value of \$5,000 per share. The preferred shares are senior to and have certain class specific preferences over the common shares. The dividend rate on each series is set by the remarketing agent, and the dividends are generally paid every 28 days. The remarketing agent will pay each broker-dealer a service charge from funds provided by the Fund (remarketing agent fee). The 1940 Act requires that the preferred shareholders of the Fund, voting as a separate class, have the right to: a) elect at least two trustees at all times, and b) elect a majority of the trustees at any time when dividends on the preferred shares are unpaid for two full years. Unless otherwise required by law or under the terms of the preferred shares designation statement, each preferred share is entitled to one vote and preferred shareholders will vote together with common shareholders as a single class and have the same voting rights.

**Other.** Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment security transactions are reported on trade date. Interest income is recorded on the accrual basis. Realized gains and losses from investment transactions are recorded on an identified cost basis. All premiums and discounts are amortized/accreted for financial reporting purposes, with the exception of securities in default of principal.

## B. Purchases and Sales of Securities

During the year ended November 30, 2004, purchases and sales of investment securities (excluding short-term investments) aggregated \$178,437,132 and \$182,771,225, respectively.

## C. Related Parties

**Management Agreement.** Under the Management Agreement with Deutsche Investment Management Americas Inc. ("DeIM" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund in accordance with its investment objectives, policies and restrictions. The Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold or entered into by the Fund. In addition to portfolio management services, the Advisor provides certain administrative services in accordance with the Management Agreement. The Fund pays a monthly investment management fee of 1/12 of the annual rate of 0.55% of the Fund's average weekly net assets, of common shares plus the value of remarketed preferred shares, at redemption value, computed and accrued daily and payable monthly.

**Service Provider Fees.** Scudder Investments Service Company ("SISC"), an affiliate of the Advisor, is the transfer, dividend-paying and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between SISC and DST Systems, Inc. ("DST"), SISC has delegated certain transfer agent and dividend paying agent functions to DST. SISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended November 30, 2004, the amount charged to the Fund by SISC aggregated \$30,981, of which \$14,440 is unpaid at November 30, 2004.

**Trustees' Fees and Expenses.** The Fund pays each Trustee not affiliated with the Advisor retainer fees plus specified amounts for attended board and committee meetings.

## D. Expense Reductions

For the year ended November 30, 2004, the Advisor agreed to reimburse the Fund \$3,326, which represents a portion of the fee savings expected to be realized by the Advisor related to the outsourcing by the Advisor of certain administrative services to an unaffiliated service provider.



In addition, the Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended November 30, 2004, the Fund's custodian fees were reduced by \$922 for custody credits earned.

#### **E. Line of Credit**

The Fund and several other affiliated funds (the "Participants") share in a \$1.25 billion revolving credit facility administered by J.P. Morgan Chase Bank for temporary or emergency purposes. The Participants are charged an annual commitment fee which is allocated, based upon net assets, among each of the Participants. Interest is calculated at the Federal Funds Rate plus 0.5 percent. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement.

#### **F. Regulatory Matters and Litigation**

Since at least July 2003, federal, state and industry regulators have been conducting ongoing inquiries and investigations ("inquiries") into the mutual fund industry, and have requested information from numerous mutual fund companies, including Scudder Investments. It is not possible to determine what the outcome of these inquiries will be or what the effect, if any, would be on the funds or their advisors. Publicity about mutual fund practices arising from these industry-wide inquiries serves as the general basis of a number of private lawsuits against the Scudder funds. These lawsuits, which previously have been reported in the press, involve purported class action and derivative lawsuits, making various allegations and naming as defendants various persons, including certain Scudder funds, the funds' investment advisors and their affiliates, certain individuals, including in some cases fund Trustees/Directors, officers, and other parties. Each Scudder fund's investment advisor has agreed to indemnify the applicable Scudder funds in connection with these lawsuits, or other lawsuits or regulatory actions that may be filed making allegations similar to these lawsuits regarding market timing, revenue sharing, fund valuation or other subjects arising from or related to the pending inquiries. Based on currently available information, the funds' investment advisors believe the likelihood that the pending lawsuits will have a material adverse financial impact on a Scudder fund is remote and such actions are not likely to materially affect their ability to perform under their investment management agreements with the Scudder funds.

In connection with litigation or regulatory action related to possible improper market timing or other improper trading activity or possible improper marketing and sales activity in the Fund, the Fund's investment advisor has agreed, subject to applicable law and regulation, to indemnify and hold harmless the applicable Funds against any and all loss, damage, liability and expense, arising from market timing or marketing and sales matters alleged in any enforcement actions brought by governmental authorities involving or potentially affecting the Fund or the investment advisor ("Enforcement Actions") or that are the basis for private actions brought by shareholders of the Fund against the Fund, their directors and officers, the Fund's investment advisor and/or certain other parties ("Private Litigation"), or any proceedings or actions that may be threatened or commenced in the future by any person (including governmental authorities), arising from or similar to the matters alleged in the Enforcement Actions or Private Litigation. In recognition of its undertaking to indemnify the applicable Funds and in light of the rebuttable presumption generally afforded to independent directors/trustees of investment companies that they have not engaged in disabling conduct, the Fund's investment advisor has also agreed, subject to applicable law and regulation, to indemnify the applicable Funds' Independent Trustees against certain liabilities the Independent Trustees may incur from the matters alleged in any Enforcement Actions or Private Litigation or arising from or similar to the matters alleged in the Enforcement Actions or Private Litigation, and advance expenses that may be incurred by the Independent Trustees in connection with any Enforcement Actions or Private Litigation. The applicable investment advisor is not, however, required to provide indemnification and advancement of expenses: (1) with respect to any proceeding or action with respect to which the applicable Fund's Board determines that the Independent Trustee ultimately would not be entitled to indemnification or (2) for any liability of the Independent Trustee to the Fund or their shareholders to which the Independent Trustee would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the Independent Trustee's duties as a director or trustee of the Fund as determined in a final

adjudication in such action or proceeding. The estimated amount of any expenses that may be advanced to the Independent Trustees or indemnity that may be payable under the indemnity agreements is currently unknown. These agreements by the Fund's investment advisor will survive the termination of the investment management agreements between the applicable investment advisor and the Fund.

## Report of Independent Registered Public Accounting Firm

### To the Board of Trustees and Shareholders of Scudder Municipal Income Trust:

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Scudder Municipal Income Trust (the "Fund"), as of November 30, 2004, and the related statement of operations for the year then ended, the statements of 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of securities owned as of November 30, 2004, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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 the Scudder Municipal Income Trust at November 30, 2004, 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 U.S. generally accepted accounting principles.

Boston, Massachusetts  
January 24, 2005

### Tax Information (Unaudited)

Of the dividends paid from net investment income for the taxable year ended November 30, 2004, 100% are designated as exempt interest dividends for federal income tax purposes.

Please contact a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, please call 1-800-294-4366.

## Dividend Reinvestment Plan

### A. Participation

We invite you to review the description of the Dividend Reinvestment Plan (the "Plan") which is available to you as a shareholder of Scudder Municipal Income Trust (the "Fund"). If you wish to participate and your shares are held in your own name, simply contact Scudder Investments Service Company, whose address and phone number are

provided in Paragraph E for the appropriate form. If your shares are held in the name of a brokerage firm, bank, or other nominee, you must instruct that nominee to re-register your shares in your name so that you may participate in the Plan, unless your nominee has made the Plan available on shares held by them. Shareholders who so elect will be deemed to have appointed UMB Bank, N.A. ("United Missouri Bank" or "UMB") as their agent and as agent for the Fund under the Plan.

### **B. Dividend Investment Account**

The Fund's transfer agent and dividend disbursing agent or its delegate (the "Transfer Agent") will establish a Dividend Investment Account (the "Account") for each shareholder participating in the Plan. The Transfer Agent will credit to the Account of each participant funds it receives from the following sources: (a) cash dividends and capital gains distributions paid on shares of beneficial interest (the "Shares") of the Fund registered in the participant's name on the books of the Fund; and (b) cash dividends and capital gains distributions paid on Shares registered in the name of the Transfer Agent but credited to the participant's Account. Sources described in clauses (a) and (b) of the preceding sentence are hereinafter called "Distributions."

### **C. Investment of Distribution Funds held in each account**

If on the record date for a Distribution (the "Record Date"), Shares are trading at a discount from net asset value per Share (according to the evaluation most recently made on Shares of the Fund), funds credited to a participant's Account will be used to purchase Shares (the "Purchase"). UMB will attempt, commencing five days prior to the Payment Date and ending at the close of business on the Payment Date ("Payment Date" as used herein shall mean the last business day of the month in which such Record Date occurs), to acquire Shares in the open market. If and to the extent that UMB is unable to acquire sufficient Shares to satisfy the Distribution by the close of business on the Payment Date, the Fund will issue to UMB Shares valued at net asset value per Share (according to the evaluation most recently made on Shares of the Fund) in the aggregate amount of the remaining value of the Distribution. If, on the Record Date, Shares are trading at a premium over net asset value per Share, the Fund will issue on the Payment Date, Shares valued at net asset value per Share on the Record Date to the Transfer Agent in the aggregate amount of the funds credited to the participants' accounts.

### **D. Voluntary Cash Contributions**

A participant may from time to time make voluntary cash contributions to his Account by sending to Transfer Agent a check or money order, payable to Transfer Agent, in a minimum amount of \$100 with appropriate accompanying instructions. (No more than \$500 may be contributed per month.) Transfer Agent will inform UMB of the total funds available for the purchase of Shares and UMB will use the funds to purchase additional Shares for the participant's Account the earlier of: (a) when it next purchases Shares as a result of a Distribution or (b) on or shortly after the first day of each month and in no event more than 30 days after such date except when temporary curtailment or suspension of purchases is necessary to comply with applicable provisions of federal securities laws. Cash contributions received more than fifteen calendar days or less than five calendar days prior to a Payment Date will be returned uninvested. Interest will not be paid on any uninvested cash contributions. Participants making voluntary cash investments will be charged a \$.75 service fee for each such investment and will be responsible for their pro rata share of brokerage commissions.

### **E. Additional Information**

Address all notices, correspondence, questions, or other communication regarding the Plan, or if you would like a copy of the Plan, to:

Scudder Investments Service Company  
P.O. Box 219066

Portfolio Management Team

Kansas City, Missouri 64121-9066  
1-800-294-4366

#### **F. Adjustment of Purchase Price**

The Fund will increase the price at which Shares may be issued under the Plan to 95% of the fair market value of the shares on the Record Date if the net asset value per Share of the Shares on the Record Date is less than 95% of the fair market value of the Shares on the Record Date.

#### **G. Determination of Purchase Price**

The cost of Shares and fractional Shares acquired for each participant's Account in connection with a Purchase shall be determined by the average cost per Share, including brokerage commissions as described in Paragraph H hereof, of the Shares acquired by UMB in connection with that Purchase. Shareholders will receive a confirmation showing the average cost and number of Shares acquired as soon as practicable after the Transfer Agent has received or UMB has purchased Shares. The Transfer Agent may mingle the cash in a participant's account with similar funds of other participants of the Fund for whom UMB acts as agent under the Plan.

#### **H. Brokerage Charges**

There will be no brokerage charges with respect to Shares issued directly by the Fund as a result of Distributions. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to UMB's open market purchases in connection with the reinvestment of Distributions. Brokerage charges for purchasing small amounts of Shares for individual Accounts through the Plan can be expected to be less than the usual brokerage charges for such transactions, as UMB will be purchasing Shares for all participants in blocks and prorating the lower commission thus attainable.

#### **I. Service Charges**

There is no service charge by the Transfer Agent or UMB to shareholders who participate in the Plan other than service charges specified in Paragraphs D and M hereof. However, the Fund reserves the right to amend the Plan in the future to include a service charge.

#### **J. Transfer of Shares Held by Agent**

The Transfer Agent will maintain the participant's Account, hold the additional Shares acquired through the Plan in safekeeping and furnish the participant with written confirmation of all transactions in the Account. Shares in the Account are transferable upon proper written instructions to the Transfer Agent. Upon request to the Transfer Agent, a certificate for any or all full Shares in a participant's Account will be sent to the participant.

#### **K. Shares Not Held in Shareholder's Name**

Beneficial owners of Shares which are held in the name of a broker or nominee will not be automatically included in the Plan and will receive all distributions in cash. Such shareholders should contact the broker or nominee in whose name their Shares are held to determine whether and how they may participate in the Plan.

#### **L. Amendments**

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan, including provisions with respect to any Distribution paid, subsequent to notice thereof sent to participants in the Plan at least ninety days before the record date for such Distribution, except when such amendment

is necessary or appropriate to comply with applicable law or the rules or policies of the Securities and Exchange Commission or any other regulatory authority, in which case such amendment shall be effective as soon as practicable. The amendment shall be deemed to be accepted by each participant unless, prior to the effective date thereof, the Transfer Agent receives notice of the termination of such participant's account under the Plan in accordance with the terms hereof. The Plan may be terminated by the Fund.

### M. Withdrawal from Plan

Shareholders may withdraw from the Plan at any time by giving the Transfer Agent a written notice. If the proceeds are \$100,000 or less and the proceeds are to be payable to the shareholder of record and mailed to the address of record, a signature guarantee normally will not be required for notices by individual account owners (including joint account owners), otherwise a signature guarantee will be required. In addition, if the certificate is to be sent to anyone other than the registered owner(s) at the address of record, a signature guarantee will be required on the notice. A notice of withdrawal will be effective for the next Distribution following receipt of the notice by the Transfer Agent provided the notice is received by the Transfer Agent at least ten days prior to the Record Date for the Distribution. When a participant withdraws from the Plan, or when the Plan is terminated in accordance with Paragraph L hereof, the participant will receive a certificate for full Shares in the Account, plus a check for any fractional Shares based on market price; or if a Participant so desires, the Transfer Agent will notify UMB to sell his Shares in the Plan and send the proceeds to the participant, less brokerage commissions and a \$2.50 service fee.

### N. Tax Implications

Shareholders will receive tax information annually for personal records and to assist in preparation of their Federal income tax returns. If Shares are purchased at a discount, the amount of the discount is considered taxable income and is added to the cost basis of the purchased shares.

## Trustees and Officers

The following table presents certain information regarding the Trustees and Officers of the fund as of November 30, 2004. Each individual's year of birth is set forth in parentheses after his or her name. Unless otherwise noted, (i) each individual has engaged in the principal occupation(s) noted in the table for at least the most recent five years, although not necessarily in the same capacity, and (ii) the address of each individual is c/o Deutsche Asset Management, 222 South Riverside Plaza, Chicago, Illinois 60606. Each Trustee's term of office extends until the next shareholders' meeting called for the purpose of electing Trustees and until the election and qualification of a successor, or until such Trustee sooner dies, retires, resigns or is removed as provided in the governing documents of the fund.

| Independent Trustees   |  |  |
|--|--|--|
| Name, Year of Birth, Position(s) Held with the Fund and Length of Time Served <sup>1</sup> | Principal Occupation(s) During Past 5 Years and Other Directorships Held   | Number of Funds in Fund Complex Overseen |
| Shirley D. Peterson (1941)<br>Chairman, 2004-present<br>Trustee, 1995-present              | Retired; formerly, President, Hood College (1995-2000); prior thereto, Partner, Steptoe & Johnson (law firm); Commissioner, Internal Revenue Service; Assistant Attorney General (Tax), US Department of Justice.<br>Directorships: Federal Mogul Corp. (supplier of automotive components and subsystems); AK Steel (steel production); Goodyear Tire & Rubber Co. (April 2004-present); Champion Enterprises, Inc.; Trustee, Bryn Mawr College. Former Directorship: Bethlehem Steel Corp. | 87                                       |
| John W. Ballantine (1946)<br>Trustee, 1999-present   | Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996-1998); Executive Vice President and Head of International Banking (1995-1996). Directorships: First Oak Brook Bancshares, Inc.; Oak Brook Bank; American Healthways, Inc. (provider of disease and care management services); Portland General Electric (utility company)  | 87                                       |
| Lewis A. Burnham (1933)<br>Trustee, 1977-present   | Retired; formerly, Director of Management Consulting, McNulty & Company (1990-1998); prior thereto, Executive Vice President, Anchor Glass Container Corporation   | 87                                       |

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|  |  |   |
|--|--|---|
| Donald L. Dunaway (1937)<br>Trustee, 1980-present  | Retired; formerly, Executive Vice President, A.O. Smith Corporation (diversified manufacturer) (1963-1994)   | 87  |
| James R. Edgar (1946)<br>Trustee, 1999-present   | Distinguished Fellow, University of Illinois, Institute of Government and Public Affairs (1999-present); formerly, Governor, State of Illinois (1991-1999). Directorships: Kemper Insurance Companies; John B. Sanfilippo & Son, Inc. (processor/packager/marketer of nuts, snacks and candy products); Horizon Group Properties, Inc.; Yobet.com (online wagering platform); Alberto-Culver Company (manufactures, distributes and markets health and beauty care products)   | 87  |
| Paul K. Freeman (1950)<br>Trustee, 2002-present  | President, Cook Street Holdings (consulting); Senior Visiting Research Scholar, Graduate School of International Studies, University of Denver; Consultant, World Bank/Inter-American Development Bank; formerly, Project Leader, International Institute for Applied Systems Analysis (1998-2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986-1998)  | 87  |
| Robert B. Hoffman (1936)<br>Trustee, 1981-present  | Retired; formerly, Chairman, Harnischfeger Industries, Inc. (machinery for the mining and paper industries) (1999-2000); prior thereto, Vice Chairman and Chief Financial Officer, Monsanto Company (agricultural, pharmaceutical and nutritional/food products) (1994-1999). Directorships: RCP Advisors, LLC (a private equity investment advisory firm)   | 87  |
| John G. Weithers (1933)<br>Trustee, 1993-present   | Retired; formerly, Chairman of the Board and Chief Executive Officer, Chicago Stock Exchange. Directorships: Federal Life Insurance Company; Chairman of the Members of the Corporation and Trustee, DePaul University; formerly, International Federation of Stock Exchanges; Records Management Systems  | 87  |
| <b>Interested Trustee and Officers<sup>2</sup></b>   |  |   |
| <b>Name, Year of Birth, Position(s) Held with the Fund and Length of Time Served<sup>1</sup></b> | <b>Principal Occupation(s) During Past 5 Years and Other Directorships Held</b>  | <b>Number of Funds in Fund Complex Overseen</b> |
| William N. Shiebler <sup>3</sup> (1942)<br>Trustee, 2004-present                                 | Chief Executive Officer in the Americas for Deutsche Asset Management ("DeAM") and a member of the DeAM Global Executive Committee (since 2002); Vice Chairman of Putnam Investments, Inc. (1999); Director and Senior Managing Director of Putnam Investments, Inc. and President, Chief Executive Officer, and Director of Putnam Mutual Funds Inc. (1990-1999)  | 142   |
| Julian F. Sluyters <sup>4</sup> (1960)<br>President and Chief Executive Officer, 2004-present    | Managing Director, Deutsche Asset Management (since May 2004); President and Chief Executive Officer of The Germany Fund, Inc., The New Germany Fund, Inc., The Central Europe and Russia Fund, Inc., The Brazil Fund, Inc., The Korea Fund, Inc., Scudder Global High Income Fund, Inc. and Scudder New Asia Fund, Inc. (since May 2004); President and Chief Executive Officer, UBS Fund Services (2001-2003); Chief Administrative Officer (1998-2001) and Senior Vice President and Director of Mutual Fund Operations (1991-1998) UBS Global Asset Management | n/a   |
| Philip J. Collora (1945)<br>Vice President and Assistant Secretary, 1986-present                 | Director, Deutsche Asset Management  | n/a   |
| Kenneth Murphy <sup>5</sup> (1963)<br>Vice President, 2002-present                               | Vice President, Deutsche Asset Management (2000-present); formerly, Director, John Hancock Signature Services (1992-2000)  | n/a   |
| Paul H. Schubert <sup>4</sup> (1963)<br>Chief Financial Officer, 2004-present                    | Managing Director, Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds at UBS Global Asset Management (1994-2004)  | n/a   |
| Charles A. Rizzo <sup>5</sup> (1957)<br>Treasurer, 2002-present                                  | Managing Director, Deutsche Asset Management (since April 2004); formerly, Director, Deutsche Asset Management (April 2000-March 2004); Vice President and Department Head, BT Alex. Brown Incorporated (now Deutsche Bank Securities Inc.) (1998-1999); Senior Manager, Coopers & Lybrand L.L.P. (now PricewaterhouseCoopers LLP) (1993-1998)   | n/a   |
| John Millette <sup>5</sup> (1962)<br>Secretary, 2001-present                                     | Director, Deutsche Asset Management  | n/a   |
| Lisa Hertz <sup>4</sup> (1970)<br>Assistant Secretary, 2003-present                              | Assistant Vice President, Deutsche Asset Management  | n/a   |
| Daniel O. Hirsch <sup>6</sup> (1954)<br>Assistant Secretary, 2002-present                        | Managing Director, Deutsche Asset Management (2002-present) and Director, Deutsche Global Funds Ltd. (2002-present); formerly, Director, Deutsche Asset Management (1999-2002); Principal, BT Alex. Brown Incorporated (now Deutsche Bank Securities Inc.) (1998-1999); Assistant General Counsel, United States Securities and Exchange Commission (1993-1998)  | n/a   |
| Caroline Pearson <sup>5</sup> (1962)   | Managing Director, Deutsche Asset Management   | n/a   |

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|  |   |     |
|--|---|-----|
| Assistant Secretary,<br>1998-present             |   |     |
| Kevin M. Gay <sup>5</sup> (1959)                 | Vice President, Deutsche Asset Management | n/a |
| Assistant Treasurer,<br>2004-present             |   |     |
| Salvatore Schiavone <sup>5</sup><br>(1965)       | Director, Deutsche Asset Management       | n/a |
| Assistant Treasurer,<br>2003-present             |   |     |
| Kathleen Sullivan<br>D'Eramo <sup>5</sup> (1957) | Director, Deutsche Asset Management       | n/a |
| Assistant Treasurer,<br>2003-present             |   |     |

<sup>1</sup> Length of time served represents the date that each Trustee was first elected to the common board of Trustees which oversees a number of investment companies, including the fund, managed by the Advisor. For the Officers of the fund, the length of time served represents the date that each Officer was first elected to serve as an Officer of any fund overseen by the aforementioned common board of Trustees.

<sup>2</sup> As a result of their respective positions held with the Advisor, these individuals are considered "interested persons" of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the fund.

<sup>3</sup> Address: 280 Park Avenue, New York, New York

<sup>4</sup> Address: 345 Park Avenue, New York, New York

<sup>5</sup> Address: Two International Place, Boston, Massachusetts

<sup>6</sup> Address: One South Street, Baltimore, Maryland

### Additional Information

## Changes in Trustees and Officers

Effective December 30, 2004, the Board of Trustees increased the size of the Board and appointed William McClayton and Robert H. Wadsworth as Trustees of the fund. Fred B. Renwick retired from the Board of Trustees effective June 29, 2004 in connection with the fund's Annual Meeting of Shareholders.

On September 24, 2004, the Board of Trustees elected Julian F. Sluyters, who also serves as Chief Executive Officer of the fund, as President of the fund, replacing Brenda Lyons. The Board of Trustees also elected Paul H. Schubert as Chief Financial Officer of the fund, replacing Charles A. Rizzo who remains as Treasurer of the fund.

## Certifications

The fund's chief executive officer has certified to the New York Stock Exchange that, as of August 12, 2004, he was not aware of any violation by the fund of applicable NYSE corporate governance listing standards. The fund's reports to the Securities and Exchange Commission on Forms N-CSR, N-CSR-S, and N-Q contain certifications by the fund's chief executive officer and chief financial officer that relate to the fund's disclosure in such reports and that are required by rule 30a-2(a) under the Investment Company Act.

### Additional Information (continued)

|  |                                   |
|--|-----------------------------------|
|  | Scudder Closed-End Fund Info Line |
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|  |   |
|--|---|
| <b>Automated Information Lines</b>                   | <b>(800) 349-4281</b>   |
| <b>Web Sites</b>                                     | <p><b>www.scudder.com</b></p> <p>or visit our Direct Link:</p> <p><b>CEF.Scudder.com</b> (Do not use www.)</p> <p>Obtain monthly fact sheets, financial reports, press releases and webcasts when available.</p>  |
| <b>Written Correspondence</b>                        | <p><b>Deutsche Investment Management Americas Inc.</b></p> <p>222 South Riverside</p> <p>Chicago, IL 60606</p>  |
| <b>Proxy Voting</b>                                  | A description of the fund's policies and procedures for voting proxies for portfolio securities and information about how the fund voted proxies related to its portfolio securities during the 12-month period ended June 30 is available on our Web site <a href="http://scudder.com">scudder.com</a> (type "proxy voting" in the search field) or on the SEC's Web site <a href="http://www.sec.gov">www.sec.gov</a> . To obtain a written copy of the fund's policies and procedures without charge, upon request, call us toll free at (800) 621-1048. |
| <b>Legal Counsel</b>                                 | <p><b>Vedder, Price, Kaufman &amp; Kammholz, P.C.</b></p> <p>222 North LaSalle Street</p> <p>Chicago, IL 60601</p>  |
| <b>Dividend Reinvestment Plan Agent</b>              | <p><b>UMB Bank</b></p> <p>P.O. Box 410064</p> <p>Kansas City, MO 64141-0064</p>   |
| <b>Shareholder Service Agent</b>                     | <p><b>Scudder Investments Service Company</b></p> <p>P.O. Box 219066</p> <p>Kansas City, MO 64121-9066</p> <p><b>(800) 294-4366</b></p>   |
| <b>Custodian and Transfer Agent</b>                  | <p><b>State Street Bank and Trust Company</b></p> <p>225 Franklin Street</p> <p>Boston, MA 02110</p>  |
| <b>Independent Registered Public Accounting Firm</b> | <p><b>Ernst &amp; Young LLP</b></p> <p>200 Clarendon Street</p> <p>Boston, MA 02116</p>   |
| <b>NYSE Symbol</b>                                   | KTF   |
| <b>CUSIP Number</b>                                  | 81118R604   |

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ITEM 2. CODE OF ETHICS.

As of the end of the period, November 30, 2004, Scudder Municipal Income Trust has adopted a code of ethics, as defined in Item 2 of Form N-CSR, that applies to its Principal Executive Officer and Principal Financial Officer.

There have been no amendments to, or waivers from, a provision of the code of ethics during the period covered by this report that would require disclosure under Item 2.

A copy of the code of ethics is filed as an exhibit to this Form N-CSR.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The Fund's Board of Directors/Trustees has determined that the Fund has at least one "audit committee financial expert" serving on its audit committee: Mr. Donald L. Dunaway. This audit committee member is "independent," meaning that he is not an "interested person" of the Fund (as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940) and he does not accept any consulting, advisory, or other compensatory fee from the Fund (except in the capacity as a Board or committee member).

An "audit committee financial expert" is not an "expert" for any purpose, including for purposes of Section 11 of the Securities Act of 1933, as a result of being designated as an "audit committee financial expert." Further, the designation of a person as an "audit committee financial expert" does not mean that the person has any greater duties, obligations, or liability than those imposed on the person without the "audit committee financial expert" designation. Similarly, the designation of a person as an "audit committee financial expert" does not affect the duties, obligations, or liability of any other member of the audit committee or board of directors.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

SCUDDER MUNICIPAL INCOME TRUST  
FORM N-CSR DISCLOSURE RE: AUDIT FEES

The following table shows the amount of fees that Ernst & Young, LLP ("E&Y"), the Fund's auditor, billed to the Fund during the Fund's last two fiscal years. For engagements with E&Y entered into on or after May 6, 2003, the Audit Committee approved in advance all audit services and non-audit services that E&Y provided to the Fund.

The Audit Committee has delegated certain pre-approval responsibilities to its Chairman (or, in his absence, any other member of the Audit Committee).

Services that the Fund's Auditor Billed to the Fund

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| Fiscal Year | Audit Fees | Audit-Related | Tax Fees | All Other |
|-------------|------------|---------------|----------|-----------|
|-------------|------------|---------------|----------|-----------|

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| Ended<br>November 30, | Billed<br>to Fund | Fees Billed<br>to Fund | Billed to<br>Fund | Fees Billed<br>to Fund |
|-----------------------|-------------------|------------------------|-------------------|------------------------|
| 2004                  | \$42,391          | \$0                    | \$7,481           | \$0                    |
| 2003                  | \$39,729          | \$0                    | \$6,925           | \$0                    |

The above "Tax Fees" were billed for professional services rendered for tax compliance and tax return preparation.

Services that the Fund's Auditor Billed to the Adviser and  
Affiliated Fund Service Providers

The following table shows the amount of fees billed by E&Y to Deutsche Investment Management Americas, Inc. ("DeIM" or the "Adviser"), and any entity controlling, controlled by or under common control with DeIM ("Control Affiliate") that provides ongoing services to the Fund ("Affiliated Fund Service Provider"), for engagements directly related to the Fund's operations and financial reporting, during the Fund's last two fiscal years.

| Fiscal<br>Year<br>Ended<br>November 30, | Audit-Related<br>Fees Billed<br>to Adviser and<br>Affiliated<br>Fund Service<br>Providers | Tax Fees<br>Billed to<br>Adviser and<br>Affiliated<br>Fund Service<br>Providers | All Other<br>Fees Billed<br>to Adviser and<br>Affiliated<br>Fund Service<br>Providers |
|---|---|---|---|
| 2004                                    | \$281,500   | \$0   | \$0   |
| 2003                                    | \$112,900   | \$0   | \$0   |

The "Audit-Related Fees" were billed for services in connection with the assessment of internal controls and additional related procedures.