

Edgar Filing: MORGAN STANLEY INSURED CALIFORNIA MUNICIPAL SEC - Form N-CSR

MORGAN STANLEY INSURED CALIFORNIA MUNICIPAL SEC  
Form N-CSR  
December 30, 2004

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-07111

Morgan Stanley Insured California Municipal Securities  
(Exact name of registrant as specified in charter)

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

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

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

Date of fiscal year end: October 31, 2004

Date of reporting period: October 31, 2004

Item 1 - Report to Shareholders

Welcome, Shareholder:

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

Market forecasts provided in this report may not necessarily come to pass. There is no assurance that the Trust will achieve its investment objective. The Trust is subject to market risk, which is the possibility that market values of securities owned by the Trust will decline and, therefore, the value of the Trust's shares may be less than what you paid for them. Accordingly, you can lose money investing in this Trust.

FUND REPORT

For the year ended October 31, 2004

MARKET CONDITIONS

The U.S. economy continued to expand during the Trust's fiscal year ended October 31, 2004. However, through the spring and summer the economy hit what Federal Reserve Board Chairman Alan Greenspan described as a "soft patch." Oil

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prices almost doubled, reaching record highs, and employment growth weakened. As a result, real gross domestic product growth that had averaged 4.3 percent in the first half of the fiscal period slowed to 3.5 percent in the second.

Throughout most of the year, the Federal Reserve Open Market Committee (the "Fed") maintained its short-term borrowing rate (the federal funds rate) at an historic low. By April the market had begun to anticipate that the Fed would begin to increase short-term interest rates in response to higher commodity prices and reduced concern about the risk of deflation. In a series of three measured moves between June and the end of October, the Fed did increase the federal funds rate, from 1.00 to 1.75 percent.

Rising inflation fears led to rising bond yields from April to June. The market reversed course in July, however, with yields falling from July through October as investors became concerned with slower growth. Rising and falling yields tended to offset each other over the entire period, and long-term municipal bond yields at the end of October had changed little from where they had begun the fiscal year. Higher short-term interest rates reduced the yield pickup for extending to longer maturities, and the yield curve flattened.

The supply of new-issue municipal bonds declined by 8 percent in the first 10 months of 2004. California remained the largest issuer, accounting for 16 percent of total underwriting volume. The ratio of municipal yields to Treasury yields, which serves as a gauge of relative performance, indicated that municipals generally remained attractive relative to Treasuries during the period. As a result, taxable investors such as insurance companies and hedge funds that normally focus on other sectors of the bond market supported municipal bond prices by "crossing over" to purchase municipal bonds.

California's credit outlook improved this year. The state successfully issued Economic Recovery Bonds to fund past budget deficits. Higher tax revenues stabilized fiscal conditions. The stronger economy led to gains in employment. As a result, the three major credit rating agencies upgraded the state's ratings.

### PERFORMANCE ANALYSIS

The net asset value (NAV) of Morgan Stanley Insured California Municipal Securities (ICS) moved from \$15.24 to \$15.35 per share during the period ended October 31, 2004. Based on this increase plus the reinvestment of tax-free dividends totaling \$0.633 per share, ordinary dividends of \$0.004 and long-term capital gains of \$0.199, the Trust's total NAV return was 6.95 percent. ICS's value on the New York Stock Exchange (NYSE) increased from \$13.83 to \$13.96 per share during the same period. Based on this change plus the reinvestment of dividends and distributions, ICS's total market return was 7.19 percent. ICS's share price was trading at a 9.06 percent discount to its NAV on October 31,

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2004. Past performance is no guarantee of future results.

Monthly dividends for the fourth quarter of 2004 declared in September were increased from \$0.0525 to \$0.055 per share to reflect the Trust's current and projected earnings level. The Trust's level of undistributed net investment income was \$0.132 per share on October 31, 2004, versus \$0.112 per share 12 months earlier.

One of our key strategies in managing the Trust was to keep its overall interest-rate sensitivity lower than that of its benchmark index. This defensive strategy helped performance early in the period when rates rose but had the net

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effect of hampering total returns over the whole period by limiting the Trust's participation in the rally later in the period. The Trust's duration,\* adjusted for leverage, was 8.1 years. The Trust's net assets, of \$57 million were diversified across 37 credits in 12 long-term sectors.

The Trust's procedure for reinvesting all dividends and distributions in common shares is through purchases in the open market. This method helps support the market value of the Trust's shares. In addition, we would like to remind you that the Trustees have approved a procedure whereby the Trust may, when appropriate, purchase shares in the open market or in privately negotiated transactions at a price not above market value or net asset value, whichever is lower at the time of purchase. During the 12-month period ended October 31, 2004, the Trust purchased and retired 89,800 shares of common stock at a weight average market discount of 9.05 percent.

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Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. Investment return, net asset value and common share market price will fluctuate and Trust shares, when sold, may be worth more or less than their original cost.

There is no guarantee that any securities mentioned will continue to perform well or be held by the Trust in the future.

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

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### LARGEST SECTORS

Water & Sewer	24.2%
General Obligation	20.7%
Transportation	11.1%
Electric	8.6%
Mortgage	8.5%

### CREDIT ENHANCEMENTS\*

AMBAC	36.7%
FGIC	20.1%
FSA	27.9%
MBIA	13.3%
U.S. Gov't. Backed	2.0%

Data as of October 31, 2004. Subject to change daily. All percentages for top five sectors are as a percentage of net assets applicable to common shareholders. All percentages for credit enhancements are as a percentage of total long-term investments. These data are provided for informational purposes only and should not be deemed a recommendation to buy or sell the securities

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mentioned. Morgan Stanley is a full-service securities firm engaged in securities trading and brokerage activities, investment banking, research and analysis, financing and financial advisory services.

\* Does not include open short futures contracts with an underlying face amount of \$3,385,000 with unrealized depreciation of \$43,832.

### RESULTS OF ANNUAL SHAREHOLDER MEETING

ON JUNE 22, 2004, AN ANNUAL MEETING OF THE TRUST'S SHAREHOLDERS WAS HELD FOR THE PURPOSE OF VOTING ON THE FOLLOWING MATTER, THE RESULTS OF WHICH WERE AS FOLLOWS:

#### ELECTION OF TRUSTEES:

-----	
EDWIN J. GARN	
FOR:	3,083,923
WITHHELD:	28,703
-----	
JOSEPH J. KEARNS	
FOR:	3,083,742
WITHHELD:	28,884
-----	
MICHAEL E. NUGENT	
FOR:	3,083,742
WITHHELD:	28,884
-----	
FERGUS REID	
FOR:	3,083,742
WITHHELD:	28,884
-----	

THE FOLLOWING TRUSTEES WERE NOT STANDING FOR REELECTION AT THIS MEETING: MICHAEL BOZIC, CHARLES A. FIUMEFREDDO, WAYNE E. HEDIEN, JAMES F. HIGGINS AND MANUEL H. JOHNSON.

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#### DISTRIBUTION BY MATURITY

(% of Long-Term Portfolio) As of October 31, 2004

WEIGHTED AVERAGE MATURITY: 19 YEARS

[BAR CHART]

1-5	0
5-10	2
10-20	55
20-30	43
30+	0

Portfolio structure is subject to change.

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## CALL AND COST (BOOK) YIELD STRUCTURE

(Based on Long-Term Portfolio) As of October 31, 2004

YEARS BONDS CALLABLE -- WEIGHTED AVERAGE CALL PROTECTION: 7 YEARS  
[BAR CHART]

2004 (a)	8
2005	9
2006	0
2007	0
2008	0
2009	4
2010	4
2011	19
2012	16
2013	23
2014+	17

COST (BOOK) YIELD (B) -- WEIGHTED AVERAGE BOOK YIELD: 5.2%  
[BAR CHART]

2004 (a)	6.3
2005	6.3
2006	0.0
2007	0.0
2008	0.0
2009	5.9
2010	5.4
2011	5.2
2012	4.8
2013	4.9
2014+	4.8

(a) May include issues initially callable in previous years.

(b) Cost or "book" yield is the annual income earned on a portfolio investment based on its original purchase price before the Trust's operating expenses. For example, the Trust is earning a book yield of 6.3% on 8% of the long-term portfolio that is callable in 2004.

Portfolio structure is subject to change.

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Morgan Stanley Insured California Municipal Securities  
PORTFOLIO OF INVESTMENTS - OCTOBER 31, 2004

PRINCIPAL AMOUNT IN THOUSANDS	COUPON RATE	MATURITY DATE	V
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	California Tax-Exempt Municipal Bonds (97.8%)			
	General Obligation (20.7%)			
\$ 2,560	California, Various Purpose Dtd 03/01/94 (FSA).....	5.50 %	03/01/20	\$ 2,
1,280	Huntington Beach Union High School District, Ser 2004			
	(FSA).....	5.00	08/01/26	1,
2,000	Los Angeles Community College District, Election 2001 Ser A			
	(MBIA)+.....	5.00	06/01/26	2,
1,030	Los Angeles, Ser 2004 A (MBIA).....	5.00	09/01/24	1,
	San Diego Unified School District,			
1,000	2002 Ser D (FGIC).....	5.25	07/01/24	1,
1,000	2003 Ser E (FSA).....	5.00	07/01/28	1,
1,000	Upland School District, Election 2000 Ser 2001 B (FSA)....	5.125	08/01/25	1,
1,375	Washington Unified School District, Election 2004 Ser A			
-----	(FGIC).....	5.00	08/01/22	1,
11,245				11,
-----				-----
	Educational Facilities Revenue (1.9%)			
1,000	University of California, Ser 2003 B (Ambac).....	5.00	05/15/21	1,
-----				-----
	Electric Revenue (8.6%)			
1,000	Anaheim Public Financing Authority, Generation Refg Ser			
	2002-B (FSA).....	5.25	10/01/18	1,
1,400	California Department of Water Resources, Power Supply			
	Ser 2002 A (Ambac).....	5.375	05/01/18	1,
1,000	Los Angeles Department of Water & Power, 2001 Ser A			
	(FSA).....	5.25	07/01/21	1,
1,000	Southern California Public Power Authority, Transmission			
-----	Refg Ser 2002 A (FSA).....	5.25	07/01/18	1,
4,400				4,
-----				-----
	Mortgage Revenue -- Multi-Family (4.3%)			
2,370	Los Angeles Community Redevelopment Agency, 1994 Ser A			
-----	(Ambac).....	6.45	07/01/17	2,
	Mortgage Revenue -- Single Family (4.2%)			
2,000	California Department of Veterans Affairs, Home Purchase			
	2002 Ser A (Ambac).....	5.35	12/01/27	2,
285	California Housing Financing Agency, 1995 Ser B (AMT)			
-----	(Ambac).....	6.25	08/01/14	-----
2,285				2,
-----				-----
	Public Facilities Revenue (3.7%)			
1,000	Simi Valley Public Financing Authority, Ser 2004 COPs			
	(Ambac).....	5.00	09/01/30	1,
1,000	Puerto Rico Public Buildings Authority, Ser J (Mandatory			
-----	Put 07/01/12).....	5.00	07/01/36	1,
2,000				2,
-----				-----

See Notes to Financial Statements

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Morgan Stanley Insured California Municipal Securities  
 PORTFOLIO OF INVESTMENTS - OCTOBER 31, 2004 continued

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PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	V
	Resource Recovery Revenue (4.0%)			
\$ 2,000	Sacramento Financing Authority, 1999 Solid Waste & Redevelopment (Ambac).....	5.75 %	12/01/22	\$ 2,
	Tax Allocation Revenue (7.6%)			
2,000	Bay Area Government Association, Pool 1994 Ser A (FSA).....	6.00	12/15/24	2,
1,100	La Quinta Financing Authority, Local Agency 2004 Ser A (Ambac).....	5.25	09/01/24	1,
1,000	Long Beach Bond Finance Authority, Downtown, North Long Beach, Poly High and West Beach Areas 2002 Ser A (Ambac).....	5.375	08/01/21	1,
4,100				4,
	Transportation Facilities Revenue (11.1%)			
2,000	California Infrastructure & Economic Development Bank, Bay Area Toll Bridges Seismic Retrofit First Lien Ser 2003 A (FGIC).....	5.00	07/01/29	2,
1,000	Los Angeles County Metropolitan Transportation Authority, Sales Tax Ser 2000 A (FGIC).....	5.25	07/01/30	1,
2,000	Orange County Transportation Authority, Toll Bridges Express Lanes Ser A (Ambac).....	5.00	08/15/20	2,
1,000	San Jose, Airport Ser 2001 A (FGIC).....	5.00	03/01/25	1,
6,000				6,
	Water & Sewer Revenue (24.2%)			
1,500	California Department of Water Resources, Central Valley Ser Y (FGIC).....	5.25	12/01/19	1,
2,000	East Bay Municipal Utility District, Water Ser 2001 (MBIA).....	5.00	06/01/26	2,
1,000	Los Angeles, Wastewater Refg Ser 2003 B (FSA).....	5.00	06/01/22	1,
1,000	Metropolitan Water District of Southern California, 2003 Ser B-2 (FGIC).....	5.00	10/01/27	1,
1,700	Oxnard Financing Authority, Redwood Trunk Sewer & Headworks Ser 2004 A (FGIC).....	5.00	06/01/29	1,
2,000	Sacramento Financing Authority, Water & Capital Improvement 2001 Ser A (Ambac).....	5.00	12/01/26	2,
1,000	San Diego County Water Authority, Ser 2004 A COPs (FSA)....	5.00	05/01/29	1,
2,000	San Francisco Public Utilities Commission, Water Refg Ser A 2001 (FSA).....	5.00	11/01/31	2,
1,000	Yucaipa Valley Water District, Ser 2004 A COPs (MBIA).....	5.25	09/01/24	1,
13,200				13,
	Other Revenue (2.0%)			
1,000	California, Economic Recovery Ser 2004 A (MBIA).....	5.00	07/01/15	1,

See Notes to Financial Statements

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Morgan Stanley Insured California Municipal Securities  
 PORTFOLIO OF INVESTMENTS - OCTOBER 31, 2004 continued

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	V
	Refunded (5.5%)			
\$ 2,000	Anaheim, Anaheim Memorial Hospital Association COPs (Ambac) (ETM) .....	5.125%	05/15/20	\$ 2,
1,000	Puerto Rico Infrastructure Financing Authority, 2000 Ser A (ETM) .....	5.50	10/01/32	1,
-----				-----
3,000				3,
-----				-----
52,600	Total California Tax-Exempt Municipal Bonds (Cost \$52,332,555) .....			55,
-----				-----
	California Short-Term Tax-Exempt Municipal Obligation (0.6%)			
355	Newport Beach, Hoag Memorial/Presbyterian Hospital Ser 1992 (Demand 11/01/04) (Cost \$355,000) .....	1.68*	10/01/22	-----
-----				-----
\$52,955	Total Investments (Cost \$52,687,555) (a) (b) .....		98.4%	56,0
=====				-----
	Other Assets in Excess of Liabilities .....		1.6	9
			-----	-----
	Net Assets Applicable to Common Shareholders .....		100.0%	\$56,9
			=====	=====

- 
- AMT Alternative Minimum Tax.
  - COPs Certificates of Participation.
  - ETM Escrowed to maturity.
  - \* Current coupon of variable rate demand obligation.
  - + A portion of this security has been physically segregated in connection with open futures contracts in the amount of \$24,000.
  - (a) Securities have been designated as collateral in an amount equal to \$3,317,250 in connection with open futures contracts.
  - (b) The aggregate cost for federal income tax purposes is \$52,607,543. The aggregate gross and net unrealized appreciation is \$3,418,516.

Bond Insurance:

- 
- Ambac Ambac Assurance Corporation.
  - FGIC Financial Guaranty Insurance Company.
  - FSA Financial Security Assurance Inc.
  - MBIA Municipal Bond Investors Assurance Corporation.

Futures Contracts Open at October 31, 2004:



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NUMBER OF CONTRACTS	LONG/SHORT	DESCRIPTION, DELIVERY MONTH AND YEAR	UNDERLYING FACE AMOUNT AT VALUE	UNREALIZED DEPRECIATION
10	Short	U.S. Treasury Notes 5 Year December 2004	\$(1,113,750)	\$(10,496)
20	Short	U.S. Treasury Notes 10 Year December 2004	(2,271,250)	(33,336)
Total Unrealized Depreciation.....				\$(43,832)

See Notes to Financial Statements

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Morgan Stanley Insured California Municipal Securities  
FINANCIAL STATEMENTS

Statement of Assets and Liabilities  
October 31, 2004

Assets:

Investments in securities, at value (cost \$52,687,555).....	\$56,026,059
Cash.....	129,247
Interest receivable.....	883,237
Prepaid expenses and other assets.....	4,006
Total Assets.....	57,042,549

Liabilities:

Payable for:	
Investment management fee.....	20,216
Common shares of beneficial interest repurchased.....	15,301
Variation margin.....	9,687
Accrued expenses and other payables...	42,813
Total Liabilities.....	88,017

Preferred shares of beneficial interest (1,000,000 shares authorized of non-participating \$.01 par value, none issued).....	--
Net Assets Applicable to Common Shareholders.....	\$56,954,532

Composition of Net Assets Applicable  
to Common Shareholders:

Common shares of beneficial interest (unlimited shares authorized of \$.01 par value, 3,710,113 shares outstanding).....	\$52,663,197
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Net unrealized appreciation.....	3,294,672
Accumulated undistributed net investment income.....	489,809
Accumulated undistributed net realized gain.....	506,854
	-----
Net Assets Applicable to Common Shareholders.....	\$56,954,532
	=====
Net Asset Value Per Common Share, (\$56,954,532 divided by 3,710,113 common shares outstanding).....	\$15.35
	=====

Statement of Operations  
For the year ended October 31, 2004

Net Investment Income:	
Interest Income.....	\$2,802,739
	-----
Expenses	
Investment management fee.....	199,941
Professional fees.....	49,995
Transfer agent fees and expenses.....	27,087
Shareholder reports and notices.....	19,237
Registration fees.....	16,134
Custodian fees.....	6,292
Trustees' fees and expenses.....	722
Other.....	8,023
	-----
Total Expenses.....	327,431
Less: expense offset.....	(6,244)
	-----
Net Expenses.....	321,187
	-----
Net Investment Income.....	2,481,552
	-----
Net Realized and Unrealized Gain (Loss):	
Net Realized Gain (Loss) on:	
Investments.....	486,504
Futures contracts.....	(4,117)
	-----
Net Realized Gain.....	482,387
	-----
Net Change in Unrealized Appreciation on:	
Investments.....	491,275
Futures contracts.....	(44,429)
	-----
Net Appreciation.....	446,846
	-----
Net Gain.....	929,233
	-----
Net Increase.....	\$3,410,785
	=====

See Notes to Financial Statements

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Morgan Stanley Insured California Municipal Securities  
FINANCIAL STATEMENTS continued

Statement of Changes in Net Assets

	FOR THE YEAR ENDED OCTOBER 31, 2004	FOR THE YEAR ENDED OCTOBER 31, 2003
	-----	-----
Increase (Decrease) in Net Assets:		
Operations:		
Net investment income.....	\$ 2,481,552	\$ 2,675,423
Net realized gain.....	482,387	737,514
Net change in unrealized appreciation.....	446,846	(1,077,676)
	-----	-----
Net Increase.....	3,410,785	2,335,261
	-----	-----
Dividends and Distributions to Common Shareholders from:		
Net investment income.....	(2,390,725)	(2,736,792)
Net realized gain.....	(754,732)	(974,718)
	-----	-----
Total Dividends and Distributions.....	(3,145,457)	(3,711,510)
	-----	-----
Decrease from transactions in common shares of beneficial interest.....	(1,233,332)	(1,563,653)
	-----	-----
Net Decrease.....	(968,004)	(2,939,902)
Net Assets Applicable to Common Shareholders:		
Beginning of period.....	57,922,536	60,862,438
	-----	-----
End of Period (Including accumulated undistributed net investment income of \$489,809 and \$424,048, respectively).....	\$56,954,532	\$57,922,536
	=====	=====

See Notes to Financial Statements

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Morgan Stanley Insured California Municipal Securities  
NOTES TO FINANCIAL STATEMENTS - OCTOBER 31, 2004

1. Organization and Accounting Policies

Morgan Stanley Insured California Municipal Securities (the "Trust") is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. The Trust's investment objective is to provide current income which is exempt from both federal and California income taxes. The Trust was organized as a Massachusetts business trust on October 14, 1993 and commenced operations on February 28, 1994.

The following is a summary of significant accounting policies:

A. Valuation of Investments -- (1) portfolio securities are valued by an outside independent pricing service approved by the Trustees. The pricing service uses

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

B. Accounting for Investments -- Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Realized gains and losses on security transactions are determined by the identified cost method. Discounts are accreted and premiums are amortized over the life of the respective securities. Interest income is accrued daily.

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

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Morgan Stanley Insured California Municipal Securities  
NOTES TO FINANCIAL STATEMENTS - OCTOBER 31, 2004 continued

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

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

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

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

2. Investment Management Agreement

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Pursuant to an Investment Management Agreement, with Morgan Stanley Investment Advisors Inc. (the "Investment Manager"), the Trust pays the Investment Manager a management fee, calculated weekly and payable monthly, by applying the annual rate of 0.35% to the Trust's weekly net assets.

### 3. Security Transactions and Transactions with Affiliates

The cost of purchases and proceeds from sales of portfolio securities, excluding short-term investments, for the year ended October 31, 2004 aggregated \$17,259,156 and \$19,459,950, respectively.

Morgan Stanley Trust, an affiliate of the Investment Manager, is the Trust's transfer agent. At October 31, 2004, the Trust had transfer agent fees and expenses payable of approximately \$3,900.

Effective April 1, 2004, the Trust began an unfunded Deferred Compensation Plan (the "Compensation Plan") which allows each independent Trustee to defer payment of all, or a portion, of the fees he receives for serving on the Board of Trustees. Each eligible Trustee generally may elect to have the deferred amounts credited with a return equal to the total return on one or more of the Morgan Stanley funds that are offered as investment options under the Compensation Plan. Appreciation/depreciation and distributions received from these investments are recorded with an

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Morgan Stanley Insured California Municipal Securities  
NOTES TO FINANCIAL STATEMENTS - OCTOBER 31, 2004 continued

offsetting increase/decrease in the deferred compensation obligation and do not affect the net asset value of the Trust.

### 4. Preferred Shares of Beneficial Interest

The Trust is authorized to issue up to 1,000,000 non-participating preferred shares of beneficial interest having a par value of \$.01 per share, in one or more series, with rights as determined by the Trustees, without approval of the common shareholders. The preferred shares have a liquidation value of \$50,000 per share plus the redemption premium, if any, plus accumulated but unpaid dividends, whether or not declared, thereon to the date of distribution. The Trust may redeem such shares, in whole or in part, at the original purchase price of \$50,000 per share plus accumulated but unpaid dividends, whether or not declared, thereon to the date of redemption.

Upon issuance, the Trust will be subject to certain restrictions relating to the preferred shares. Failure to comply with these restrictions could preclude the Trust from declaring any distributions to common shareholders or purchasing common shares and/or could trigger the mandatory redemption of preferred shares at liquidation value.

The preferred shares, entitled to one vote per share, generally vote with the common shares but vote separately as a class to elect two Trustees and on any matters affecting the rights of the preferred shares.

As of October 31, 2004, there were no preferred shares outstanding.

### 5. Common Shares of Beneficial Interest

Transactions in common shares of beneficial interest were as follows:

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	SHARES	PAR VALUE	CAPITAL PAID IN EXCESS OF PAR VALUE
Balance, October 31, 2002.....	3,911,313	\$39,113	\$55,421,069
Treasury shares purchased and retired (weighted average discount 8.44%)*.....	(111,400)	(1,114)	(1,562,539)
Balance, October 31, 2003.....	3,799,913	37,999	53,858,530
Treasury shares purchased and retired (weighted average discount 9.05%)*.....	(89,800)	(898)	(1,232,434)
Balance, October 31, 2004.....	3,710,113	\$37,101	\$52,626,096

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

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Morgan Stanley Insured California Municipal Securities  
 NOTES TO FINANCIAL STATEMENTS - OCTOBER 31, 2004 continued

6. Dividends to Common Shareholders

On September 28, 2004, the Trust declared the following dividends from net investment income:

AMOUNT PER SHARE	RECORD DATE	PAYABLE DATE
\$0.055	November 5, 2004	November 19, 2004
\$0.055	December 10, 2004	December 23, 2004

7. Expense Offset

The expense offset represents a reduction of the custodian fees for earnings on cash balances maintained by the Trust.

8. Risks Relating to Certain Financial Instruments

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

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

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

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## 9. Federal Income Tax Status

The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations which may differ from generally accepted accounting principles. These "book/tax" differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal tax-basis treatment; temporary differences do not require reclassification. Dividends and distributions which exceed net investment income and net realized capital gains for tax purposes are reported as distributions of paid-in-capital.

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Morgan Stanley Insured California Municipal Securities  
 NOTES TO FINANCIAL STATEMENTS - OCTOBER 31, 2004 continued

The tax character of distributions paid was as follows:

	FOR THE YEAR ENDED OCTOBER 31, 2004	FOR THE YEAR ENDED OCTOBER 31, 2003
	-----	-----
Tax-exempt income.....	\$2,376,330	\$2,649,458
Ordinary income.....	14,395	160,235
Long-term capital gains.....	754,732	901,817
	-----	-----
Total distributions.....	\$3,145,457	\$3,711,510
	=====	=====

As of October 31, 2004, the tax-basis components of accumulated earnings were as follows:

Undistributed tax-exempt income.....	\$ 399,797
Undistributed ordinary income.....	10,024
Undistributed long-term gains.....	463,022
	-----
Net accumulated earnings.....	872,843
Temporary differences.....	(24)
Net unrealized appreciation.....	3,418,516
	-----
Total accumulated earnings.....	\$4,291,335
	=====

As of October 31, 2004, the Trust had temporary book/tax differences primarily attributable to book amortization of discounts on debt securities and mark-to-market of open futures contracts and permanent book/tax differences attributable to tax adjustments on debt securities sold by the Trust. To reflect reclassifications arising from the permanent differences, accumulated undistributed net investment income was charged and accumulated undistributed net realized gain was credited \$25,066.

Morgan Stanley Insured California Municipal Securities  
FINANCIAL HIGHLIGHTS

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

	FOR THE YEAR ENDED		
	2004	2003	2002
Selected Per Share Data:			
Net asset value, beginning of period.....	\$15.24	\$15.56	\$16.00
Income (loss) from investment operations:			
Net investment income*.....	0.66	0.67	0.60
Net realized and unrealized gain (loss).....	0.25	(0.07)	(0.00)
Total income from investment operations.....	0.91	0.60	0.60
Less dividends and distributions from:			
Net investment income.....	(0.63)	(0.71)	(0.70)
Net realized gain.....	(0.20)	(0.25)	(0.40)
Total dividends and distributions.....	(0.83)	(0.96)	(1.10)
Anti-dilutive effect of acquiring treasury shares*.....	0.03	0.04	0.00
Net asset value, end of period.....	\$15.35	\$15.24	\$15.50
Market value, end of period.....	\$13.96	\$13.83	\$14.10
Total Return+.....	7.19%	4.57%	(0.10)%
Ratios to Average Net Assets:			
Total expenses (before expense offset).....	0.58% (1)	0.55% (1)	0.50%
Net investment income.....	4.37%	4.50%	4.60%
Supplemental Data:			
Net assets, end of period, in thousands.....	\$56,955	\$57,923	\$60,860
Portfolio turnover rate.....	31%	31%	100%

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

See Notes to Financial Statements



Morgan Stanley Insured California Municipal Securities  
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Trustees of  
Morgan Stanley Insured California Municipal Securities:

We have audited the accompanying statement of assets and liabilities of Morgan Stanley Insured California Municipal Securities (the "Trust"), including the portfolio of investments, as of October 31, 2004, and the related statements of operations for the year then ended and changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Trust'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. Our procedures included confirmation of securities owned as of October 31, 2004, by correspondence with the custodian and broker. 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 Morgan Stanley Insured California Municipal Securities as of October 31, 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 accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP  
New York, New York  
December 14, 2004

2004 FEDERAL TAX NOTICE (UNAUDITED)

During the year ended October 31, 2004, the Trust paid to its shareholders \$0.63 per share from tax-exempt income.

For the year ended October 31, 2004, the Trust paid to its shareholders \$0.20 per share from long-term capital gains.

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Morgan Stanley Insured California Municipal Securities  
TRUSTEE AND OFFICER INFORMATION

Independent Trustees:

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Name, Age and Address of Independent Trustee	Position(s) Held with Registrant	Term of Office and Length of Time Served*	Principal Occupation(s) During Past 5 Years**
<p>Michael Bozic (63)  c/o Kramer Levin Naftalis &amp; Frankel LLP  Counsel to the Independent Trustees  919 Third Avenue  New York, NY</p>	<p>Trustee</p>	<p>Since April 1994</p>	<p>Private Investor; Director Trustee of the Retail Funds (since April 1994) and the Institutional Funds (since July 2003); formerly Vice Chairman of Kmart Corporation (December 1998–October 2000) Chairman and Chief Executive Officer of Levitz Furniture Corporation (November 1995–November 1998) and President and Chief Executive Officer of Hills Department Stores (May 1991–July 1995) formerly variously Chairman, Chief Executive Officer, President and Chief Operating Officer (1987–1991) of the Sears Merchandise Group of Sears, Roebuck &amp; Co.</p>
<p>Edwin J. Garn (72)  c/o Summit Ventures LLC  1 Utah Center  201 S. Main Street  Salt Lake City, UT</p>	<p>Trustee</p>	<p>Since January 1993</p>	<p>Managing Director of Summit Ventures LLC; Director or Trustee of the Retail Funds (since January 1993) and the Institutional Funds (since July 2003); member of the U Regional Advisory Board of Pacific Corp.; formerly United States Senator (R-Utah) (1992) and Chairman, Senate Banking Committee (1980–1988) Mayor of Salt Lake City, Utah (1971–1974), Astronaut, Space Shuttle Discovery (April 12–19, 1985), and Vice Chairman, Huntsman Corporation (chemical company).</p>
<p>Wayne E. Hedien (70)  c/o Kramer Levin Naftalis &amp; Frankel LLP  Counsel to the Independent Trustees  919 Third Avenue  New York, NY</p>	<p>Trustee</p>	<p>Since September 1997</p>	<p>Retired; Director or Trustee of the Retail Funds (since September 1997) and the Institutional Funds (since July 2003); formerly associated with the Allstate Companies (1966–1994), most recently as Chairman of The Allstate Corporation (March 1993–December 1994) and Chairman and Chief Executive Officer of its wholly-owned subsidiary, Allstate Insurance Company (July 1989–December 1994).</p>

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Name, Age and Address of Independent Trustee	Other Directorships Held by Trustee
Michael Bozic (63) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 919 Third Avenue New York, NY	Director of Weirton Steel Corporation.
Edwin J. Garn (72) c/o Summit Ventures LLC 1 Utah Center 201 S. Main Street Salt Lake City, UT	Director of Franklin Covey (time management systems), BMW Bank of North America, Inc. (industrial loan corporation), United Space Alliance (joint venture between Lockheed Martin and the Boeing Company) and Nuskin Asia Pacific (multilevel marketing); member of the board of various civic and charitable organizations.
Wayne E. Hedien (70) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 919 Third Avenue New York, NY	Director of The PMI Group Inc. (private mortgage insurance); Trustee and Vice Chairman of The Field Museum of Natural History; director of various other business and charitable organizations.

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Morgan Stanley Insured California Municipal Securities  
 TRUSTEE AND OFFICER INFORMATION continued

Name, Age and Address of Independent Trustee	Position(s) Held with Registrant	Term of Office and Length of Time Served*	Principal Occupation(s) During Past 5 Years**
Dr. Manuel H. Johnson (55) c/o Johnson Smick International, Inc. 2099 Pennsylvania Avenue, N.W. Suite 950 Washington, D.C.	Trustee	Since July 1991	Senior Partner, Johnson Smick International, Inc., a consulting firm; Chairman of the Audit Committee and Director or Trustee of the Retail Funds (since July 1991) and the Institutional Funds (since July 2003); Co-Chairman and a founder of the Group of Seven Council (G7C) an international economic commission; formerly Vice Chairman of the Board of Governors of the Federal Reserve System and Assistant Secretary of the U.S. Treasury.
Joseph J. Kearns (62)	Trustee	Since July	President, Kearns & Associates

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PMB754 23852 Pacific Coast Highway Malibu, CA	2003	LLC (investment consulting) Deputy Chairman of the Audit Committee and Director or Trustee of the Retail Funds (since July 2003) and the Institutional Funds (since August 1994); previously Chairman of the Audit Committee of the Institutional Funds (October 2001-July 2003); formerly CFO of the Paul Getty Trust.
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Michael E. Nugent (68) c/o Triumph Capital, L.P. 445 Park Avenue New York, NY	Trustee  Since July 1991	General Partner of Triumph Capital, L.P., a private investment partnership; Chairman of the Insurance Committee and Director or Trustee of the Retail Funds (since July 1991) and the Institutional Funds (since July 2001); formerly Vice President, Bankers Trust Company and BT Capital Corporation (1984-1988).
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Fergus Reid (72) c/o Lumelite Plastics Corporation 85 Charles Colman Blvd. Pawling, NY	Trustee  Since July 2003	Chairman of Lumelite Plasti Corporation; Chairman of th Governance Committee and Director or Trustee of the Retail Funds (since July 20 and the Institutional Funds (since June 1992).
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Name, Age and Address of Independent Trustee	Other Directorships Held by Trustee
-----	-----
Dr. Manuel H. Johnson (55) c/o Johnson Smick International, Inc. 2099 Pennsylvania Avenue, N.W. Suite 950 Washington, D.C.	Director of NVR, Inc. (home construction); Chairman and Trustee of the Financial Accounting Foundation (oversight organization of the Financial Accounting Standards Board); Director of RBS Greenwich Capital Holdings (financial holding company).
Joseph J. Kearns (62) PMB754 23852 Pacific Coast Highway Malibu, CA	Director of Electro Rent Corporation (equipment leasing), The Ford Family Foundation, and the UCLA Foundation.
Michael E. Nugent (68) c/o Triumph Capital, L.P. 445 Park Avenue New York, NY	Director of various business organizations.
Fergus Reid (72) c/o Lumelite Plastics Corporation 85 Charles Colman Blvd.	Trustee and Director of certain investment companies in the JPMorgan Funds complex managed by

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Pawling, NY

J.P. Morgan Investment Management  
Inc.

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Morgan Stanley Insured California Municipal Securities  
TRUSTEE AND OFFICER INFORMATION continued

Interested Trustees:

Name, Age and Address of Interested Trustee	Position(s) Held with Registrant	Term of Office and Length of Time Served*	Principal Occupation(s) During Past 5 Years**
Charles A. Fiumefreddo (71) c/o Morgan Stanley Trust Harborside Financial Center, Plaza Two, Jersey City, NJ	Chairman of the Board and Trustee	Since July 1991	Chairman and Director or Trustee of the Retail Funds (since July 1991) and the Institutional Funds (since July 2003); formerly Chief Executive Officer of the Retail Funds (until September 2002).
James F. Higgins (56) c/o Morgan Stanley Trust Harborside Financial Center, Plaza Two, Jersey City, NJ	Trustee	Since June 2000	Director or Trustee of the Retail Funds (since June 2000) and the Institutional Funds (since July 2003); Senior Advisor of Morgan Stanley (since August 2000); Director of the Distributor and Dean of Witter Realty Inc.; previously President and Chief Operating Officer of the Private Client Group of Morgan Stanley (May 1999-August 2000), and President and Chief Operating Officer of Individual Securities of Morgan Stanley (February 1997-May 1999).

Name, Age and Address of Interested Trustee	Other Directorships Held by Trustee
Charles A. Fiumefreddo (71) c/o Morgan Stanley Trust Harborside Financial Center, Plaza Two, Jersey City, NJ	None
James F. Higgins (56) c/o Morgan Stanley Trust Harborside Financial Center, Plaza Two,	Director of AXA Financial, Inc. and The Equitable Life Assurance Society of the United States (financial services).

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Jersey City, NJ

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- \* This is the earliest date the Trustee began serving the funds advised by Morgan Stanley Investment Advisors Inc. (the "Investment Manager") (the "Retail Funds").
- \*\* The dates referenced below indicating commencement of services as Director/Trustee for the Retail Funds and the funds advised by Morgan Stanley Investment Management Inc. and Morgan Stanley AIP GP LP (the "Institutional Funds") reflect the earliest date the Director/Trustee began serving the Retail or Institutional Funds as applicable.
- \*\*\* The Fund Complex includes all open-end and closed-end funds (including all of their portfolios) advised by the Investment Manager and any funds that have an investment advisor that is an affiliated person of the Investment Manager (including but not limited to Morgan Stanley Investment Management Inc.).

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Morgan Stanley Insured California Municipal Securities  
TRUSTEE AND OFFICER INFORMATION continued

Officers:

Name, Age and Address of Executive Officer	Position(s) Held with Registrant	Term of Office and Length of Time Served*	Principal Occupation(s) Du
Mitchell M. Merin (51) 1221 Avenue of the Americas New York, NY	President	Since May 1999	President and Chief Operating Officer of Morgan Stanley Investment Management Inc.; President and Executive Officer of the Investment Management Services; Chairman and Director of the Trustee Services; Chairman and Director of the Trustee Services of various Morgan Stanley subsidiaries; Chairman and Director of the Trustee Services of Institutional Funds (since July 2002); Chairman of Retail Funds (since May 1999); Trustee of Institutional Funds (since December 2002) of the Van Kampen Funds; Trustee (since May 1999) of the Van Kampen Funds (2002) of the Van Kampen Open-End Funds.
Ronald E. Robison (65) 1221 Avenue of the Americas New York, NY	Executive Vice President and Principal Executive Officer	Since April 2003	Principal Executive Officer-Office of the Trustee Services (November 2003); Managing Director of the Trustee Services Incorporated, Managing Director of the Trustee Services, Chief Administrative Officer of the Trustee Services, Investment Manager and Morgan Stanley Executive Officer and Director of the Trustee Services; Managing Director and Director of the Trustee Services; Vice President and Principal Executive Officer of Institutional Funds (since July 2003) (since April 2003); Director of Morgan Stanley Funds (May 2004); previously President and Executive Officer and Managing Director of the Trustee Services of Morgan Stanley Investment Management Inc.

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Joseph J. McAlinden (61) 1221 Avenue of the Americas New York, NY	Vice President	Since July 1995	Managing Director and Chief Investment Manager and Morgan Stanley Inc.; Director of the Transfer Agent Officer of the Van Kampen Funds; Institutional Funds (since July 2000) (since July 1995).
Barry Fink (49) 1221 Avenue of the Americas New York, NY	Vice President	Since February 1997	General Counsel (since May 2000) (since December 2000) of Morgan Stanley Management; Managing Director (since February 1997) and Secretary (since February 1997) and (since 1998) of the Investment Manager and Vice President of the Retail Funds of Morgan Stanley DW; Vice President (since July 2003); Managing Director of the Distributor; previously Secretary (since February 2003) and General Counsel (February 2003) of the Retail Funds; Vice President of the Investment Manager and Morgan Stanley (February 1997-December 2001).
Amy R. Doberman (42) 1221 Avenue of the Americas New York, NY	Vice President	Since July 2004	Managing Director and General Counsel of Morgan Stanley Management; Managing Director of Morgan Stanley Management Inc. and the Investment Manager of the Institutional and Retail Funds of Morgan Stanley previously, Managing Director and General Counsel -- Americas, UBS Global Asset Management (2000-July 2004) and General Counsel of Morgan Stanley Management, Inc. (January 1997-July 2004).
Carsten Otto (41) 1221 Avenue of the Americas New York, NY	Chief Compliance Officer	Since October 2004	Executive Director and U.S. Director of Morgan Stanley Investment Management; Executive Director of the Investment Manager of Morgan Stanley Investment Management Inc. Secretary and Assistant General Counsel of Morgan Stanley Retail Funds.

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Morgan Stanley Insured California Municipal Securities  
TRUSTEE AND OFFICER INFORMATION continued

Name, Age and Address of Executive Officer	Position(s) Held with Registrant	Term of Office and Length of Time Served*	Principal Occupation(s) Du
Stefanie V. Chang (37) 1221 Avenue of the Americas New York, NY	Vice President	Since July 2003	Executive Director of Morgan Stanley Investment Management; Morgan Stanley Investment Manager; Vice President of the Institutional Funds (since December 1997) and the Retail Funds of Morgan Stanley formerly practiced law with the New York, New York & Wells (now Clifford Chance US LLP).
Francis J. Smith (39) c/o Morgan Stanley Trust Harborside Financial Center, Plaza Two,	Treasurer and Chief Financial Officer	Treasurer since July 2003 and Chief Financial	Executive Director of the Investment Manager of Morgan Stanley Services (since December 2003) and President of the Retail Funds (since July 2003) and Vice President of the Investment

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Jersey City, NJ		Officer since September 2002	Services (August 2000–November 2002) PricewaterhouseCoopers LLP (January 2003–present)
Thomas F. Caloia (58) c/o Morgan Stanley Trust Harborside Financial Center, Plaza Two, Jersey City, NJ	Vice President	Since July 2003	Executive Director (since December 2002) Treasurer of the Investment Management Morgan Stanley Services; previous Funds (April 1989–July 2003); former of the Investment Manager, the Director Stanley Services.
Mary E. Mullin (37) 1221 Avenue of the Americas New York, NY	Secretary	Since July 2003	Executive Director of Morgan Stanley Morgan Stanley Investment Management Manager; Secretary of the Institutional 1999) and the Retail Funds (since practiced law with the New York Law & Emery and Skadden, Arps, Slate, Finkelstein & LLP

- 
- \* This is the earliest date the Officer began serving the Retail Funds. Each Officer serves an indefinite term, until his or her successor is elected.
  - \*\* The dates referenced below indicating commencement of service as an Officer for the Retail and Institutional Funds reflect the earliest date the Officer began serving the Retail or Institutional Funds as applicable.

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### TRUSTEES

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

### OFFICERS

Charles A. Fiumefreddo  
Chairman of the Board

Mitchell M. Merin  
President

Ronald E. Robison  
Executive Vice President and Principal Executive Officer

Joseph J. McAlinden  
Vice President

Barry Fink  
Vice President

Amy R. Doberman  
Vice President

Carsten Otto  
Chief Compliance Officer



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Stefanie V. Chang  
Vice President

Francis J. Smith  
Treasurer and Chief Financial Officer

Thomas F. Caloia  
Vice President

Mary E. Mullin  
Secretary

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

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
Deloitte & Touche LLP  
Two World Financial Center  
New York, New York 10281

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

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

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MORGAN STANLEY FUNDS

Morgan Stanley  
Insured California  
Municipal Securities

Annual Report  
October 31, 2004

[MORGAN STANLEY LOGO]

38622RPT-RA04-00906P-Y10/04

Item 2. Code of Ethics.

(a) The Trust has adopted a code of ethics (the "Code of Ethics") that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the Trust or a third party.

(b) No information need be disclosed pursuant to this paragraph.

(c) The Trust has amended its Code of Ethics during the period covered by the shareholder report presented in Item 1 hereto to delete from the end of the following paragraph on page 2 of the Code the phrase "to the detriment of the Fund.":

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"Each Covered Officer must not use his personal influence or personal relationship improperly to influence investment decisions or financial reporting by the Fund whereby the Covered Officer would benefit personally (directly or indirectly)."

(d) Not applicable.

(e) Not applicable.

(f)

(1) The Trust's Code of Ethics is attached hereto as Exhibit A.

(2) Not applicable.

(3) Not applicable.

Item 3. Audit Committee Financial Expert.

The Trust's Board of Trustees has determined that it has two "audit committee financial experts" serving on its audit committee, each of whom are "independent" Trustees: Dr. Manuel H. Johnson and Joseph J. Kearns. Under applicable securities laws, a person who is determined to be an audit committee financial expert will not be deemed an "expert" for any purpose, including without limitation for the purposes of Section 11 of the Securities Act of 1933, as a result of being designated or identified as an audit committee financial expert. The designation or identification of a person as an audit committee financial expert does not impose on such person any duties, obligations, or liabilities that are greater than the duties, obligations, and liabilities imposed on such person as a member of the audit committee and Board of Trustees in the absence of such designation or identification.

Item 4. Principal Accountant Fees and Services.

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

2004	REGISTRANT	COVERED ENTITIES (1)
AUDIT FEES .....	\$ 28,989	N/A
NON-AUDIT FEES		
AUDIT-RELATED FEES..	\$ 5,752 (2)	\$ 5,067,400 (2)
TAX FEES .....	\$ 4,455 (3)	\$ 545,053 (4)
ALL OTHER FEES .....	\$ -	\$ -
TOTAL NON-AUDIT FEES .....	\$ 10,207	\$ 5,612,453
TOTAL .....	\$ 39,196	\$ 5,612,453

2003	REGISTRANT	COVERED ENTITIES (1)
AUDIT FEES .....	\$ 27,379	N/A
NON-AUDIT FEES		
AUDIT-RELATED FEES..	\$ 684 (2)	\$ 1,086,576 (2)
TAX FEES .....	\$ 4,346 (3)	\$ 252,500 (4)

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ALL OTHER FEES .....	\$	-	\$	- (5)
TOTAL NON-AUDIT FEES .....	\$	5,030	\$	1,339,076
TOTAL .....	\$	32,409	\$	1,339,076

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

- (1) Covered Entities include the Adviser (excluding sub-advisors) and any entity controlling, controlled by or under common control with the Adviser that provides ongoing services to the Registrant.
- (2) Audit-Related Fees represent assurance and related services provided that are reasonably related to the performance of the audit of the financial statements of the Covered Entities' and funds advised by the Adviser or its affiliates, specifically data verification and agreed-upon procedures related to asset securitizations and agreed-upon procedures engagements.
- (3) Tax Fees represent tax compliance, tax planning and tax advice services provided in connection with the preparation and review of the Registrant's tax returns.
- (4) Tax Fees represent tax compliance, tax planning and tax advice services provided in connection with the review of Covered Entities' tax returns.
- (5) All other fees represent project management for future business applications and improving business and operational processes.

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

APPENDIX A

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

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

### 1. STATEMENT OF PRINCIPLES

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

The SEC has issued rules specifying the types of services that an independent auditor may not provide to its audit client, as well as the audit committee's administration of the engagement of the independent auditor. The SEC's rules establish two different approaches to pre-approving services, which the SEC considers to be equally valid. Proposed services either: may be pre-approved without consideration of specific case-by-case services by the Audit Committee ("general pre-approval"); or require the specific pre-approval of the Audit Committee or its delegate ("specific pre-approval"). The Audit Committee believes that the combination of these two approaches in this Policy will result in an effective and efficient procedure to pre-approve services performed by the

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Independent Auditors. As set forth in this Policy, unless a type of service has received general pre-approval, it will require specific pre-approval by the Audit Committee (or by any member of the Audit Committee to which pre-approval authority has been delegated) if it is to be provided by the Independent Auditors. Any proposed services exceeding pre-approved cost levels or budgeted amounts will also require specific pre-approval by the Audit Committee.

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

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

3

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

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

### 2. DELEGATION

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

### 3. AUDIT SERVICES

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

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

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

### 4. AUDIT-RELATED SERVICES

Audit-related services are assurance and related services that are reasonably related to the performance of the audit or review of the Fund's financial statements and, to the extent they are Covered Services, the Covered Entities or that are traditionally performed by the Independent Auditors. Because the Audit Committee believes that the provision of Audit-related services does not impair the independence of the auditor and is consistent with the SEC's rules on auditor independence, the Audit Committee may grant general pre-approval to Audit-related services. Audit-related services include, among others, accounting consultations related to accounting, financial reporting or disclosure matters

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

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

### 5. TAX SERVICES

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

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

### 6. ALL OTHER SERVICES

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

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

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

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

### 8. PROCEDURES

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

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

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

### 9. ADDITIONAL REQUIREMENTS

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

### 10. COVERED ENTITIES

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

- Morgan Stanley Retail Funds
- Morgan Stanley Investment Advisors Inc.
- Morgan Stanley & Co. Incorporated
- Morgan Stanley DW Inc.
- Morgan Stanley Investment Management Inc.

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Morgan Stanley Investment Management Limited  
Morgan Stanley Investment Management Private Limited  
Morgan Stanley Asset & Investment Trust Management Co., Limited  
Morgan Stanley Investment Management Company  
Van Kampen Asset Management  
Morgan Stanley Services Company, Inc.  
Morgan Stanley Distributors Inc.  
Morgan Stanley Trust FSB

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

(e) (2) Beginning with non-audit service contracts entered into on or after May 6, 2003, the audit committee also is required to pre-approve services to Covered Entities to the extent that the services are determined to have a direct impact on the operations or financial reporting of the Registrant. 100% of such services were pre-approved by the audit committee pursuant to the Audit Committee's pre-approval policies and procedures (attached hereto).

(f) Not applicable.

(g) See table above.

(h) The audit committee of the Board of Trustees has considered whether the provision of services other than audit services performed by the auditors to the Registrant and Covered Entities is compatible with maintaining the auditors' independence in performing audit services.

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

(a) The Trust has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act whose members are: Michael Bozic, Edwin J. Garn, Wayne E. Hedien, Manual H. Johnson, Joseph J. Kerns, Michael Nugent and Fergus Reid.

(b) Not applicable

### Item 6.

See Item 1.

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

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

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## Item 8. Closed-End Fund Repurchases

### REGISTRANT PURCHASE OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) M (or Dol Sha tha Pur t
November 1, 2003 ---				
November 30, 2003	3,800	\$ 13.8800	N/A	
December 1, 2003 ---				
December 31, 2003	8,300	\$ 13.9100	N/A	
January 1, 2004 ---				
January 31, 2004	12,000	\$ 14.0700	N/A	
February 1, 2004 ---				
February 29, 2004	4,800	\$ 14.0900	N/A	
March 1, 2004 ---				
March 31, 2004	8,400	\$ 14.1900	N/A	
April 1, 2004 ---				
April 30, 2004	8,800	\$ 13.7800	N/A	
May 1, 2004 ---				
May 31, 2004	6,700	\$ 13.2900	N/A	
June 1, 2004 ---				
June 30, 2004	10,800	\$ 13.1700	N/A	
July 1, 2004 ---				
July 31, 2004	9,000	\$ 13.4100	N/A	
August 1, 2004 ---				
August 31, 2004	4,700	\$ 13.5500	N/A	
September 1, 2004 ---				
September 30, 2004	3,800	\$ 13.8100	N/A	
October 1, 2004 ---				
October 31, 2004	8,700	\$ 13.7900	N/A	
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Total	89,800	\$ 13.7450	N/A	
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## Item 9. Submission of Matters to a Vote of Security Holders

Not applicable.

## Item 10 - Controls and Procedures

(a) The Trust's principal executive officer and principal financial officer have concluded that the Trust's disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the Trust in this Form N-CSR was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, based upon such officers' evaluation of these controls and procedures as of a date within 90 days of the filing date of the report.



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(b) There were no changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal half-year (the registrant's second fiscal half-year in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 11 Exhibits

(a) The Code of Ethics for Principal Executive and Senior Financial Officers is attached hereto.

(b) A separate certification for each principal executive officer and principal financial officer of the registrant are attached hereto as part of EX-99.CERT.

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SIGNATURES

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

Morgan Stanley Insured California Municipal Securities

/s/ Ronald E. Robison

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Ronald E. Robison  
Principal Executive Officer  
December 14, 2004

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

/s/ Ronald E. Robison

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Ronald E. Robison  
Principal Executive Officer  
December 14, 2004

/s/ Francis Smith

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Francis Smith  
Principal Financial Officer  
December 14, 2004

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