## **NOVEMBER 1, 2013**

The U.S. Securities and Exchange Commission (SEC) has not approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Class A	Class C	Advisor Class
Franklin California Insured Tax-Free Income Fund	FRCIX	FRCAX	FZCAX
Franklin California Intermediate-Term Tax-Free Income Fund	FKCIX	FCCIX	FRCZX
Franklin California Tax-Exempt Money Fund	FCLXX	_	_

**PROSPECTUS** 

# Franklin California Tax-Free Trust



Franklin • Templeton • Mutual Series

## **SUPPLEMENT DATED MARCH 3, 2014** TO THE CURRENTLY EFFECTIVE PROSPECTUSES OF **EACH OF THE LISTED FUNDS**

Franklin California Tax-Free Income Fund Franklin California Tax-Free Trust

Franklin California Insured Tax-Free Income Fund

Franklin California Intermediate-Term Tax-Free Income Fund

Franklin California Tax-Exempt Money Fund

Franklin Federal Tax-Free Income Fund Franklin Municipal Securities Trust

Franklin California High Yield Municipal Fund Franklin Tennessee Municipal Bond Fund

Franklin New York Tax-Free Income Fund

Franklin New York Tax-Free Trust

Franklin New York Intermediate-Term Tax-Free Income Fund

Franklin Tax-Free Trust

Franklin Alabama Tax-Free Income Fund Franklin Arizona Tax-Free Income Fund Franklin Colorado Tax-Free Income Fund Franklin Connecticut Tax-Free Income Fund Franklin Double Tax-Free Income Fund

Franklin Federal Intermediate-Term Tax-Free Income Fund

Franklin Federal Limited-Term Tax-Free Income Fund

Franklin Florida Tax-Free Income Fund Franklin Georgia Tax-Free Income Fund Franklin High Yield Tax-Free Income Fund Franklin Insured Tax-Free Income Fund Franklin Kentucky Tax-Free Income Fund Franklin Louisiana Tax-Free Income Fund Franklin Maryland Tax-Free Income Fund Franklin Massachusetts Tax-Free Income Fund Franklin Michigan Tax-Free Income Fund

Franklin Minnesota Tax-Free Income Fund Franklin Missouri Tax-Free Income Fund

Franklin New Jersey Tax-Free Income Fund

Franklin North Carolina Tax-Free Income Fund

Franklin Ohio Tax-Free Income Fund Franklin Oregon Tax-Free Income Fund Franklin Pennsylvania Tax-Free Income Fund Franklin Virginia Tax-Free Income Fund

#### The Prospectus is amended as follows:

I. For the Franklin Double Tax-Free Income Fund, the "Fund Summary – Principal Risks – Puerto Rico and U.S. Territories" section beginning on page 4 is revised to add the following:

Puerto Rico and U.S. Territories Because the Fund focuses on the municipal securities of U.S. territories, and currently invests primarily in Puerto Rican municipal securities, events in Puerto Rico are likely to affect the Fund's investments and its performance. These events may include economic or political policy changes, tax base erosion, territory constitutional limits on tax increases, budget deficits and other financial difficulties, and changes in the credit ratings assigned to Puerto Rico's municipal issuers. As with Puerto Rican municipal securities, events in any of the other territories where the Fund is invested may affect the Fund's investments and its performance.

Certain municipal issuers in Puerto Rico continue to experience significant financial difficulties. In February 2014, credit rating firms Standard & Poor's, Fitch Ratings, and Moody's Investors Service downgraded their respective ratings of Puerto Rico's general obligation debt to below investment grade, along with the ratings of certain related Puerto Rican issuers. Additionally, each rating agency maintained a negative outlook on certain Puerto Rican issuers, and further downgrades are possible. The Fund is not required to sell securities that have been downgraded to below investment grade, but it is prohibited from making further purchases of such securities as long as the securities are not rated investment grade by at least one U.S. nationally recognized rating service.

Because the Fund currently invests primarily in Puerto Rican municipal securities, as of February 2014 a significant portion of the Fund's holdings may currently be rated below investment grade. These holdings may fluctuate more in value, be harder to sell and value, and be subject to greater credit risk than investment grade securities. Although the Fund is closed to new investments, it still must invest any net cash generated through the maturity or sale of portfolio holdings and dividend and capital gain reinvestments. If the Fund is unable to find sufficient Puerto Rican or other U.S. territory bonds that meet its investment policies, it may be unable to meet its investment goal.

The latest downgrades could create additional strain on a commonwealth already facing economic stagnation and fiscal imbalances, including budget deficits, underfunded pensions, high unemployment, significant debt service obligations, and liquidity issues. Although many investors not permitted to hold below-investment grade debt may have already sold certain Puerto Rican municipal securities amidst the recent market turmoil, these further downgrades could potentially lead to less market demand, less liquidity, wider spreads, and lower prices for such securities. Puerto Rico's continued financial difficulties could reduce its ability to access financial markets, potentially increasing the likelihood of a restructuring or default for Puerto Rican municipal securities that may affect the Fund's investments and its performance.

II. For the Franklin Double Tax-Free Income Fund, "Fund Details – Principal Risks – State and U.S. Territories" section is revised to add the following:

Because the Double Tax-Free Fund currently invests primarily in Puerto Rican municipal securities, as of February 2014 a significant portion of the Fund's holdings were rated below investment grade. These holdings may fluctuate more in value, be harder to sell and value, and be subject to greater credit risk than investment grade securities. Although the Double Tax-Free Fund is closed to new investments, it still must invest any net cash generated through the maturity or sale of portfolio holdings and dividend and capital gain reinvestments. If the Double Tax-Free Fund is unable to find sufficient Puerto Rican or other U.S. territory bonds that meet its investment policies, it may be unable to meet its investment goal.

III. For all funds, the paragraph beginning with "Certain municipal issuers..." of the "Fund Details – Principal Risks – State and U.S. Territories" section is replaced with the following:

Certain municipal issuers in Puerto Rico continue to experience significant financial difficulties. In February 2014, credit rating firms Standard & Poor's, Fitch Ratings, and Moody's Investors Service downgraded their respective ratings of Puerto Rico's general obligation debt to below investment grade, along with the ratings of certain related Puerto Rican issuers. Additionally, each rating agency maintained a negative outlook on certain Puerto Rican issuers, and further downgrades are possible. The Fund is not required to sell securities that have been downgraded to below investment grade, but it is prohibited from making further purchases of such securities as long as the securities are not rated investment grade by at least one U.S. nationally recognized rating service.

The latest downgrades could create additional strain on a commonwealth already facing economic stagnation and fiscal imbalances, including budget deficits, underfunded pensions, high unemployment, significant debt service obligations, and liquidity issues. Although many investors not permitted to hold below-investment grade debt may have already sold certain Puerto Rican municipal securities amidst the recent market turmoil, these further downgrades could potentially lead to less market demand, less liquidity, wider spreads, and lower prices for such securities. Puerto Rico's continued financial difficulties could reduce its ability to access financial markets, potentially increasing the likelihood of a restructuring or default for Puerto Rican municipal securities that may affect the Fund's investments and its performance.

The discussion above does not include all relevant facts or economic or political conditions that may affect the ability of municipal issuers to meet their debt obligations, and is subject to change without notice. The information provided is based on data as of February 24, 2014, from historically reliable sources, but the investment manager has not independently verified it. This information could change quickly and without notice and is generally only updated annually.

Please keep this supplement for future reference.

# SUPPLEMENT DATED FEBRUARY 1, 2014 TO THE CURRENTLY EFFECTIVE PROSPECTUSES OF THE LISTED FUNDS

#### Franklin California Tax-Free Trust

Franklin California Insured Tax-Free Income Fund Franklin California Intermediate-Term Tax-Free Income Fund Franklin California Tax-Exempt Money Fund

### Franklin Money Fund

Effective February 28, 2014, the prospectus is amended as follows:

I. For the "Your Account – Investor Services – Check Writing Privileges" section the first paragraph beginning "You may request redemption drafts..." is revised as follows:

You may request redemption drafts (checks) free of charge on your account application or, for an existing account, by calling our automated telephone system. Check writing privileges allow you to write checks against your account and are available unless you hold share certificates. Checks presented for payment are instructions to the fund to redeem an equivalent number of shares in your account to cover the amount of the check. This check writing privilege does not create a checking or other bank account relationship with the Fund or any bank.

II. For the "Your Account – Selling Shares – Selling Shares by Check" section the second paragraph beginning "When a check is presented for payment..." and the third paragraph beginning "The checks are drawn through..." are revised as follows:

When a check is presented for payment, we will redeem an equivalent number of shares in your account to cover the amount of the check. The shares will be redeemed at the net asset value next determined after we receive the check, as long as the amount of the check does not exceed the number of available shares in your account. Please do not post-date a check as we will redeem an equivalent number of shares in your account to cover the check on the day the check is received, regardless of the date on the check, provided you have sufficient shares in your account. The available shares may not include recently purchased shares if the check, draft or wire/electronic funds transfer used as payment for the shares has not yet cleared. If we receive a check written for an amount that exceeds the total value of the shares in your account, the check may be returned unpaid and we will impose a \$10 charge against your account. The total value of the shares in your account is calculated at the time the check is presented to us for processing.

The checks are drawn through United Missouri Bank ("UMB"). UMB may end this service at any time, and if that occurs we will provide you with prior notice. UMB will reject and return as unpaid any check you make payable to a payee, such as a merchant or creditor, who, in turn, converts it to an electronic debit. You may wish to avoid making checks payable to payees who solely follow this practice.

Please keep this supplement for future reference.

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# FRANKLIN CALIFORNIA INSURED TAX-FREE INCOME FUND

Effective at the close of market on March 1, 2013, the Fund was closed to all new investors and all additional investments from existing shareholders, except for purchases made through reinvestment of dividends or capital gains distributions. Re-registration of accounts held by existing investors, if required for legal transfer or administrative reasons, will be allowed.

# **Investment Goal**

To provide investors with as high a level of income exempt from federal income taxes and California personal income taxes as is consistent with prudent investment management and the preservation of shareholders' capital.

# Fees and Expenses of the Fund

These tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts in Class A if you and your family invest, or agree to invest in the future, at least \$100,000 in Franklin Templeton funds. More information about these and other discounts is available from your financial professional and under "Your Account" on page 65 in the Fund's Prospectus and under "Buying and Selling Shares" on page 39 of the Fund's Statement of Additional Information.

**SHAREHOLDER FEES** (fees paid directly from your investment)

	Class A	Class C	Advisor Class
Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price)	4.25%	None	None
Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)	None	1.00%	None

#### ANNUAL FUND OPERATING EXPENSES

(expenses that you pay each year as a percentage of the value of your investment)

	Class A	Class C	Advisor Class
Management fees	0.46%	0.46%	0.46%
Distribution and service (12b-1) fees	0.10%	0.65%	None
Other expenses	0.04%	0.04%	0.04%
Total annual Fund operating expenses	0.60%	1.15%	0.50%

#### **Example**

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of the period. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
Class A	\$483	\$607	\$743	\$1,138
Class C	\$217	\$364	\$630	\$1,391
Advisor Class	\$51	\$159	\$277	\$622
If you do not sell your shares:				
Class C	\$117	\$364	\$630	\$1,391

# Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual Fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 15.99% of the average value of its portfolio.

# Principal Investment Strategies

Under normal market conditions, the Fund invests at least 80% of its net assets in securities that pay interest free from federal income taxes, including the federal alternative minimum tax, and from California

personal income taxes. Under normal market conditions, the Fund invests at least 65% of its total assets in California municipal securities. The Fund also may invest up to 35% of its total assets in municipal securities issued by U.S. territories, such as Puerto Rico. Although the Fund tries to invest all of its assets in tax-free securities, it is possible, although not anticipated, that up to 20% of the Fund's net assets may be in securities that pay taxable interest, including interest that may be subject to the federal alternative minimum tax. Many of the Fund's portfolio securities are supported by credit enhancements, which may be provided by either U.S. or foreign entities.

The Fund invests at least 80% of its net assets in insured municipal securities. Insured municipal securities are covered by insurance policies that guarantee the timely payment of principal and interest. Generally, under normal market conditions, the insured municipal securities in which the Fund invests are covered by policies issued by municipal bond insurers rated at least BBB.

The Fund generally purchases bonds that have insurance in place so it does not pay insurance premiums directly. The premium costs, however, are reflected in a lower yield and/or higher price for the insured bond. When the Fund believes it could be beneficial, the Fund may purchase insurance for an uninsured bond directly from a qualified municipal bond insurer, in which case the Fund pays the insurance premium directly to the insurance company. It is important to note that insurance does not guarantee the market value of an insured security, or the Fund's share price or distributions, and shares of the Fund are not insured.

Although the investment manager will search for investments across a large number of municipal securities that finance different types of projects, from time to time, based on economic conditions, the Fund may have significant positions in municipal securities that finance similar types of projects.

The investment manager selects securities that it believes will provide the best balance between risk and return within the Fund's range of allowable investments and typically uses a buy and hold strategy. This means it generally holds securities in the Fund's portfolio for income purposes, rather than trading securities for capital gains, although the investment manager may sell a security at any time if it believes it could help the Fund meet its goal. The investment manager also may consider the cost of insurance when selecting securities for the Fund.

# Principal Risks

You could lose money by investing in the Fund. Mutual fund shares are not deposits or obligations of, or guaranteed or endorsed by, any bank, and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency of the U.S. government.

**Interest Rate** When interest rates rise, debt security prices generally fall. The opposite is also generally true: debt security prices rise when interest rates fall. In general, securities with longer maturities are more sensitive to these interest rate changes.

**Credit** An issuer of debt securities may fail to make interest payments and repay principal when due, in whole or in part. Changes in an issuer's financial strength or in a security's credit rating may affect a security's value.

A change in the credit rating of a municipal bond insurer that insures securities in the Fund's portfolio may affect the value of the securities it insures, the Fund's share price and Fund performance. The Fund might also be adversely impacted by the inability of an insurer to meet its insurance obligations.

**Bond Insurers** Market conditions or changes to ratings criteria could adversely impact the ratings of municipal bond insurance companies. Downgrades and withdrawal of ratings from municipal bond insurers have substantially limited the availability of insurance sought by municipal bond issuers thereby reducing the supply of insured municipal securities.

California and U.S. Territories Because the Fund invests predominantly in California municipal securities, events in California are likely to affect the Fund's investments and its performance. These events may include economic or political policy changes, tax base erosion, state constitutional limits on tax increases, budget deficits and other financial difficulties, and changes in the credit ratings assigned to municipal issuers of California. As with California municipal securities, such events in any of the U.S. territories in which the Fund invests, which can include Puerto Rico, may effect the Fund's investments and its performance.

The information above is based on data as of November 1, 2013, that the investment manager believes is reliable. The information could change quickly and without notice.

**FUND SUMMARIES** 

Tax-Exempt Securities While the Fund endeavors to purchase only bona fide tax-exempt securities, there are risks that: (a) a security issued as taxexempt may be reclassified as taxable by the Internal Revenue Service or a state tax authority, and/or (b) future legislative, administrative or court actions could adversely impact the qualification of income from a taxexempt security as tax-free. Such reclassifications or actions could cause interest from a security to become taxable, possibly retroactively, subjecting you to increased tax liability.

Income Because the Fund can only distribute what it earns, the Fund's distributions to shareholders may decline when prevailing interest rates fall or when the Fund experiences defaults on debt securities it holds.

**Prepayment** Prepayment risk occurs when a debt security can be repaid in whole or in part prior to the security's maturity and the Fund must reinvest the proceeds it receives, during periods of declining interest rates, in securities that pay a lower rate of interest.

Market The market values of securities owned by the Fund will go up or down, sometimes rapidly or unpredictably. A security's market value may be reduced by market activity or other results of supply and demand unrelated to the issuer. This is a basic risk associated with all securities. When there are more sellers than buyers, prices tend to fall. Likewise, when there are more buyers than sellers, prices tend to rise.

Focus The Fund may invest more than 25% of its assets in municipal securities that finance similar types of projects, such as utilities, hospitals, higher education and transportation. A change that affects one project, such as proposed legislation on the financing of the project, a shortage of the materials needed for the project, or a declining need for the project, would likely affect all similar projects, thereby increasing market risk.

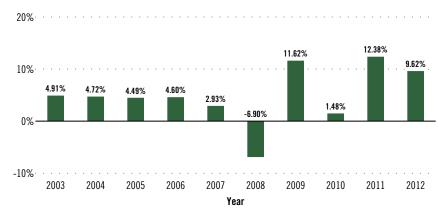
Management The Fund is subject to management risk because it is an actively managed investment portfolio. The Fund's investment manager applies investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these decisions will produce the desired results.

# Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton. com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

#### **CLASS A ANNUAL TOTAL RETURNS**



Best Quarter:	Q3'09	8.75%
Worst Quarter:	Q4'10	-5.71%
As of September 30, 2013, the Fund's year-to-date return was -3.83%.		

#### AVERAGE ANNUAL TOTAL RETURNS

(figures reflect sales charges)	For the periods ended December 31, 2012

	,		
	1 Year	5 Years	10 Years
Franklin California Insured Tax-Free Income Fund - Class A			
Return Before Taxes	4.95%	4.45%	4.39%
Return After Taxes on Distributions	4.95%	4.45%	4.39%
Return After Taxes on Distributions and Sale of Fund Shares	4.63%	4.42%	4.37%
Franklin California Insured Tax-Free Income Fund - Class C	7.97%	4.80%	4.28%
Franklin California Insured Tax-Free Income Fund - Advisor Cl	lass 9.71%	5.48%	4.90%
Barclays Municipal Bond Index (index reflects no deduction for feexpenses or taxes)	ees, 6.78%	5.91%	5.10%

Historical performance for Advisor Class shares prior to their inception is based on the performance of Class A shares. Advisor Class performance has been adjusted to reflect differences in sales charges between classes.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

# Investment Manager

Franklin Advisers, Inc. (Advisers)

# Portfolio Managers

#### JOHN WILEY

Senior Vice President of Advisers and portfolio manager of the Fund since 1991.

#### CHRISTOPHER SPERRY, CFA

Vice President of Advisers and portfolio manager of the Fund since 2000.

## Purchase and Sale of Fund Shares

You may purchase or redeem shares of the Fund on any business day online through our website at franklintempleton.com, by mail (Franklin Templeton Investor Services, P.O. Box 997151, Sacramento, CA 95899-7151), or by telephone at (800) 632-2301. For Class A and C, the minimum initial purchase for most accounts is \$1,000 (or \$50 under an automatic investment plan). Advisor Class is only available to certain qualified investors and the minimum initial investment will vary depending on the type of qualified investor, as described under "Your Account — Choosing a Share Class — Qualified Investors — Advisor Class" in the Fund's prospectus.

## Taxes

The Fund's distributions are primarily exempt from regular federal and state income tax for residents of California. A portion of these distributions, however, may be subject to the federal alternative minimum tax. The Fund may also make distributions that are taxable to you as ordinary income or capital gains.

# Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your financial advisor or visit your financial intermediary's website for more information.

# FRANKLIN CALIFORNIA INTERMEDIATE-TERM TAX-FREE INCOME FUND

## **Investment Goal**

To provide investors with as high a level of income exempt from federal income taxes and California personal income taxes as is consistent with prudent investment management and the preservation of shareholders' capital.

# Fees and Expenses of the Fund

These tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts in Class A if you and your family invest, or agree to invest in the future, at least \$100,000 in Franklin Templeton funds. More information about these and other discounts is available from your financial professional and under "Your Account" on page 65 in the Fund's Prospectus and under "Buying and Selling Shares" on page 39 of the Fund's Statement of Additional Information.

**SHAREHOLDER FEES** (fees paid directly from your investment)

	Class A	Class C	Advisor Class
Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price)	2.25%	None	None
Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)	None	1.00%	None

#### ANNUAL FUND OPERATING EXPENSES

(expenses that you pay each year as a percentage of the value of your investment)

	Class A	Class C	Advisor Class
Management fees	0.47%	0.47%	0.47%
Distribution and service (12b-1) fees	0.10%	0.65%	None
Other expenses	0.06%	0.06%	0.06%
Total annual Fund operating expenses	0.63%	1.18%	0.53%

## Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of the period. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
Class A	\$288	\$422	\$568	\$994
Class C	\$220	\$375	\$649	\$1,432
Advisor Class	\$54	\$170	\$296	\$665
If you do not sell your shares:				
Class C	\$120	\$375	\$649	\$1,432

## Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual Fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 6.01% of the average value of its portfolio.

# Principal Investment Strategies

Under normal market conditions, the Fund invests at least 80% of its total assets in securities that pay interest free from federal income taxes, including the federal alternative minimum tax, and from California personal income taxes. Under normal market conditions, the Fund invests at least 65% of its total assets in California municipal securities. The Fund also may invest up to 35% of its total assets in municipal securities issued by U.S. territories, such as Puerto Rico. Although the Fund tries to invest all of its assets in tax-free securities, it is possible, although not anticipated, that up to 20% of its total assets may be in securities that pay taxable interest, including interest that may be subject to the federal alternative minimum tax. Many of the Fund's portfolio securities are supported by credit enhancements, which may be provided by either U.S. or foreign entities.

The Fund maintains a dollar-weighted average portfolio maturity of three to 10 years and only buys securities rated, at the time of purchase, in one of the top four ratings categories by one or more U.S. nationally recognized rating services or comparable unrated or short-term rated securities.

The Fund may invest in insured municipal securities, which are covered by insurance policies that guarantee the timely payment of principal and interest. It is important to note that insurance does not guarantee the market value of an insured security, or the Fund's share price or distributions, and shares of the Fund are not insured.

Although the investment manager will search for investments across a large number of municipal securities that finance different types of projects, from time to time, based on economic conditions, the Fund may have significant positions in municipal securities that finance similar types of projects.

The investment manager selects securities that it believes will provide the best balance between risk and return within the Fund's range of allowable investments and typically uses a buy and hold strategy. This means it generally holds securities in the Fund's portfolio for income purposes, rather than trading securities for capital gains, although the investment manager may sell a security at any time if it believes it could help the Fund meet its goal. The investment manager also may consider the cost of insurance when selecting securities for the Fund.

# Principal Risks

You could lose money by investing in the Fund. Mutual fund shares are not deposits or obligations of, or guaranteed or endorsed by, any bank, and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency of the U.S. government.

**Interest Rate** When interest rates rise, debt security prices generally fall. The opposite is also generally true: debt security prices rise when interest rates fall. In general, securities with longer maturities are more sensitive to these interest rate changes.

California and U.S. Territories Because the Fund invests predominantly in California municipal securities, events in California are likely to affect the Fund's investments and its performance. These events may include economic or political policy changes, tax base erosion, state constitutional limits on tax increases, budget deficits and other financial difficulties, and changes in the credit ratings assigned to municipal issuers of California.

As with California municipal securities, such events in any of the U.S. territories in which the Fund invests, which can include Puerto Rico, may effect the Fund's investments and its performance.

The information above is based on data as of November 1, 2013, that the investment manager believes is reliable. The information could change quickly and without notice.

**Focus** The Fund may invest more than 25% of its assets in municipal securities that finance similar types of projects, such as utilities, hospitals, higher education and transportation. A change that affects one project, such as proposed legislation on the financing of the project, a shortage of the materials needed for the project, or a declining need for the project, would likely affect all similar projects, thereby increasing market risk.

**Credit** An issuer of debt securities may fail to make interest payments and repay principal when due, in whole or in part. Changes in an issuer's financial strength or in a security's credit rating may affect a security's value.

A change in the credit rating of a municipal bond insurer that insures securities in the Fund's portfolio may affect the value of the securities it insures, the Fund's share price and Fund performance. The Fund might also be adversely impacted by the inability of an insurer to meet its insurance obligations.

**Bond Insurers** Market conditions or changes to ratings criteria could adversely impact the ratings of municipal bond insurance companies. Downgrades and withdrawal of ratings from municipal bond insurers have substantially limited the availability of insurance sought by municipal bond issuers thereby reducing the supply of insured municipal securities.

Market The market values of securities owned by the Fund will go up or down, sometimes rapidly or unpredictably. A security's market value may be reduced by market activity or other results of supply and demand unrelated to the issuer. This is a basic risk associated with all securities. When there are more sellers than buyers, prices tend to fall. Likewise, when there are more buyers than sellers, prices tend to rise.

**Tax-Exempt Securities** While the Fund endeavors to purchase only bona fide tax-exempt securities, there are risks that: (a) a security issued as tax-exempt may be reclassified as taxable by the Internal Revenue Service or a state tax authority, and/or (b) future legislative, administrative or court actions could adversely impact the qualification of income from a tax-

exempt security as tax-free. Such reclassifications or actions could cause interest from a security to become taxable, possibly retroactively, subjecting you to increased tax liability.

Management The Fund is subject to management risk because it is an actively managed investment portfolio. The Fund's investment manager applies investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these decisions will produce the desired results.

**Income** Because the Fund can only distribute what it earns, the Fund's distributions to shareholders may decline when prevailing interest rates fall or when the Fund experiences defaults on debt securities it holds.

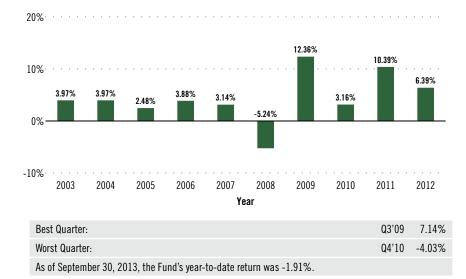
**Prepayment** Prepayment risk occurs when a debt security can be repaid in whole or in part prior to the security's maturity and the Fund must reinvest the proceeds it receives, during periods of declining interest rates, in securities that pay a lower rate of interest.

## Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton. com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

#### **CLASS A ANNUAL TOTAL RETURNS**



#### **AVERAGE ANNUAL TOTAL RETURNS**

(figures reflect sales charges)	For the periods er	ided Decemb	per 31, 2012
	1 Year	5 Years	10 Years
Franklin California Intermediate-Term Tax-Free Income Fund - Class A			
Return Before Taxes	4.02%	4.75%	4.11%
Return After Taxes on Distributions	4.02%	4.75%	4.11%
Return After Taxes on Distributions and Sale of Fund Shares	3.81%	4.61%	4.06%
Franklin California Intermediate-Term Tax-Free Income Fund - Class C	4.87%	4.67%	3.73%1
Franklin California Intermediate-Term Tax-Free Income Fund - Advisor Class	6.49%	5.34%	4.41%
Barclays Municipal Bond Index: 10 Year Component (index reflect deduction for fees, expenses or taxes)	s no 5.70%	6.62%	5.46%

1. Since inception July 1, 2003.

Historical performance for Advisor Class shares prior to their inception is based on the performance of Class A shares. Advisor Class performance has been adjusted to reflect differences in sales charges between classes.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation

and may differ from those shown. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

# Investment Manager

Franklin Advisers, Inc. (Advisers)

# Portfolio Managers

CHRISTOPHER SPERRY, CFA

Vice President of Advisers and portfolio manager of the Fund since 2000.

#### JOHN WILEY

Senior Vice President of Advisers and portfolio manager of the Fund since 1992.

## Purchase and Sale of Fund Shares

You may purchase or redeem shares of the Fund on any business day online through our website at franklintempleton.com, by mail (Franklin Templeton Investor Services, P.O. Box 997151, Sacramento, CA 95899-7151), or by telephone at (800) 632-2301. For Class A and C, the minimum initial purchase for most accounts is \$1,000 (or \$50 under an automatic investment plan). Advisor Class is only available to certain qualified investors and the minimum initial investment will vary depending on the type of qualified investor, as described under "Your Account — Choosing a Share Class — Qualified Investors — Advisor Class" in the Fund's prospectus.

## **Taxes**

The Fund's distributions are primarily exempt from regular federal and state income tax for residents of California. A portion of these distributions, however, may be subject to the federal alternative minimum tax. The Fund may also make distributions that are taxable to you as ordinary income or capital gains.

# Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These

payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your financial advisor or visit your financial intermediary's website for more information.

## FRANKLIN CALIFORNIA TAX-EXEMPT MONEY FUND

## **Investment Goal**

To provide investors with as high a level of income exempt from federal income taxes and California personal income taxes as is consistent with prudent investment management, the preservation of shareholders' capital and liquidity in its investments. The Fund also tries to maintain a stable \$1.00 share price.

# Fees and Expenses of the Fund

These tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund.

SHAREHOLDER FEES (fees paid directly from your investment)

Maximum Sales Charge (Load) Imposed on Purchases	None

#### ANNUAL FUND OPERATING EXPENSES

(expenses that you pay each year as a percentage of the value of your investment)

Management fees	0.49%
Other expenses	0.04%
Total annual Fund operating expenses	0.53%

## **Example**

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of the period. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
\$54	\$170	\$296	\$665

# Principal Investment Strategies

Under normal market conditions, the Fund invests at least 80% of its total assets in securities that pay interest free from federal income taxes, including the federal alternative minimum tax, and from California personal income taxes. The Fund may also invest up to 35% of its total assets in municipal securities issued by U.S. territories, such as Puerto Rico. Although the Fund tries to invest all of its total assets in tax-free securities, it is possible, although not anticipated, that up to 20% of the Fund's total assets may be in securities that pay taxable interest, including interest that may be subject to the federal alternative minimum tax. The Fund invests predominantly in high-quality, short-term, municipal securities. Many of the Fund's portfolio securities may be supported by liquidity guarantees or credit enhancements, which may be provided by banks and other financial institutions.

**Portfolio maturity and quality** The Fund only buys securities that the investment manager determines present minimal credit risks. The Fund maintains a dollar-weighted average portfolio maturity of 60 days or less and maintains a dollar-weighted average life for its portfolio of 120 days or less, and only buys securities that:

- mature in 397 calendar days or less, if such security is rated in the highest rating category by the requisite rating agencies, as described in applicable regulation; or
- mature in 45 calendar days or less, if such security is rated in the second highest rating category by the requisite rating agencies, as described in applicable regulation.

A large portion or all of the Fund's portfolio securities may be invested in variable and floating rate securities, primarily variable rate demand notes, the interest rates of which change either at specific intervals or whenever a benchmark rate changes.

Although the investment manager will search for investments across a large number of municipal securities that finance different types of projects, from time to time, based on economic conditions, the Fund may have significant positions in municipal securities that finance similar types of projects.

# Principal Risks

Mutual fund shares are not deposits or obligations of, or guaranteed or endorsed by, any bank, and are not insured or guaranteed by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency of the U.S. government. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund.

Interest Rate When interest rates rise, security prices fall. The opposite is also true: security prices rise when interest rates fall. In general, securities with longer maturities are more sensitive to these price changes. The Fund's yield will vary. A sharp and unexpected rise in interest rates could cause the Fund's share price to drop below a dollar. A low interest rate environment may prevent the Fund from providing a positive yield or paying Fund expenses out of current income and could impair the Fund's ability to maintain a stable net asset value.

Credit An issuer of securities may be unable to make interest payments and repay principal. Failure of an issuer to make timely interest or principal payments, or a decline or perception of a decline in the credit quality of a security, can cause the security's price to fall, potentially lowering the Fund's share price. Although the Fund invests predominantly in highquality debt securities, any of the Fund's holdings could have its credit rating downgraded or could default. The credit quality of the securities held by the Fund can change rapidly in certain market environments, and the default of a single holding could have the potential to cause significant deterioration of the Fund's net asset value.

A change in the credit rating of a municipal bond insurer that insures securities in the Fund's portfolio may affect the value of the securities it insures, the Fund's share price and Fund performance. The Fund might also be adversely impacted by the inability of an insurer to meet its insurance obligations.

Banking Industry Because the Fund will invest in obligations for which banks and other financial institutions may provide liquidity guarantees or credit enhancements, it may be vulnerable to setbacks in that industry. Banks and other financial institutions are highly dependent on short-term interest rates and can be adversely affected by downturns in the U.S. and foreign economies or changes in banking regulations.

California and U.S. Territories Because the Fund invests predominantly in California municipal securities, events in California are likely to affect the Fund's investments and its performance. These events may include economic or political policy changes, tax base erosion, state constitutional limits on tax increases, budget deficits and other financial difficulties, and

changes in the credit ratings assigned to municipal issuers of California. As with California municipal securities, such events in any of the U.S. territories in which the Fund invests, which can include Puerto Rico, may effect the Fund's investments and its performance.

The information above is based on data as of November 1, 2013, that the investment manager believes is reliable. The information could change quickly and without notice.

Tax-Exempt Securities While the Fund endeavors to purchase only bona fide tax-exempt securities, there are risks that: (a) a security issued as taxexempt may be reclassified as taxable by the Internal Revenue Service or a state tax authority, and/or (b) future legislative, administrative or court actions could adversely impact the qualification of income from a taxexempt security as tax-free. Such reclassifications or actions could cause interest from a security to become taxable, possibly retroactively, subjecting you to increased tax liability.

Management The Fund is subject to management risk because it is an actively managed investment portfolio. The Fund's investment manager applies investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these decisions will produce the desired results.

**Income** Since the Fund can only distribute what it earns, the Fund's distributions to shareholders may decline when interest rates fall. Because the Fund limits its investments to high-quality, short-term securities, its portfolio generally will earn lower yields than a portfolio with lowerquality, longer-term securities subject to more risk.

Liquidity This is the risk that the Fund may make investments that may become less liquid in response to market developments or adverse investor perception. While the Fund endeavors to maintain a high level of liquidity in its portfolio, the liquidity of portfolio securities can deteriorate rapidly due to credit events affecting issuers or guarantors or due to general market conditions and a lack of willing buyers. When there is no willing buyer and investments cannot be readily sold at the desired time or price, the Fund may have to accept a lower price or may not be able to sell the instrument at all. An inability to sell one or more portfolio positions can adversely affect the Fund's ability to maintain a \$1.00 share price or prevent the Fund from being able to take advantage of other investment opportunities.

Liquidity risk may also refer to the risk that the Fund will not be able to pay redemption proceeds within a short period of time because of unusual market conditions, an unusually high volume of redemption requests or other reasons. If the Fund is forced to sell securities at an unfavorable time and/or under unfavorable conditions, such sales may adversely affect the Fund's ability to maintain a \$1.00 share price.

Market The market values of securities owned by the Fund will go up or down, sometimes rapidly or unpredictably. A security's market value may be reduced by market activity or other results of supply and demand unrelated to the issuer. This is a basic risk associated with all securities. When there are more sellers than buyers, prices tend to fall. Likewise, when there are more buyers than sellers, prices tend to rise.

Focus The Fund may invest more than 25% of its assets in municipal securities that finance similar types of projects, such as utilities, hospitals, higher education and transportation. A change that affects one project, such as proposed legislation on the financing of the project, a shortage of the materials needed for the project, or a declining need for the project, would likely affect all similar projects, thereby increasing market risk.

U.S. Government Securities Not all obligations of the U.S. Government, its agencies and instrumentalities are backed by the full faith and credit of the United States. Some obligations are backed only by the credit of the issuing agency or instrumentality, and in some cases there may be some risk of default by the issuer. Any guarantee by the U.S. Government or its agencies or instrumentalities of a security held by the Fund does not apply to the market value of such security or to shares of the Fund itself. A security backed by the U.S. Treasury or the full faith and credit of the United States is guaranteed only as to the timely payment of interest and principal when held to maturity.

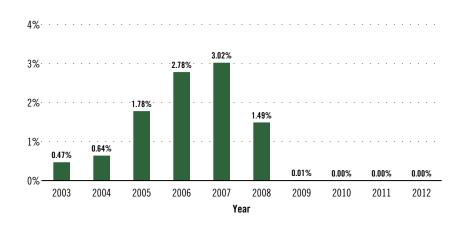
**Risk Associated with the Fund Holding Cash** Although the Fund seeks to be fully invested, it may at times hold some of its assets in cash, which may hurt the Fund's performance.

Possible Regulatory Changes It is possible that the SEC or other agency will adopt regulations that change in very important respects the operation of money market funds, including the Fund. Any such regulatory changes could impact important characteristics of the Fund, including liquidity of an investment in the Fund and the Fund's ability to maintain a stable net asset value per share. These changes may result in reduced yields from money market funds, including the Fund.

# Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for shares of the Fund. The table shows the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable. The Fund's past performance is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

#### ANNUAL TOTAL RETURNS



Best Quarter:	Q3'07	0.78%
Worst Quarter:	Q4'12	0.00%
As of September 30, 2013, the Fund's year-to-date return was 0.00%.		

AVERAGE ANNUAL TOTAL RETURNS	For the perioas ei	паеа ресеть	er 31, 2012
	1 Year	5 Years	10 Years
	0.00%	0.30%	1.01%

To obtain the Fund's current yield information, please call (800) DIAL BEN/342-5236.

# Investment Manager

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Franklin Advisers, Inc. (Advisers)

# Purchase and Sale of Fund Shares

You may purchase or redeem shares of the Fund on any business day online through our website at franklintempleton.com, by mail (Franklin Templeton Investor Services, P.O. Box 33030, St. Petersburg, FL 33733-8030), or by telephone at (800) 632-2301. The minimum initial purchase for most accounts is \$1,000 (or \$50 under an automatic investment plan).

FRANKLIN CALIFORNIA TAX-EXEMPT MONEY FUND

## **Taxes**

The Fund's distributions are primarily exempt from regular federal and state income tax for residents of California. A portion of these distributions, however, may be subject to federal alternative minimum tax. The Fund may also make distributions that are taxable to you as ordinary income.

# Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your financial advisor or visit your financial intermediary's website for more information.

# FRANKLIN CALIFORNIA INSURED TAX-FREE INCOME FUND

Effective at the close of market on March 1, 2013, the Fund was closed to all new investors and all additional investments from existing shareholders, except for purchases made through reinvestment of dividends or capital gains distributions. Re-registration of accounts held by existing investors, if required for legal transfer or administrative reasons, will be allowed.

# **Investment Goal**

The Fund's investment goal is to provide investors with as high a level of income exempt from federal income taxes and California personal income taxes as is consistent with prudent investment management and the preservation of shareholders' capital.

# Principal Investment Policies and Practices

Under normal market conditions, the Fund invests at least 80% of its net assets in securities that pay interest free from federal income taxes, including the federal alternative minimum tax, and from California personal income taxes. Under normal market conditions, the Fund invests at least 65% of its total assets in California municipal securities. The Fund also may invest up to 35% of its total assets in municipal securities issued by U.S. territories, such as Puerto Rico. Although the Fund tries to invest all of its assets in tax-free securities, it is possible, although not anticipated, that up to 20% of its net assets may be in securities that pay taxable interest, including interest that may be subject to the federal alternative minimum tax. Many of the Fund's portfolio securities are supported by credit enhancements, which may be provided by either U.S. or foreign entities.

Municipal securities are issued by state and local governments, their agencies and authorities, as well as by the District of Columbia and U.S. territories and possessions, such as Puerto Rico, to borrow money for various public and private projects. Municipal securities pay a fixed, floating or variable rate of interest, and require that the amount borrowed (principal) be repaid at maturity.

The Fund invests at least 80% of its net assets in insured municipal securities. Shareholders will be given at least 60 days' advance notice of

any change to this 80% policy. Insured municipal securities are covered by insurance policies that guarantee the timely payment of principal and interest. Generally, under normal market conditions, the insured municipal securities in which the Funds invests are covered by policies issued by municipal bond insurers rated at least BBB. The Fund generally purchases bonds that have insurance in place so it does not pay insurance premiums directly. The premium costs, however, are reflected in a lower yield and/or higher price for the insured bond. When the Fund believes it could be beneficial, the Fund may purchase insurance for an uninsured bond directly from a qualified municipal bond insurer, in which case the Fund pays the insurance premium directly to the insurance company.

The Fund may invest the balance (up to 20%) of its net assets in the following types of securities: (i) uninsured municipal securities secured by an escrow or trust account containing direct U.S. government obligations; (ii) municipal securities rated in one of the top four ratings categories by one or more U.S. nationally recognized rating services (or unrated or short-term rated securities the investment manager deems to be comparable), which may include uninsured securities; or (iii) uninsured, short-term, tax-exempt securities rated in the top rating category, pending investment in longer-term municipal securities.

The Fund also may invest in municipal lease obligations. Municipal lease obligations generally are issued to support a government's infrastructure by financing or refinancing equipment or property acquisitions or the construction, expansion or rehabilitation of public facilities. In such transactions, equipment or property is leased to a state or local government, which, in turn, pays lease payments to the lessor consisting of interest and principal payments on the obligations.

The Fund may also invest in municipal securities that are issued on a whenissued or delayed delivery basis.

Although the investment manager will search for investments across a large number of municipal securities that finance different types of projects, from time to time, based on economic conditions, the Fund may have significant positions in municipal securities that finance similar types of projects.

The investment manager selects securities that it believes will provide the best balance between risk and return within the Fund's range of allowable investments and typically uses a buy and hold strategy. This means it generally holds securities in the Fund's portfolio for income purposes, rather than trading securities for capital gains, although the investment

manager may sell a security at any time if it believes it could help the Fund meet its goal. The investment manager also may consider the cost of insurance when selecting securities for the Fund.

It is important to note that insurance does not guarantee the market value of an insured security, or the Fund's share price or distributions, and shares of the Fund are not insured.

### **Temporary Investments**

When the investment manager believes market or economic conditions are unusual or unfavorable for investors, the investment manager may invest up to 100% of the Fund's assets in a temporary defensive manner by holding all or a substantial portion of its assets in cash, cash equivalents or other high quality short-term investments. Temporary defensive investments generally may include securities that pay taxable interest. The investment manager may also invest in these types of securities or hold cash when securities meeting the Fund's investment criteria are unavailable or to maintain liquidity. In these circumstances, the Fund may be unable to achieve its investment goal.

# Principal Risks

#### **Interest Rate**

Interest rate changes can be sudden and unpredictable. Debt securities generally tend to lose market value when interest rates rise and increase in value when interest rates fall. Securities with longer maturities or lower coupons or that make little (or no) interest payments before maturity tend to be more sensitive to these interest rate changes. The longer the Fund's average weighted portfolio maturity, the greater the impact a change in interest rates will have on its share price.

#### Credit

The Fund could lose money on a debt security if an issuer or borrower is unable or fails to meet its obligations, including failing to make interest payments and/or to repay principal when due. Changes in an issuer's financial strength, the market's perception of the issuer's financial strength or in a security's credit rating, which reflects a third party's assessment of the credit risk presented by a particular issuer, may affect debt securities' values. The Fund may incur substantial losses on debt securities that are inaccurately perceived to present a different amount of credit risk by the

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INSURED TAX-FREE INCOME FUND

market, the investment manager or the rating agencies than such securities actually do.

The Fund's portfolio securities may be supported by credit enhancements provided by an insurance company, bank, or other foreign or domestic entity. For example, some municipal securities are insured by a policy that guarantees the timely payment of principal and interest. Other municipal securities may be backed by letters of credit, guarantees, or escrow or trust accounts containing high quality securities, including securities backed by the full faith and credit of the U.S. government, to secure the payment of principal and interest. Securities supported by credit enhancements have the credit risk of the entity providing the credit support. To the extent the Fund holds these securities, a change in the credit rating of the entity providing credit support may affect the value of the securities it supports, the Fund's share price and Fund performance. The Fund might also be adversely impacted by the inability of an entity providing credit support to meet its obligations, and the Fund's ability to maintain a stable share price may depend on these credit supports, which are not backed by federal deposit insurance.

#### **Bond Insurers**

Market conditions or changes to ratings criteria could adversely impact the ratings of municipal bond insurance companies. Rating agencies have lowered their ratings and withdrawn ratings on some municipal bond insurers. In such cases the insurance may be providing little or no enhancement of credit or resale value to the municipal security and the security rating will reflect the higher of the insurer rating or the rating of the underlying security.

Additional downgrades of municipal bond insurers rated above BBB would substantially limit the availability of insurance sought by municipal bond issuers thereby reducing the supply of insured municipal securities meeting the Fund's investment guidelines.

Market conditions have weakened the municipal bond insurance industry leading state regulators from time to time to require municipal bond insurers to suspend claims payments on outstanding insurance in force. Certain municipal bond insurers have withdrawn from the market. These circumstances have led to a consolidation among municipal bond insurers which have led to a decrease in the supply of insured municipal securities and a concentration of the insurance company credit risk on the securities in the Fund's portfolio amongst fewer municipal bond insurers. Due to this

consolidation, events involving one or more municipal bond insurers could have a significant adverse effect on the value of the securities insured by an insurer and or the municipal markets as a whole.

### California and U.S. Territories

Investment in the Fund may involve more risk than an investment in a fund that does not focus on securities of a single state. Because the Fund invests predominantly in California municipal securities, events in California are likely to affect the Fund's investments and its performance. These events may include economic or political policy changes, man-made or natural disasters, tax base erosion, state constitutional limits on tax increases. budget deficits and other financial difficulties, and changes in the credit ratings assigned to California's municipal issuers. A negative change in any one of these or other areas could affect the ability of California municipal issuers to meet their obligations.

Beginning in 2008, the state's economy deteriorated as a result of the state's housing crisis and the national economic slowdown. Foreclosures increased, home prices dropped and retail sales declined. Certain municipal issuers in California have experienced severe financial difficulties. After several years of job losses and an increasing unemployment rate, the state is now showing year-over-year job gains, although growth is still sluggish. As of July 2013, the preliminary year-over-year increase in non-farm employment was 236,400 jobs, or 1.6%. The preliminary unemployment rate has improved to 8.5% as of June 2013 as compared to 10.6% a year earlier. Personal income taxes, the state's largest and one of its most volatile revenue sources, had dropped precipitously in response to job layoffs but is now seeing growth due to job growth as well as retroactive tax rate increase as of January 1, 2013 for tax year 2012.

In June 2013, the Governor signed the fiscal year 2014 budget. As a result of the passage of Proposition 30, passed by voters in November 2012 which temporarily increased personal income taxes on higher income earners and the state portion of the sales tax, there is no budget gap or the need for a gap closing program. The governor believes the state will end fiscal year 2013 with an ending fund balance of about \$872 million and a reserve of about \$254 million. The state projects revenues for fiscal year 2014 will decrease by about 1% which reflects a full year of the Proposition 30 rate increases but also incorporates a decrease in revenue due to federal policy changes and sequestration and a loan of cap-andtrade auction revenues. Personal income taxes are projected to decrease

FRANKLIN CALIFORNIA

INSURED TAX-FREE INCOME FUND

4.8% from fiscal year 2013 and sales and use taxes are expected to increase 13.6%. Personal income taxes for fiscal year 2013 include onetime revenues related to the acceleration of some capital gains from 2013 to 2012 due to the expiration of certain tax cuts on January 1, 2013. This explains some of the projected decrease for fiscal year 2014. Expenditures are proposed to increase by just 0.6%. The enacted budget includes a \$1.1 billion reserve at fiscal year end 2014.

While the passage of Proposition 30 along with economic gains have improved the state's fiscal year 2014 budget outlook, the state still faces large challenges in the future including increasing pension costs, an unemployment insurance fund debt to the Federal government, increasing debt service, and a backlog of payments due to schools among others.

As of May 2013, the state was rated A1, stable by Moody's Investors Service (Moody's); A, stable by Standard & Poor's (S&P); and A-, stable by Fitch.

Because the Fund invests predominantly in California municipal securities, events in California are likely to affect the Fund's investments and its performance. These events may include economic or political policy changes, tax base erosion, state constitutional limits on tax increases, budget deficits and other financial difficulties, and changes in the credit ratings assigned to municipal issuers of California. As with California municipal securities, such events in any of the U.S. territories in which the Fund invests, which can include Puerto Rico, may effect the Fund's investments and its performance.

The discussion above does not include all relevant facts or economic or political conditions that may affect the ability of municipal issuers to meet their debt obligations, and is subject to change without notice. The information provided is based on data as of November 1, 2013, from historically reliable sources, but the investment manager has not independently verified it. This information could change quickly and without notice and is generally only updated annually.

## **Tax-Exempt Securities**

While the Fund endeavors to purchase only bona fide tax-exempt securities, there are risks that: (a) a security issued as tax-exempt may be reclassified as taxable by the Internal Revenue Service or a state tax authority, and/or (b) future legislative, administrative or court actions could adversely impact the qualification of income from a tax-exempt

security as tax-free. Such reclassifications or actions could cause interest from a security to become taxable, possibly retroactively, subjecting you to increased tax liability. In addition, such reclassifications or actions could cause the value of a security, and therefore, the value of the Fund's shares, to decline.

#### Income

Because the Fund can only distribute what it earns, the Fund's distributions to shareholders may decline when prevailing interest rates fall or when the Fund experiences defaults on debt securities it holds. The Fund's income generally declines during periods of falling interest rates because the Fund must reinvest the proceeds it receives from existing investments (upon their maturity, prepayment, amortization, call, or buy-back) at a lower rate of interest or return.

#### Inflation risk

The market price of debt securities generally falls as inflation increases because the purchasing power of the future income and repaid principal is expected to be worth less when received by the Fund. Debt securities that pay a fixed rather than variable interest rate are especially vulnerable to inflation risk because variable-rate debt securities may be able to participate, over the long term, in rising interest rates which have historically corresponded with long-term inflationary trends.

## **Prepayment**

Debt securities are subject to prepayment risk when the issuer can "call" the security, or repay principal, in whole or in part, prior to the security's maturity. When the Fund reinvests the prepayments of principal it receives, it may receive a rate of interest that is lower than the rate on the existing security, potentially lowering the Fund's income, yield and its distributions to shareholders. Securities subject to prepayment may offer less potential for gains during a declining interest rate environment and have greater price volatility. Prepayment risk is greater in periods of falling interest rates.

#### Market

The market values of securities owned by the Fund will go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting individual issuers, securities markets generally or particular industries or sectors within the securities markets. The value of a security may go up or down due to general market conditions which

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are not specifically related to a particular issuer, such as real or perceived adverse economic conditions, changes in the general outlook for revenues or corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also go up or down due to factors that affect an individual issuer or a particular industry or sector, such as changes in production costs and competitive conditions within an industry. During a general downturn in the securities markets, multiple asset classes may decline in value. When markets perform well, there can be no assurance that securities held by the Fund will participate in or otherwise benefit from the advance.

#### **Focus**

The Fund may invest more than 25% of its assets in municipal securities that finance similar types of projects, such as utilities, hospitals, higher education and transportation. A change that affects one project, such as proposed legislation on the financing of the project, a shortage of the materials needed for the project, or a declining need for the project, would likely affect all similar projects, thereby increasing market risk.

### When-Issued and Delayed Delivery Transactions

Municipal securities may be issued on a when-issued or delayed delivery basis, where payment and delivery take place at a future date beyond the normal settlement date. Because the market price of the security may fluctuate during the time before payment and delivery, the Fund assumes the risk that the value of the security at delivery may be more or less than the purchase price.

## **Municipal Lease Obligations**

Municipal lease obligations differ from other municipal securities because the relevant legislative body must appropriate the money each year to make the lease payments. If the money is not appropriated, the lease may be cancelled without penalty and investors who own the lease obligations may not be paid.

## Management

The Fund is actively managed and could experience losses if the investment manager's judgment about markets, interest rates or the attractiveness, relative values, liquidity, or potential appreciation of particular investments made for the Fund's portfolio prove to be incorrect. There can be no guarantee that these techniques or the investment manager's investment

decisions will produce the desired results. Additionally, legislative, regulatory, or tax developments may affect the investment techniques available to the investment manager in connection with managing the Fund and may also adversely affect the ability of the Fund to achieve its investment goal.

More detailed information about the Fund, its policies and risks and about municipal securities held by the Fund can be found in the Fund's Statement of Additional Information (SAI).

A description of the Fund's policies and procedures regarding the release of portfolio holdings information is also available in the Fund's SAI. Portfolio holdings information can be viewed online at franklintempleton.com.

# Management

Franklin Advisers, Inc. (Advisers), One Franklin Parkway, San Mateo, CA 94403-1906, is the Fund's investment manager. Together, Advisers and its affiliates manage, as of September 30, 2013, over \$844 billion in assets, and have been in the investment management business since 1947.

The Fund is managed by a team of dedicated professionals focused on investments in California municipal securities. The portfolio managers of the team are as follows:

JOHN WILEY Senior Vice President of Advisers

Mr. Wiley has been an analyst or portfolio manager of the Fund since 1991. He joined Franklin Templeton Investments in 1989.

CHRISTOPHER SPERRY, CFA Vice President of Advisers

Mr. Sperry has been an analyst or portfolio manager of the Fund since 2000. He joined Franklin Templeton Investments in 1996.

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The portfolio managers of the Fund have equal authority over all aspects of the Fund's investment portfolio, including, but not limited to, purchases and sales of individual securities, portfolio risk assessment, and the management of daily cash balances in accordance with anticipated investment management requirements. The degree to which each portfolio manager may perform these functions, and the nature of these functions, may change from time to time.

The Fund's SAI provides additional information about portfolio manager compensation, other accounts that they manage and their ownership of Fund shares.

The Fund pays Advisers a fee for managing the Fund's assets. For the fiscal year ended June 30, 2013, the Fund paid 0.46% of its average net assets to the investment manager for its services.

A discussion regarding the basis for the board of trustees approving the investment management contract of the Fund is available in the Fund's annual report to shareholders for the fiscal year ended June 30.

# Financial Highlights

The Financial Highlights present the Fund's financial performance for the past five years or since its inception. Certain information reflects financial results for a single Fund share. The total returns represent the rate that an investor would have earned or lost on an investment in the Fund assuming reinvestment of dividends and capital gains. This information has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, whose report, along with the Fund's financial statements, are included in the annual report, which is available upon request.

CLASS A Year Ended June 30,

CLASS A				itai Li	iueu julie 50,
	2013	2012	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$12.72	\$11.76	\$12.07	\$11.45	\$12.19
Income from investment operations: <sup>a</sup>					
Net investment income <sup>b</sup>	0.50	0.54	0.55	0.55	0.55
Net realized and unrealized gains (losses)	(0.39)	0.96	(0.31)	0.62	(0.75)
Total from investment operations	0.11	1.50	0.24	1.17	(0.20)
Less distributions from net investment income	(0.50)	(0.54)	(0.55)	(0.55)	(0.54)
Redemption fees <sup>c</sup>	_	_	_	_	d
Net asset value, end of year	\$12.33	\$12.72	\$11.76	\$12.07	\$11.45
Total return <sup>e</sup>	0.71%	12.96%	2.08%	10.33%	(1.54)%
Ratios to average net assets					
Expenses	0.60%	0.60%	0.61%	0.61%	0.61%
Net investment income	3.88%	4.34%	4.63%	4.60%	4.74%
Supplemental data					
Net assets, end of year (000's)	\$1,777,179	\$1,884,339	\$1,715,495	\$1,899,692	\$1,780,448
Portfolio turnover rate	15.99%	11.93%	12.49%	14.19%	13.04%

- a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
- b. Based on average daily shares outstanding.
- c. Effective September 1, 2008, the redemption fee was eliminated.
- d. Amount rounds to less than \$0.01 per share.
- e. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

CLASS C				rear End	iea June 30,
	2013	2012	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$12.88	\$11.90	\$12.21	\$11.57	\$12.32
Income from investment operations: <sup>a</sup>					
Net investment income <sup>b</sup>	0.44	0.47	0.49	0.49	0.49
Net realized and unrealized gains (losses)	(0.40)	0.98	(0.32)	0.63	(0.76)
Total from investment operations	0.04	1.45	0.17	1.12	(0.27)
Less distributions from net investment income	(0.42)	(0.47)	(0.48)	(0.48)	(0.48)
Redemption fees <sup>c</sup>	_	_	_	_	d
Net asset value, end of year	\$12.50	\$12.88	\$11.90	\$12.21	\$11.57
Total return <sup>e</sup>	0.22%	12.35%	1.49%	9.79%	(2.15)%
Ratios to average net assets					
Expenses	1.15%	1.15%	1.16%	1.16%	1.16%
Net investment income	3.33%	3.79%	4.08%	4.05%	4.19%
Supplemental data					
Net assets, end of year (000's)	\$269,209	\$283,985	\$234,494	\$252,630	\$186,238
Portfolio turnover rate	15.99%	11.93%	12.49%	14.19%	13.04%

- a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
- b. Based on average daily shares outstanding.
- c. Effective September 1, 2008, the redemption fee was eliminated.
- d. Amount rounds to less than \$0.01 per share.
- e. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

ADVISOR CLASS Year Ended June 30,

ADVISOR CLASS				Ital Lilu	cu junc 50,
	2013	2012	2011	2010	2009°
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$12.74	\$11.77	\$12.08	\$11.45	\$11.33
Income from investment operations: <sup>b</sup>					
Net investment income <sup>c</sup>	0.52	0.55	0.56	0.56	0.37
Net realized and unrealized gains (losses)	(0.40)	0.97	(0.31)	0.63	0.12
Total from investment operations	0.12	1.52	0.25	1.19	0.49
Less distributions from net investment income	(0.51)	(0.55)	(0.56)	(0.56)	(0.37)
Net asset value, end of year	\$12.35	\$12.74	\$11.77	\$12.08	\$11.45
Total return <sup>d</sup>	0.81%	13.14%	2.17%	10.52%	4.37%
Ratios to average net assets <sup>e</sup>					
Expenses	0.50%	0.50%	0.51%	0.51%	0.51%
Net investment income	3.98%	4.44%	4.73%	4.70%	4.84%
Supplemental data					
Net assets, end of year (000's)	\$62,163	\$56,993	\$41,213	\$10,960	\$2,100
Portfolio turnover rate	15.99%	11.93%	12.49%	14.19%	13.04%

- a. For the period October 31, 2008 (effective date) to June 30, 2009.
- b. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
- c. Based on average daily shares outstanding.
- d. Total return is not annualized for periods less than one year.
- e. Ratios are annualized for periods less than one year.

# FRANKLIN CALIFORNIA INTERMEDIATE-TERM TAX-FREE INCOME FUND

## **Investment Goal**

The Fund's investment goal is to provide investors with as high a level of income exempt from federal income taxes and California personal income taxes as is consistent with prudent investment management and the preservation of shareholders' capital.

# Principal Investment Policies and Practices

Under normal market conditions, the Fund invests at least 80% of its total assets in securities that pay interest free from federal income taxes, including the federal alternative minimum tax, and from California personal income taxes. Under normal market conditions, the Fund invests at least 65% of its total assets in California municipal securities. The Fund also may invest up to 35% of its total assets in municipal securities issued by U.S. territories, such as Puerto Rico. Although the Fund tries to invest all of its assets in tax-free securities, it is possible, although not anticipated, that up to 20% of its total assets may be in securities that pay taxable interest, including interest that may be subject to the federal alternative minimum tax. Many of the Fund's portfolio securities may be supported by credit enhancements, which may be provided by either U.S. or foreign entities.

Municipal securities are issued by state and local governments, their agencies and authorities, as well as by the District of Columbia and U.S. territories and possessions, such as Puerto Rico, to borrow money for various public and private projects. Municipal securities pay a fixed, floating or variable rate of interest, and require that the amount borrowed (principal) be repaid at maturity.

The Fund maintains a dollar-weighted average portfolio maturity of three to 10 years and only buys securities rated, at the time of purchase, in one of the top four ratings categories by one or more U.S. nationally recognized rating services or comparable unrated or short-term rated securities.

The Fund may invest in insured municipal securities, which are covered by insurance policies that guarantee the timely payment of principal and interest. The Fund generally purchases bonds that have insurance in place so it does not pay insurance premiums directly. The premium costs, however, are reflected in a lower yield and/or higher price for the insured bond. When the Fund believes that it could be beneficial, the Fund may purchase insurance for an uninsured bond directly from a qualified municipal bond insurer, in which case the Fund pays the insurance premium directly to the insurance company. It is important to note that insurance does not guarantee the market value of an insured security, or the Fund's share price or distributions, and shares of the Fund are not insured.

The Fund also may invest in municipal lease obligations. Municipal lease obligations generally are issued to support a government's infrastructure by financing or refinancing equipment or property acquisitions or the construction, expansion or rehabilitation of public facilities. In such transactions, equipment or property is leased to a state or local government, which, in turn, pays lease payments to the lessor consisting of interest and principal payments on the obligations.

The Fund may also invest in municipal securities that are issued on a whenissued or delayed delivery basis.

Although the investment manager will search for investments across a large number of municipal securities that finance different types of projects, from time to time, based on economic conditions, the Fund may have significant positions in municipal securities that finance similar types of projects.

The investment manager selects securities that it believes will provide the best balance between risk and return within the Fund's range of allowable investments and typically uses a buy and hold strategy. This means it generally holds securities in the Fund's portfolio for income purposes, rather than trading securities for capital gains, although the investment manager may sell a security at any time if it believes it could help the Fund meet its goal. The investment manager also may consider the cost of insurance when selecting securities for the Fund.

## **Temporary Investments**

When the investment manager believes market or economic conditions are unusual or unfavorable for investors, the investment manager may invest up to 100% of the Fund's assets in a temporary defensive manner by holding all or a substantial portion of its assets in cash, cash equivalents or other high quality short-term investments. Temporary defensive investments generally may include securities that pay taxable interest. The investment manager may also invest in these types of securities or hold cash

when securities meeting the Fund's investment criteria are unavailable or to maintain liquidity. In these circumstances, the Fund may be unable to achieve its investment goal.

# Principal Risks

#### **Interest Rate**

Interest rate changes can be sudden and unpredictable. Debt securities generally tend to lose market value when interest rates rise and increase in value when interest rates fall. Securities with longer maturities or lower coupons or that make little (or no) interest payments before maturity tend to be more sensitive to these interest rate changes. The longer the Fund's average weighted portfolio maturity, the greater the impact a change in interest rates will have on its share price.

#### Inflation risk

The market price of debt securities generally falls as inflation increases because the purchasing power of the future income and repaid principal is expected to be worth less when received by the Fund. Debt securities that pay a fixed rather than variable interest rate are especially vulnerable to inflation risk because variable-rate debt securities may be able to participate, over the long term, in rising interest rates which have historically corresponded with long-term inflationary trends.

#### California and U.S. Territories

Investment in the Fund may involve more risk than an investment in a fund that does not focus on securities of a single state. Because the Fund invests predominantly in California municipal securities, events in California are likely to affect the Fund's investments and its performance. These events may include economic or political policy changes, man-made or natural disasters, tax base erosion, state constitutional limits on tax increases, budget deficits and other financial difficulties, and changes in the credit ratings assigned to California's municipal issuers. A negative change in any one of these or other areas could affect the ability of California municipal issuers to meet their obligations.

Beginning in 2008, the state's economy deteriorated as a result of the state's housing crisis and the national economic slowdown. Foreclosures increased, home prices dropped and retail sales declined. Certain municipal issuers in California have experienced severe financial difficulties. After

several years of job losses and an increasing unemployment rate, the state is now showing year-over-year job gains, although growth is still sluggish. As of July 2013, the preliminary year-over-year increase in non-farm employment was 236,400 jobs, or 1.6%. The preliminary unemployment rate has improved to 8.5% as of June 2013 as compared to 10.6% a year earlier. Personal income taxes, the state's largest and one of its most volatile revenue sources, had dropped precipitously in response to job layoffs but is now seeing growth due to job growth as well as retroactive tax rate increase as of January 1, 2013 for tax year 2012.

In June 2013, the Governor signed the fiscal year 2014 budget. As a result of the passage of Proposition 30, passed by voters in November 2012 which temporarily increased personal income taxes on higher income earners and the state portion of the sales tax, there is no budget gap or the need for a gap closing program. The governor believes the state will end fiscal year 2013 with an ending fund balance of about \$872 million and a reserve of about \$254 million. The state projects revenues for fiscal year 2014 will decrease by about 1% which reflects a full year of the Proposition 30 rate increases but also incorporates a decrease in revenue due to federal policy changes and sequestration and a loan of cap-andtrade auction revenues. Personal income taxes are projected to decrease 4.8% from fiscal year 2013 and sales and use taxes are expected to increase 13.6%. Personal income taxes for fiscal year 2013 include onetime revenues related to the acceleration of some capital gains from 2013 to 2012 due to the expiration of certain tax cuts on January 1, 2013. This explains some of the projected decrease for fiscal year 2014. Expenditures are proposed to increase by just 0.6%. The enacted budget includes a \$1.1 billion reserve at fiscal year end 2014.

While the passage of Proposition 30 along with economic gains have improved the state's fiscal year 2014 budget outlook, the state still faces large challenges in the future including increasing pension costs, an unemployment insurance fund debt to the Federal government, increasing debt service, and a backlog of payments due to schools among others.

As of May 2013, the state was rated A1, stable by Moody's Investors Service (Moody's); A, stable by Standard & Poor's (S&P); and A-, stable by Fitch.

Because the Fund invests predominantly in California municipal securities, events in California are likely to affect the Fund's investments and its performance. These events may include economic or political policy

changes, tax base erosion, state constitutional limits on tax increases, budget deficits and other financial difficulties, and changes in the credit ratings assigned to municipal issuers of California. As with California municipal securities, such events in any of the U.S. territories in which the Fund invests, which can include Puerto Rico, may effect the Fund's investments and its performance.

The discussion above does not include all relevant facts or economic or political conditions that may affect the ability of municipal issuers to meet their debt obligations, and is subject to change without notice. The information provided is based on data as of November 1, 2013, from historically reliable sources, but the investment manager has not independently verified it. This information could change quickly and without notice and is generally only updated annually.

#### **Focus**

The Fund may invest more than 25% of its assets in municipal securities that finance similar types of projects, such as utilities, hospitals, higher education and transportation. A change that affects one project, such as proposed legislation on the financing of the project, a shortage of the materials needed for the project, or a declining need for the project, would likely affect all similar projects, thereby increasing market risk.

#### Credit

The Fund could lose money on a debt security if an issuer or borrower is unable or fails to meet its obligations, including failing to make interest payments and/or to repay principal when due. Changes in an issuer's financial strength, the market's perception of the issuer's financial strength or in a security's credit rating, which reflects a third party's assessment of the credit risk presented by a particular issuer, may affect debt securities' values. The Fund may incur substantial losses on debt securities that are inaccurately perceived to present a different amount of credit risk by the market, the investment manager or the rating agencies than such securities actually do.

The Fund's portfolio securities may be supported by credit enhancements provided by an insurance company, bank, or other foreign or domestic entity. For example, some municipal securities are insured by a policy that guarantees the timely payment of principal and interest. Other municipal securities may be backed by letters of credit, guarantees, or escrow or trust accounts containing high quality securities, including securities backed by

the full faith and credit of the U.S. government, to secure the payment of principal and interest. Securities supported by credit enhancements have the credit risk of the entity providing the credit support. To the extent the Fund holds these securities, a change in the credit rating of the entity providing credit support may affect the value of the securities it supports, the Fund's share price and Fund performance. The Fund might also be adversely impacted by the inability of an entity providing credit support to meet its obligations.

#### Market

The market values of securities owned by the Fund will go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting individual issuers, securities markets generally or particular industries or sectors within the securities markets. The value of a security may go up or down due to general market conditions which are not specifically related to a particular issuer, such as real or perceived adverse economic conditions, changes in the general outlook for revenues or corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also go up or down due to factors that affect an individual issuer or a particular industry or sector, such as changes in production costs and competitive conditions within an industry. During a general downturn in the securities markets, multiple asset classes may decline in value. When markets perform well, there can be no assurance that securities held by the Fund will participate in or otherwise benefit from the advance.

## **Tax-Exempt Securities**

While the Fund endeavors to purchase only bona fide tax-exempt securities, there are risks that: (a) a security issued as tax-exempt may be reclassified as taxable by the Internal Revenue Service or a state tax authority, and/or (b) future legislative, administrative or court actions could adversely impact the qualification of income from a tax-exempt security as tax-free. Such reclassifications or actions could cause interest from a security to become taxable, possibly retroactively, subjecting you to increased tax liability. In addition, such reclassifications or actions could cause the value of a security, and therefore, the value of the Fund's shares, to decline.

### Management

The Fund is actively managed and could experience losses if the investment manager's judgment about markets, interest rates or the attractiveness, relative values, liquidity, or potential appreciation of particular investments made for the Fund's portfolio prove to be incorrect. There can be no guarantee that these techniques or the investment manager's investment decisions will produce the desired results. Additionally, legislative, regulatory, or tax developments may affect the investment techniques available to the investment manager in connection with managing the Fund and may also adversely affect the ability of the Fund to achieve its investment goal.

#### Income

Because the Fund can only distribute what it earns, the Fund's distributions to shareholders may decline when prevailing interest rates fall or when the Fund experiences defaults on debt securities it holds. The Fund's income generally declines during periods of falling interest rates because the Fund must reinvest the proceeds it receives from existing investments (upon their maturity, prepayment, amortization, call, or buy-back) at a lower rate of interest or return.

## Prepayment

Debt securities are subject to prepayment risk when the issuer can "call" the security, or repay principal, in whole or in part, prior to the security's maturity. When the Fund reinvests the prepayments of principal it receives, it may receive a rate of interest that is lower than the rate on the existing security, potentially lowering the Fund's income, yield and its distributions to shareholders. Securities subject to prepayment may offer less potential for gains during a declining interest rate environment and have greater price volatility. Prepayment risk is greater in periods of falling interest rates.

## **Municipal Lease Obligations**

Municipal lease obligations differ from other municipal securities because the relevant legislative body must appropriate the money each year to make the lease payments. If the money is not appropriated, the lease may be cancelled without penalty and investors who own the lease obligations may not be paid.

## When-Issued and Delayed Delivery Transactions

Municipal securities may be issued on a when-issued or delayed delivery basis, where payment and delivery take place at a future date beyond the normal settlement date. Because the market price of the security may fluctuate during the time before payment and delivery, the Fund assumes the risk that the value of the security at delivery may be more or less than the purchase price.

## **Bond Insurers**

Market conditions or changes to ratings criteria could adversely impact the ratings of municipal bond insurance companies. Rating agencies have lowered their ratings and withdrawn ratings on some municipal bond insurers. In such cases the insurance may be providing little or no enhancement of credit or resale value to the municipal security and the security rating will reflect the higher of the insurer rating or the rating of the underlying security.

Additional downgrades of municipal bond insurers rated above BBB would substantially limit the availability of insurance sought by municipal bond issuers thereby reducing the supply of insured municipal securities meeting the Fund's investment guidelines.

Market conditions have weakened the municipal bond insurance industry leading state regulators from time to time to require municipal bond insurers to suspend claims payments on outstanding insurance in force. Certain municipal bond insurers have withdrawn from the market. These circumstances have led to a consolidation among municipal bond insurers which have led to a decrease in the supply of insured municipal securities and a concentration of the insurance company credit risk on the securities in the Fund's portfolio amongst fewer municipal bond insurers. Due to this consolidation, events involving one or more municipal bond insurers could have a significant adverse effect on the value of the securities insured by an insurer and or the municipal markets as a whole.

More detailed information about the Fund, its policies and risks and about municipal securities held by the Fund can be found in the Fund's Statement of Additional Information (SAI).

A description of the Fund's policies and procedures regarding the release of portfolio holdings information is also available in the Fund's SAI. Portfolio holdings information can be viewed online at franklintempleton.com.

# Management

Franklin Advisers, Inc. (Advisers), One Franklin Parkway, San Mateo, CA 94403-1906, is the Fund's investment manager. Together, Advisers and its affiliates manage, as of September 30, 2013, over \$844 billion in assets, and have been in the investment management business since 1947.

FRANKLIN CALIFORNIA INTERMEDIATE-TERM

TAX-FREE INCOME FUND

The Fund is managed by a team of dedicated professionals focused on investments in California municipal securities. The portfolio managers of the team are as follows:

#### CHRISTOPHER SPERRY, CFA Vice President of Advisers

Mr. Sperry has been an analyst or portfolio manager of the Fund since 2000. He joined Franklin Templeton Investments in 1996.

#### JOHN WILEY Senior Vice President of Advisers

Mr. Wiley has been an analyst or portfolio manager of the Fund since 1992. He joined Franklin Templeton Investments in 1989.

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The portfolio managers of the Fund have equal authority over all aspects of the Fund's investment portfolio, including, but not limited to, purchases and sales of individual securities, portfolio risk assessment, and the management of daily cash balances in accordance with anticipated investment management requirements. The degree to which each portfolio manager may perform these functions, and the nature of these functions, may change from time to time.

The Fund's SAI provides additional information about portfolio manager compensation, other accounts that they manage and their ownership of Fund shares.

The Fund pays Advisers a fee for managing the Fund's assets. For the fiscal year ended June 30, 2013, the Fund paid 0.47% of its average net assets to the investment manager for its services.

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# Financial Highlights

The Financial Highlights present the Fund's financial performance for the past five years or since its inception. Certain information reflects financial

results for a single Fund share. The total returns represent the rate that an investor would have earned or lost on an investment in the Fund assuming reinvestment of dividends and capital gains. This information has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, whose report, along with the Fund's financial statements, are included in the annual report, which is available upon request.

CLASS A Year Ended June 30				ded June 30,	
	2013	2012	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$12.04	\$11.30	\$11.42	\$10.87	\$11.27
Income from investment operations: <sup>a</sup>					
Net investment income <sup>b</sup>	0.38	0.43	0.45	0.45	0.45
Net realized and unrealized gains (losses)	(0.31)	0.74	(0.13)	0.55	(0.40)
Total from investment operations	0.07	1.17	0.32	1.00	0.05
Less distributions from net investment income	(0.38)	(0.43)	(0.44)	(0.45)	(0.45)
Redemption fees°	_	_	_	_	d
Net asset value, end of year	\$11.73	\$12.04	\$11.30	\$11.42	\$10.87
Total return <sup>e</sup>	0.55%	10.53%	2.88%	9.36%	0.51%
Ratios to average net assets					
Expenses	0.63%	0.64%	0.64%	0.66%	0.66%
Net investment income	3.14%	3.63%	3.93%	3.95%	4.17%
Supplemental data					
Net assets, end of year (000's)	\$785,196	\$741,604	\$589,818	\$669,838	\$517,829
Portfolio turnover rate	6.01%	9.95%	9.42%	12.40%	20.01%

- a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
- b. Based on average daily shares outstanding.
- c. Effective September 1, 2008, the redemption fee was eliminated.
- d. Amount rounds to less than \$0.01 per share.
- e. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

CLASS C Year Ended June 30,

FRANKLIN CALIFORNIA INTERMEDIATE-TERM

TAX-FREE INCOME FUND

LASS C				rear End	ea June 30,
	2013	2012	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$12.08	\$11.33	\$11.45	\$10.89	\$11.29
Income from investment operations: <sup>a</sup>					
Net investment income <sup>b</sup>	0.32	0.36	0.38	0.38	0.40
Net realized and unrealized gains (losses)	(0.31)	0.76	(0.12)	0.57	(0.41)
Total from investment operations	0.01	1.12	0.26	0.95	(0.01)
Less distributions from net investment income	(0.32)	(0.37)	(0.38)	(0.39)	(0.39)
Redemption fees <sup>c</sup>	_	_	_	_	d
Net asset value, end of year	\$11.77	\$12.08	\$11.33	\$11.45	\$10.89
Total return <sup>e</sup>	(0.01)%	9.89%	2.40%	8.83%	(0.05)%
Ratios to average net assets					
Expenses	1.18%	1.19%	1.19%	1.21%	1.21%
Net investment income	2.59%	3.08%	3.38%	3.40%	3.62%
Supplemental data					
Net assets, end of year (000's)	\$197,263	\$173,557	\$128,554	\$111,795	\$59,205
Portfolio turnover rate	6.01%	9.95%	9.42%	12.40%	20.01%

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.

ADVISOR CLASS				Year En	ded June 30,
	2012	2012	2011	2010	20003

	2013	2012	2011	2010	2009°
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$12.07	\$11.32	\$11.44	\$10.87	\$10.60
Income from investment operations: <sup>b</sup>					
Net investment income°	0.40	0.44	0.46	0.46	0.31
Net realized and unrealized gains (losses)	(0.32)	0.75	(0.13)	0.58	0.27
Total from investment operations	0.08	1.19	0.33	1.04	0.58
Less distributions from net investment income	(0.40)	(0.44)	(0.45)	(0.47)	(0.31)
Net asset value, end of year	\$11.75	\$12.07	\$11.32	\$11.44	\$10.87
Total return <sup>d</sup>	0.56%	10.71%	2.98%	9.65%	5.49%
Ratios to average net assets <sup>e</sup>					
Expenses	0.53%	0.54%	0.54%	0.56%	0.56%
Net investment income	3.24%	3.73%	4.03%	4.05%	4.27%
Supplemental data					
Net assets, end of year (000's)	\$218,524	\$160,565	\$95,447	\$36,322	\$156
Portfolio turnover rate	6.01%	9.95%	9.42%	12.40%	20.01%

a. For the period October 31, 2008 (effective date) to June 30, 2009.

b. Based on average daily shares outstanding.

c. Effective September 1, 2008, the redemption fee was eliminated.

d. Amount rounds to less than \$0.01 per share.

e. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

b. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.

c. Based on average daily shares outstanding.

d. Total return is not annualized for periods less than one year.

e. Ratios are annualized for periods less than one year.

## FRANKLIN CALIFORNIA TAX-EXEMPT MONEY FUND

# Investment Goal

The Fund's investment goal is to provide investors with as high a level of income exempt from federal income taxes and California personal income taxes as is consistent with prudent investment management, the preservation of shareholders' capital and liquidity in its investments. The Fund also tries to maintain a stable \$1.00 share price.

# Principal Investment Policies and Practices

Under normal market conditions, the Fund invests at least 80% of its total assets in securities that pay interest free from federal income taxes, including the federal alternative minimum tax, and from California personal income taxes. The Fund may also invest up to 35% of its total assets in municipal securities issued by U.S. territories, such as Puerto Rico. Although the Fund tries to invest all of its total assets in tax-free securities, it is possible, although not anticipated, that up to 20% of its total assets may be in securities that pay taxable interest, including interest that may be subject to the federal alternative minimum tax. The Fund invests predominantly in high-quality, short-term, municipal securities. Many of the Fund's portfolio securities may be supported by liquidity guarantees or credit enhancements, which may be provided by banks and other financial institutions.

Municipal securities are issued by state and local governments, their agencies and authorities, as well as by the District of Columbia and U.S. territories and possessions, such as Puerto Rico, to borrow money for various public and private projects. Municipal securities pay a fixed, floating or variable rate of interest, and require that the amount borrowed (principal) be repaid at maturity.

Portfolio maturity and quality The Fund only buys securities that the investment manager determines present minimal credit risks. The Fund maintains a dollar-weighted average portfolio maturity of 60 days or less, and maintains a dollar-weighted average life for its portfolio of 120 days or less, and only buys securities that:

- mature in 397 calendar days or less, if such security is rated in the highest rating category by the requisite rating agencies, as described in applicable regulation; or
- mature in 45 calendar days or less, if such security is rated in the second highest rating category by the requisite rating agencies, as described in applicable regulation.

A large portion or all of the Fund's portfolio securities may be invested in variable and floating rate securities, primarily variable rate demand notes, the interest rates of which change either at specific intervals or whenever a benchmark rate changes. While this feature helps protect against a decline in the security's market price when interest rates rise, it lowers the Fund's income when interest rates fall.

Although the investment manager will search for investments across a large number of municipal securities that finance different types of projects, from time to time, based on economic conditions, the Fund may have significant positions in municipal securities that finance similar types of projects.

The investment manager selects securities that it believes will provide the best balance between risk and return within the Fund's range of allowable investments and typically uses a buy and hold strategy.

### **Temporary Investments**

When the investment manager believes market or economic conditions are unusual or unfavorable for investors, the investment manager may invest up to 100% of the Fund's assets in a temporary defensive manner by holding all or a substantial portion of its assets in cash, cash equivalents or other high quality short-term investments. Temporary defensive investments generally may include securities that pay taxable interest. The investment manager may also invest in these types of securities or hold cash when securities meeting the Fund's investment criteria are unavailable or to maintain liquidity. In these circumstances, the Fund may be unable to achieve its investment goal.

# Principal Risks

#### Interest Rate

Interest rate changes can be sudden and unpredictable. When interest rates rise, security prices fall. The opposite is also true: security prices rise when interest rates fall. In general, securities with longer maturities are more

sensitive to these price changes. The longer the Fund's average weighted portfolio maturity, the greater the impact a change in interest rates will have on its share price. The Fund's yield will vary; it is not fixed for a specific period like the yield on a bank certificate of deposit. A sharp and unexpected rise in interest rates could cause the Fund's share price to drop below a dollar. However, the short maturities of the securities held in the Fund's portfolio reduces their potential for price fluctuation. A low interest rate environment may prevent the Fund from providing a positive yield or paying Fund expenses out of current income and could impair the Fund's ability to maintain a stable net asset value.

#### Credit

An issuer of securities may be unable to make interest payments and repay principal. Changes in an issuer's financial strength, the failure of an issuer to make timely interest or principal payments, or a decline or perception of a decline in the credit quality of a security, can cause the security's price to fall, potentially lowering the Fund's share price. Although the Fund invests predominantly in high-quality debt securities, any of the Fund's holdings could have its credit rating downgraded or could default. The credit quality of the securities held by the Fund can change rapidly in certain market environments, and the default of a single holding could have the potential to cause significant deterioration of the Fund's net asset value.

The Fund's portfolio securities may be supported by credit enhancements provided by an insurance company, bank, or other foreign or domestic entity. For example, some municipal securities are insured by a policy that guarantees the timely payment of principal and interest. Other municipal securities may be backed by letters of credit, guarantees, or escrow or trust accounts containing high quality securities, including securities backed by the full faith and credit of the U.S. government, to secure the payment of principal and interest. Securities supported by credit enhancements have the credit risk of the entity providing the credit support. To the extent the Fund holds these securities, a change in the credit rating of the entity providing credit support may affect the value of the securities it supports, the Fund's share price and Fund performance. The Fund might also be adversely impacted by the inability of an entity providing credit support to meet its obligations, and the Fund's ability to maintain a stable share price may depend on these credit supports, which are not backed by federal deposit insurance.

### **Banking Industry**

Because the Fund will invest in obligations for which banks and other financial institutions may provide liquidity guarantees or credit enhancements, it may be vulnerable to setbacks in that industry. Banks and other financial institutions are highly dependent on short-term interest rates and can be adversely affected by downturns in the U.S. and foreign economies or changes in banking regulations.

#### California and U.S. Territories

Investment in the Fund may involve more risk than an investment in a fund that does not focus on securities of a single state. Because the Fund invests predominantly in California municipal securities, events in California are likely to affect the Fund's investments and its performance. These events may include economic or political policy changes, man-made or natural disasters, tax base erosion, state constitutional limits on tax increases, budget deficits and other financial difficulties, and changes in the credit ratings assigned to California's municipal issuers. A negative change in any one of these or other areas could affect the ability of California municipal issuers to meet their obligations.

Beginning in 2008, the state's economy deteriorated as a result of the state's housing crisis and the national economic slowdown. Foreclosures increased, home prices dropped and retail sales declined. Certain municipal issuers in California have experienced severe financial difficulties. After several years of job losses and an increasing unemployment rate, the state is now showing year-over-year job gains, although growth is still sluggish. As of July 2013, the preliminary year-over-year increase in non-farm employment was 236,400 jobs, or 1.6%. The preliminary unemployment rate has improved to 8.5% as of June 2013 as compared to 10.6% a year earlier. Personal income taxes, the state's largest and one of its most volatile revenue sources, had dropped precipitously in response to job layoffs but is now seeing growth due to job growth as well as retroactive tax rate increase as of January 1, 2013 for tax year 2012.

In June 2013, the Governor signed the fiscal year 2014 budget. As a result of the passage of Proposition 30, passed by voters in November 2012 which temporarily increased personal income taxes on higher income earners and the state portion of the sales tax, there is no budget gap or the need for a gap closing program. The governor believes the state will end fiscal year 2013 with an ending fund balance of about \$872 million and a reserve of about \$254 million. The state projects revenues for fiscal

year 2014 will decrease by about 1% which reflects a full year of the Proposition 30 rate increases but also incorporates a decrease in revenue due to federal policy changes and sequestration and a loan of cap-andtrade auction revenues. Personal income taxes are projected to decrease 4.8% from fiscal year 2013 and sales and use taxes are expected to increase 13.6%. Personal income taxes for fiscal year 2013 include onetime revenues related to the acceleration of some capital gains from 2013 to 2012 due to the expiration of certain tax cuts on January 1, 2013. This explains some of the projected decrease for fiscal year 2014. Expenditures are proposed to increase by just 0.6%. The enacted budget includes a \$1.1 billion reserve at fiscal year end 2014.

While the passage of Proposition 30 along with economic gains have improved the state's fiscal year 2014 budget outlook, the state still faces large challenges in the future including increasing pension costs, an unemployment insurance fund debt to the Federal government, increasing debt service, and a backlog of payments due to schools among others.

As of May 2013, the state was rated A1, stable by Moody's Investors Service (Moody's); A, stable by Standard & Poor's (S&P); and A-, stable by Fitch.

Because the Fund invests predominantly in California municipal securities, events in California are likely to affect the Fund's investments and its performance. These events may include economic or political policy changes, tax base erosion, state constitutional limits on tax increases, budget deficits and other financial difficulties, and changes in the credit ratings assigned to municipal issuers of California. As with California municipal securities, such events in any of the U.S. territories in which the Fund invests, which can include Puerto Rico, may effect the Fund's investments and its performance.

The discussion above does not include all relevant facts or economic or political conditions that may affect the ability of municipal issuers to meet their debt obligations, and is subject to change without notice. The information provided is based on data as of November 1, 2013, from historically reliable sources, but the investment manager has not independently verified it. This information could change quickly and without notice and is generally only updated annually.

#### **Tax-Exempt Securities**

While the Fund endeavors to purchase only bona fide tax-exempt securities, there are risks that: (a) a security issued as tax-exempt may be reclassified as taxable by the Internal Revenue Service or a state tax authority, and/or (b) future legislative, administrative or court actions could adversely impact the qualification of income from a tax-exempt security as tax-free. Such reclassifications or actions could cause interest from a security to become taxable, possibly retroactively, subjecting you to increased tax liability. In addition, such reclassifications or actions could cause the value of a security, and therefore, the value of the Fund's shares, to decline.

## Management

The Fund is actively managed and could experience losses if the investment manager's judgment about markets, interest rates or the attractiveness, relative values, liquidity, or potential appreciation of particular investments made for the Fund's portfolio prove to be incorrect. There can be no guarantee that these techniques or the investment manager's investment decisions will produce the desired results. Additionally, legislative, regulatory, or tax developments may affect the investment techniques available to the investment manager in connection with managing the Fund and may also adversely affect the ability of the Fund to achieve its investment goal.

#### Income

Because the Fund can only distribute what it earns, the Fund's distributions to shareholders may decline when prevailing interest rates fall or when the Fund experiences defaults on debt securities it holds. The Fund's income generally declines during periods of falling interest rates because the Fund must reinvest the proceeds it receives from existing investments (upon their maturity, prepayment, amortization, call, or buy-back) at a lower rate of interest or return.

## Liquidity

Liquidity risk exists when the market for particular securities or types of securities is or becomes relatively illiquid so that the Fund is unable or it becomes more difficult for the Fund to sell the security at the price at which the Fund has valued the security. Illiquidity may result from political, economic or issuer specific events or overall market disruptions. Securities with reduced liquidity or that become illiquid involve greater risk than

securities with more liquid markets. While the Fund endeavors to maintain a high level of liquidity in its portfolio, the liquidity of portfolio securities can deteriorate rapidly due to credit events affecting issuers or guarantors or due to general market conditions and a lack of willing buyers. When there is no willing buyer and investments cannot be readily sold at the desired time or price, the Fund may have to accept a lower price or may not be able to sell the instrument at all. An inability to sell one or more portfolio positions can adversely affect the Fund's ability to maintain a \$1.00 share price or prevent the Fund from being able to take advantage of other investment opportunities.

Liquidity risk may also refer to the risk that the Fund will not be able to pay redemption proceeds within a short period of time because of unusual market conditions, an unusually high volume of redemption requests or other reasons. If the Fund is forced to sell securities at an unfavorable time and/or under unfavorable conditions, such sales may adversely affect the Fund's ability to maintain a \$1.00 share price.

#### Market

The market values of securities owned by the Fund will go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting individual issuers, securities markets generally or particular industries or sectors within the securities markets. The value of a security may go up or down due to general market conditions which are not specifically related to a particular issuer, such as real or perceived adverse economic conditions, changes in the general outlook for revenues or corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also go up or down due to factors that affect an individual issuer or a particular industry or sector, such as changes in production costs and competitive conditions within an industry. During a general downturn in the securities markets, multiple asset classes may decline in value. When markets perform well, there can be no assurance that securities held by the Fund will participate in or otherwise benefit from the advance.

#### **Focus**

The Fund may invest more than 25% of its assets in municipal securities that finance similar types of projects, such as utilities, hospitals, higher education and transportation. A change that affects one project, such as proposed legislation on the financing of the project, a shortage of the

materials needed for the project, or a declining need for the project, would likely affect all similar projects, thereby increasing market risk.

### **U.S. Government Securities**

Not all obligations of the U.S. Government, its agencies and instrumentalities are backed by the full faith and credit of the United States. Some obligations are backed only by the credit of the issuing agency or instrumentality, and in some cases there may be some risk of default by the issuer. Any guarantee by the U.S. Government or its agencies or instrumentalities of a security held by the Fund does not apply to the market value of such security or to shares of the Fund itself. A security backed by the U.S. Treasury or the full faith and credit of the United States is guaranteed only as to the timely payment of interest and principal when held to maturity.

#### Inflation risk

The market price of debt securities generally falls as inflation increases because the purchasing power of the future income and repaid principal is expected to be worth less when received by the Fund. Debt securities that pay a fixed rather than variable interest rate are especially vulnerable to inflation risk because variable-rate debt securities may be able to participate, over the long term, in rising interest rates which have historically corresponded with long-term inflationary trends.

## Risk Associated With The Fund Holding Cash

Although the Fund seeks to be fully invested, it may at times hold some of its assets in cash, which may hurt the Fund's performance.

## **Possible Regulatory Changes**

It is possible that the SEC or other agency will adopt regulations that change in very important respects the operation of money market funds, including the Fund. Any such regulatory changes could impact important characteristics of the Fund, including liquidity of an investment in the Fund and the Fund's ability to maintain a stable net asset value per share. These changes may result in reduced yields from money market funds, including the Fund.

More detailed information about the Fund, its policies and risks and about municipal securities held by the Fund can be found in the Fund's Statement of Additional Information (SAI).

A description of the Fund's policies and procedures regarding the release of portfolio holdings information is also available in the Fund's SAI. Portfolio holdings information can be viewed online at franklintempleton.com.

# Management

Franklin Advisers, Inc. (Advisers), One Franklin Parkway, San Mateo, CA 94403-1906, is the Fund's investment manager. Together, Advisers and its affiliates manage, as of September 30, 2013, over \$844 billion in assets, and have been in the investment management business since 1947.

The Fund pays Advisers a fee for managing the Fund's assets. For the fiscal year ended June 30, 2013, management fees, before any advance waiver, were 0.49% of the Fund's average daily net assets. In order to prevent negative yield, the investment manager voluntarily agreed to limit its fee, after which the Fund paid 0.08% of its average daily net assets to the investment manager for its services. The investment manager may end this arrangement at anytime upon notice to the Fund's board of trustees.

In efforts to prevent a negative yield, the Fund's investment manager and administrator have voluntarily agreed to waive or limit their respective fees, assume as their own expense certain expenses otherwise payable by the Fund, and if necessary, make a capital infusion into the Fund. These waivers, expense reimbursements and capital infusions are voluntary and may be modified or discontinued by the Fund's investment manager or administrator at any time, and without further notice. There is no guarantee that the Fund will be able to avoid a negative yield. With these reductions, net Fund operating expenses for the fiscal year were as shown in the Financial Highlights.

A discussion regarding the basis for the approval of the investment management contract for the Fund is available in the Fund's annual report to shareholders for the fiscal year ended June 30.

# Financial Highlights

The Financial Highlights present the Fund's financial performance for the past five years or since its inception. Certain information reflects financial results for a single Fund share. The total returns represent the rate that an investor would have earned or lost on an investment in the Fund assuming reinvestment of dividends and capital gains. This information has been audited by PricewaterhouseCoopers LLP, an independent registered public

accounting firm, whose report, along with the Fund's financial statements, are included in the annual report, which is available upon request.

CLASS A				Year Ended June 30,	
	2013	2012	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Income from investment operations:					
Net investment income (loss)	_	_	_	(—) <sup>a</sup>	0.006
Net realized and unrealized gains (losses)	(—)	_	_	_	_
Total from investment operations	(—)	_	_	(—) <sup>a</sup>	0.006
Less distributions from net investment income	_	_	_	_	(0.006)
Net asset value, end of year	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Total return <sup>b</sup>	—%	—%	—%	—%	0.57%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	0.53%	0.54%	0.54%	0.54%	0.57%
Expenses net of waiver and payments by affiliates	0.12%	0.12%	0.23%	0.24%	0.46%
Net investment income (loss)	—%	—%	—%	(0.00)%°	0.61%
Supplemental data					
Net assets, end of year (000's)	\$628,480	\$564,477	\$563,474	\$630,453	\$570,026
- A					

- a. Amount rounds to less than \$0.001 per share.
- b. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.
- c. Rounds to less than 0.01%.

# Distributions and Taxes

The information is provided with respect to each Fund (hereafter "the Fund").

## **Income and Capital Gain Distributions**

As a regulated investment company, the Fund generally pays no federal income tax on the income and gains it distributes to you.

Insured and Intermediate Funds. The Fund intends to declare income dividends each day that its net asset value (NAV) is calculated and pay them monthly. Capital gains, if any, may be paid at least annually. The Fund may distribute income dividends and capital gains more frequently, if necessary, in order to reduce or eliminate federal excise or income taxes on the Fund. The amount of any distribution will vary, and there is no guarantee the Fund will pay either income dividends or capital gain distributions. Your income dividends and capital gain distributions will be automatically reinvested in additional shares at NAV unless you elect to receive them in cash.

Money Fund. The Fund intends to declare income dividends each day that its NAV is calculated. Your account begins to receive dividends on the day after the Fund receives your investment and continues to receive dividends through the day it receives a request to sell your shares. Capital gains, if any, may be paid at least annually. The Fund may distribute income dividends and capital gains more frequently, if necessary, in order to reduce or eliminate federal excise or income taxes on the Fund. The amount of any distribution will vary, and there is no guarantee the Fund will pay either income dividends or capital gain distributions. Your income dividends and capital gain distributions will be automatically reinvested in additional shares at NAV on the payable date, which has the effect of compounding of dividends, unless you elect to receive monthly payments in cash.

Annual statements. After the close of each calendar year, you will receive tax information from the Fund with respect to the federal income tax treatment of the Fund's distributions and any taxable sales or exchanges of Fund shares occurring during the prior calendar year. If the Fund finds it necessary to reclassify its distributions or adjust the cost basis of any covered shares sold or exchanged after you receive your tax information, the Fund will send you revised tax information. Distributions declared in December to shareholders of record in such month and paid in January are

treated as if they were paid in December. Additional tax information about the Fund's distributions is available at franklintempleton.com.

Avoid "buying a dividend." For investors in the Insured and Intermediate Funds, at the time you purchase your Fund shares, the Fund's net asset value may reflect undistributed taxable income, undistributed capital gains, or net unrealized appreciation in the value of the portfolio securities held by the Fund. For taxable investors, a subsequent distribution to you of such amounts, although constituting a return of your investment, would be taxable. Buying shares in the Fund just before it declares a distribution of taxable income or capital gains in sometimes known as "buying a dividend."

#### Tax Considerations

The Fund's distributions are primarily exempt from regular federal and state income tax for residents of California. A portion of these distributions, however, may be subject to the federal alternative minimum tax. The Fund may also make distributions that are taxable to you as ordinary income or capital gains. This is the case whether you reinvest your distributions in additional Fund shares or receive them in cash.

- Exempt-interest dividends. Most Fund distributions will consist of exempt-interest dividends that are exempt from regular federal and California state personal income tax. A portion of these distributions from private activity bond interest may be subject to the federal alternative minimum tax (AMT). Exempt-interest dividends are taken into account when determining the taxable portion of your social security or railroad retirement benefits. Because of these tax exemptions, a tax-free fund may not be a suitable investment for retirement plans or other tax-exempt investors.
- Capital gains. Fund distributions of capital gains are generally subject to federal and state income tax. Fund distributions of short-term capital gains are subject to tax at ordinary rates. For federal income tax purposes, Fund distributions of long-term capital gains are taxable at the reduced long-term capital gains rates no matter how long you have owned your Fund shares. For individuals in the 10% and 15% tax brackets, the long-term capital gains tax rate is 0%. For individuals in higher tax brackets, the long-term capital gains rate is 15% (20% for certain high income taxpayers). An additional 3.8% Medicare tax may also be imposed as discussed below. Because the Money Fund is a money

market fund, it does not expect to realize and distribute any long-term capital gains on its investments.

FRANKLIN CALIFORNIA TAX-FREE TRUST

• Taxable income dividends. The Fund may invest a portion of its assets in securities that pay income that is not tax-exempt. Distributions from this income, if any, are generally subject to federal and state income tax at ordinary rates. The Fund expects that none of its distributions will be qualified dividends subject to reduced rates of tax to individuals. A return-of-capital distribution is generally not taxable but will reduce the cost basis of your shares, and will result in a higher capital gain or a lower capital loss when you later sell your shares.

Reclassification risk. The IRS has announced that holders of tax-exempt bonds such as the Fund have certain risks if the bonds were issued in connection with abusive transactions, refinancing irregularities, or the misuse of proceeds from the bond offering. While the Fund endeavors to purchase only bona fide tax-exempt securities there are risks that: (a) a security issued as tax-exempt may be reclassified as taxable by the Internal Revenue Service or a state tax authority, and/or (b) future legislative, administrative or court actions could adversely impact the qualification of income from a tax-exempt security as tax-free. These events may create taxable income for the Fund and its shareholders and the Fund may be required to send to you and file with the IRS and state tax authorities information returns for prior calendar years reclassifying some of its exempt-interest dividends as taxable dividends.

Sales of Fund shares. When you sell your shares in the Fund, or exchange them for shares of a different Franklin Templeton fund, you will generally recognize a taxable capital gain or loss for federal and state income tax purposes. If you have owned your Fund shares for more than one year, any net long-term capital gains will qualify for the reduced rates of federal income taxation on long-term capital gains. An exchange of your shares in one class of the Fund for shares of another class of the same Fund is not taxable and no gain or loss will be reported on the transaction. Because the Money Fund seeks to maintain a \$1 per share net asset value, sales of its shares will not generally result in a taxable capital gain or loss for federal or state income tax purposes.

Cost basis reporting. For investors in the Insured and Intermediate Funds, if you acquire shares in the Fund on or after January 1, 2012, generally referred to as "covered shares," and sell or exchange them after that date, the Fund is generally required to report cost basis information to you and

the IRS annually. The Fund will compute the cost basis of your covered shares using the average cost method, the Fund's "default method," unless you contact the Fund to select a different method, or choose to specifically identify your shares at the time of each sale or exchange. If your account is held by your financial advisor or other broker-dealer, that firm may select a different default method. In these cases, please contact the firm to obtain information with respect to the available methods and elections for your account. Shareholders should carefully review the cost basis information provided by the Fund and make any additional basis, holding period or other adjustments that are required when reporting these amounts on their federal and state income tax returns. Additional information about cost basis reporting is available at franklintempleton.com/costbasis.

Medicare tax. For taxable years beginning after December 31, 2012, an additional 3.8% Medicare tax will be imposed on certain net investment income (including ordinary dividends and capital gain distributions received from the Fund and net gains from redemptions or other taxable dispositions of Fund shares) of U.S. individuals, estates and trusts to the extent that such person's "modified adjusted gross income" (in the case of an individual) or "adjusted gross income" (in the case of an estate or trust) exceeds a threshold amount. Net investment income does not include exempt-interest dividends. Any liability for this additional Medicare tax will be reported on, and paid with, your federal income tax return.

Backup withholding. If you do not provide the Fund your taxpayer identification number and certain required certifications you may be subject to federal backup withholding at 28% on any Fund distributions, including exempt-interest dividends, and for the Insured and Intermediate Funds, on the proceeds from the sale of your Fund shares. The Fund must also withhold if the IRS instructs it to do so. State backup withholding may also apply.

Non-U.S. investors. Non-U.S. investors may be subject to U.S. withholding tax at 30% or a lower treaty rate on Fund dividends of ordinary income. Non-U.S. investors may be subject to U.S. estate tax on the value of their shares. They are subject to special U.S. tax certification requirements to avoid backup withholding, claim any exemptions from withholding and claim any treaty benefits. Exemptions from U.S. withholding tax are provided for exempt-interest dividends, capital gain dividends paid by the Fund from long-term capital gains and, with respect to taxable years of the Fund that begin before January 1, 2014 (sunset date), interest-related dividends paid by the Fund from its qualified net

interest income from U.S. sources and short-term capital gain dividends. If these exemptions for interest-related dividends and short-term capital gain dividends are not extended or made permanent, and thus sunset, such amounts will again be treated as ordinary income subject to U.S. withholding tax at 30% or a lower treaty rate. However, notwithstanding such exemptions from U.S. withholding tax at source, any such dividends and distributions of income and capital gains will be subject to backup withholding at a rate of 28% if you fail to properly certify that you are not a U.S. person.

Other reporting and withholding requirements. Payments to a shareholder that is either a foreign financial institution (FFI) or a nonfinancial foreign entity (NFFE) within the meaning of the Foreign Account Tax Compliance Act (FATCA) may be subject to a generally nonrefundable 30% withholding tax on: (a) income dividends paid by the Fund after June 30, 2014, and (b) certain capital gain distributions and the proceeds arising from the sale of Fund shares paid by the Fund after December 31, 2016. FATCA withholding tax generally can be avoided: (a) by an FFI, subject to any applicable intergovernmental agreement or other exemption, if it enters into a valid agreement with the IRS to, among other requirements, report required information about certain direct and indirect ownership of foreign financial accounts held by U.S. persons with the FFI and (b) by an NFFE, if it: (i) certifies that it has no substantial U.S. persons as owners or (ii) if it does have such owners, reports information relating to them. The Fund may disclose the information that it receives from its shareholders to the IRS, non-U.S. taxing authorities or other parties as necessary to comply with FATCA. Withholding also may be required if a foreign entity that is a shareholder of the Fund fails to provide the Fund with appropriate certifications or other documentation concerning its status under FATCA.

Other tax information. This discussion of "Distributions and Taxes" is for general information only and is not tax advice. You should consult your own tax advisor regarding your particular circumstances, and about any federal, state, local and foreign tax consequences before making an investment in the Fund. Additional information about the tax consequences of investing in the Fund may be found in the SAI.

# YOUR ACCOUNT

# Choosing a Share Class

Each class has its own sales charge and expense structure, allowing you to choose the class that best meets your situation. Your investment representative can help you decide. Investors may purchase Class C shares only for Fund accounts on which they have appointed an investment representative (financial advisor) of record. Investors who have not appointed an investment representative (financial advisor) to existing Class C share Fund accounts, may not make additional purchases to those accounts but may exchange their shares for shares of a Franklin Templeton fund that offers Class C shares. Dividend and capital gain distributions may continue to be reinvested in existing Class C share Fund accounts. You may buy shares of the Money Fund without a sales charge. The rest of this section describes the sales charges that apply to the other Funds and does not apply to the Money Fund.

Class A	Class C	Advisor Class
Initial sales charge of 4.25% or less (Insured Fund) or 2.25% or less (Intermediate Fund)	No initial sales charge	See "Qualified Investors – Advisor Class" below
Deferred sales charge of 0.75% on purchases of \$1 million or more sold within 18 months	Deferred sales charge of 1% on shares you sell within 12 months	
Lower annual expenses than Class C due to lower distribution fees	Higher annual expenses than Class A due to higher distribution fees	

#### Class A & C

SALES CHARGES - Class A				
when you invest this amount	the sales charge makes up this % of the offering price <sup>1</sup>	which equals this % of your net investment <sup>1</sup>		
Insured Fund				
Under \$100,000	4.25	4.44		
\$100,000 but under \$250,000	3.50	3.63		
\$250,000 but under \$500,000	2.50	2.56		
\$500,000 but under \$1 million	2.00	2.04		
Intermediate Fund				
Under \$100,000	2.25	2.30		
\$100,000 but under \$250,000	1.75	1.78		
\$250,000 but under \$500,000	1.25	1.27		
\$500,000 but under \$1 million	1.00	1.01		

1. The dollar amount of the sales charge is the difference between the offering price of the shares purchased (which factors in the applicable sales charge in this table) and the net asset value of those shares. Since the offering price is calculated to two decimal places using standard rounding criteria, the number of shares purchased and the dollar amount of the sales charge as a percentage of the offering price and of your net investment may be higher or lower depending on whether there was a downward or upward rounding.

# **Sales Charge Reductions**

Quantity discounts. We offer two ways for you to combine your current purchase of Class A Fund shares with other existing Franklin Templeton fund share holdings that might enable you to qualify for a lower sales charge with your current purchase. You can qualify for a lower sales charge when you reach certain "sales charge breakpoints." This quantity discount information is also available free of charge at franklintempleton.com/retail/jsp\_cm/fund\_perf/pub/quantity\_discount.jsp. This web page can also be reached at franklintempleton.com by clicking the "Funds" tab and then choosing "Quantity Discounts."

**1.** Cumulative quantity discount - lets you combine certain existing holdings of Franklin Templeton fund shares - referred to as "cumulative quantity discount eligible shares" - with your current purchase of Class A shares to determine if you qualify for a sales charge breakpoint.

Cumulative quantity discount eligible shares are Franklin Templeton fund shares registered to (or held by a financial intermediary for):

- You, individually;
- Your spouse or domestic partner, as recognized by applicable state law, and your children under the age of 21 (each a "family member");
- You jointly with one or more family members;
- You jointly with another person(s) who is (are) not family members if that other person has not included the value of the shares as cumulative quantity discount eligible shares for purposes of that person's separate investments in Franklin Templeton fund shares;
- A Coverdell Education Savings account for which you or a family member is the identified responsible person;
- A trustee/custodian of an IRA (which includes a Roth IRA and an employer sponsored IRA such as a SIMPLE IRA) or your non-ERISA covered 403(b) plan account, if the shares are registered/recorded under your or a family member's Social Security number;
- A 529 college savings plan over which you or a family member has investment discretion and control;
- Any entity over which you or a family member has (have) individual
  or shared authority, as principal, has investment discretion and control
  (for example, an UGMA/UTMA account for a child on which you or
  a family member is the custodian, a trust on which you or a family
  member is the trustee, a business account [not to include retirement
  plans] for your solely owned business [or the solely owned business of
  a family member] on which you or a family member is the authorized
  signer);
- A trust established by you or a family member as grantor.

Franklin Templeton fund shares held through an administrator or trustee/custodian of an Employer Sponsored Retirement Plan (see definition below) such as a 401(k) plan do not qualify for a cumulative quantity discount.

Franklin Templeton fund assets held in multiple Employer Sponsored Retirement Plans may be combined in order to qualify for sales charge breakpoints at the plan level if the plans are sponsored by the same employer.

If you believe there are cumulative quantity discount eligible shares that can be combined with your current purchase to achieve a sales charge breakpoint (for example, shares held in a different broker-dealer's brokerage account or with a bank or an investment advisor), it is your responsibility to specifically identify those shares to your financial advisor at the time of your purchase (including at the time of any future purchase). It may be necessary for you to provide your financial advisor with information and records (including account statements) of all relevant accounts invested in the Franklin Templeton funds. If you have not designated a financial advisor associated with your Franklin Templeton fund shares, it is your responsibility to specifically identify any cumulative quantity discount eligible shares to the Fund's transfer agent at the time of any purchase.

If there are cumulative quantity discount eligible shares that would qualify for combining with your current purchase and you do not tell your financial advisor or the Franklin Templeton funds' transfer agent at the time of any purchase, you may not receive the benefit of a reduced sales charge that might otherwise be available since your financial advisor and the Fund generally will not have that information.

The value of cumulative quantity discount eligible shares equals the cost or current value of those shares, whichever is higher. The current value of shares is determined by multiplying the number of shares by their highest current public offering price. It is your responsibility to retain any records necessary to substantiate historical share costs because neither your current financial advisor nor the Franklin Templeton funds may have or maintain this information.

An "Employer Sponsored Retirement Plan" is a Qualified Retirement Plan, ERISA covered 403(b) plan and certain non-qualified deferred compensation arrangements that operate in a similar manner to a Qualified Retirement Plan, such as 457 plans and executive deferred compensation

arrangements, but not including employer sponsored IRAs. A "Qualified Retirement Plan" is an employer sponsored pension or profit sharing plan that qualifies under section 401(a) of the Internal Revenue Code, including 401(k), money purchase pension, profit sharing and defined benefit plans.

2. Letter of intent (LOI) - expresses your intent to buy a stated dollar amount of "cumulative quantity discount eligible shares" (as defined in the "Cumulative quantity discount" section above) over a 13-month period and lets you receive the same sales charge as if all shares had been purchased at one time. We will reserve 5% of your total intended purchase in Class A shares registered in your name until you fulfill your LOI to cover any additional sales charge that may apply if you do not buy the amount stated in your LOI. It is your responsibility to tell your financial advisor when you believe you have fulfilled your LOI with sufficient cumulative quantity discount eligible shares. If you have not designated a financial advisor associated with your Franklin Templeton fund shares, it is your responsibility to tell the Fund's transfer agent when you believe you have fulfilled your LOI with sufficient cumulative quantity discount eligible shares. Please refer to the SAI for more LOI details.

To sign up for these programs, complete the appropriate section of your account application.

Franklin Templeton funds include all of the U.S. registered mutual funds of Franklin Templeton Investments and the Franklin Mutual Recovery Fund. They do not include the funds in the Franklin Templeton Variable Insurance Products Trust.

# Sales Charge Waivers

Class A shares may be purchased without an initial sales charge or contingent deferred sales charge (CDSC) by certain investors or for certain payments. If you would like information about available sales charge waivers, call your investment representative or call Shareholder Services at (800) 632-2301.

Waivers for investments from certain payments. Class A shares may be purchased without an initial sales charge or CDSC by investors who reinvest within 90 days:

• Dividend and capital gain distributions from any Franklin Templeton fund. The distributions generally must be reinvested in the same share

class. Certain exceptions apply, however, to Class C shareholders who chose to reinvest their distributions in Class A shares of the Fund before November 17, 1997, and to Advisor Class or Class Z shareholders of a Franklin Templeton fund who may reinvest their distributions in the Fund's Class A shares.

- Annuity payments received under either an annuity option or from death benefit proceeds, if the annuity contract offers as an investment option the Franklin Templeton Variable Insurance Products Trust. You should contact your tax advisor for information on any tax consequences that may apply.
- Redemption proceeds from the sale of Class A shares of any of the Franklin Templeton Investment Funds if you are a qualified investor.
- If you paid a CDSC when you redeemed your Class A shares from a
  Franklin Templeton Investment Fund, a new CDSC will apply to your
  purchase of Fund shares and the CDSC holding period will begin again.
  We will, however, credit your Fund account with additional shares based
  on the CDSC you previously paid and the amount of the redemption
  proceeds that you reinvest.
- If you immediately placed your redemption proceeds in a Franklin Templeton money fund, you may reinvest them as described above. The proceeds must be reinvested within 90 days from the date they are redeemed from the money fund.

**Waivers for certain investors.** The following investors or investments qualify to buy Class A shares without an initial sales charge or CDSC due to anticipated economies in sales efforts and expenses, including:

- Governments, municipalities, and tax-exempt entities that meet the requirements for qualification under section 501 of the Internal Revenue Code when purchasing direct from the Fund. Please consult your legal and investment advisors to determine if an investment in the Fund is permissible and suitable for you.
- Registered securities dealers and their affiliates, for their investment accounts only.

- Current employees of securities dealers and their affiliates and their family members, as allowed by the internal policies of their employer.
- Current and former officers, trustees, directors, full-time employees (and, in each case, their family members) of both Franklin Templeton Investments and Franklin Templeton funds, consistent with our thencurrent policies.
- Current partners of law firms that currently provide legal counsel to the funds, Franklin Resources, Inc. or its affiliates.
- Assets held in accounts managed by a subsidiary of Franklin Resources, Inc.: (1) under an advisory agreement (including sub-advisory agreements); and/or (2) as trustee of an inter vivos or testamentary trust.
- Certain unit investment trusts and their holders reinvesting distributions from the trusts.
- Assets held in accounts managed by a state or federally regulated trust company or bank (Trust Company) either as discretionary trustee of an inter vivos or testamentary trust or as investment manager under an advisory agreement (including sub-advisory) or other agreement that grants the Trust Company investment discretion over those assets (Trust Company Managed Assets) if (i) the aggregate value of Trust Company Managed Assets invested in Franklin Templeton funds at the time of purchase equals at least \$1 million; and (ii) the purchased shares are registered directly to the Trust Company in its corporate capacity (not as trustee of an individual trust) and held solely as Trust Company Managed Assets.
- Advisory Fee Programs. Shares acquired by an investor in connection
  with a comprehensive fee or other advisory fee arrangement between
  the investor and a registered broker-dealer or investment advisor, trust
  company or bank (referred to as the "Sponsor") in which the investor
  pays that Sponsor a fee for investment advisory services and the
  Sponsor or a broker-dealer through whom the shares are acquired has
  an agreement with Distributors authorizing the sale of Fund shares. No
  minimum initial investment.

#### Investments of \$1 Million or More

If you invest \$1 million or more, either as a lump sum or through our cumulative quantity discount or letter of intent programs, you can buy Class A shares without an initial sales charge. However, there is a 0.75% CDSC on any shares you sell within 18 months of purchase. The way we calculate the CDSC is the same for each class (please see "Contingent Deferred Sales Charge (CDSC) - Class A & C").

### Distribution and Service (12b-1) Fees

Class A has a distribution plan, sometimes known as a Rule 12b-1 plan, that allows the Fund to pay distribution fees of up to 0.10% per year to those who sell and distribute Class A shares and provide other services to shareholders. Because these fees are paid out of Class A's assets on an ongoing basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges.

#### SALES CHARGES - Class C

#### With Class C shares, there is no initial sales charge.

We place any investment of \$1 million or more in Class A shares, since Class A's annual expenses are lower.

#### **CDSC**

There is a 1% CDSC on any Class C shares you sell within 12 months of purchase. The way we calculate the CDSC is the same for each class (please see "Contingent Deferred Sales Charge (CDSC) - Class A & C").

# Distribution and Service (12b-1) Fees

Class C has a distribution plan, sometimes known as a Rule 12b-1 plan, that allows the Fund to pay distribution and other fees of up to 0.65% per year for the sale of Class C shares and for services provided to shareholders. Because these fees are paid out of Class C's assets on an ongoing basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges.

# Contingent Deferred Sales Charge (CDSC) - Class A & C

The CDSC for each class is based on the current value of the shares being sold or their net asset value when purchased, whichever is less. There is no CDSC on shares you acquire by reinvesting your dividends or capital gain distributions.

To keep your CDSC as low as possible, each time you place a request to sell shares we will first sell any shares in your account that are not subject to a CDSC. If there are not enough of these to meet your request, we will sell the shares in the order they were purchased. We will use this same method if you exchange your shares into another Franklin Templeton fund (please see "Exchanging Shares").

The holding period for the CDSC begins on the day you buy your shares. Your shares will age one month on that same date the next month and each following month. For example, if you buy shares on the 18th of the month, they will age one month on the 18th day of the next month and each following month.

# Reinstatement Privilege

If you sell shares of a Franklin Templeton fund that were held indirectly for your benefit in an account with your investment representative's firm or your bank's trust department or that were registered to you directly by the Fund's transfer agent (or to an affiliated custodian or trustee of the Fund's transfer agent), you may reinvest all or a portion of the proceeds from that sale within 90 days of the sale without an initial sales charge. This Reinstatement Privilege does not apply to: (i) a purchase of Fund shares made through a regularly scheduled automatic investment plan such as a purchase by a regularly scheduled payroll deduction or transfer from a bank account, or (ii) a purchase of Fund shares with proceeds from the sale of Franklin Templeton fund shares that were held indirectly through a non-Franklin Templeton individual or employer sponsored IRA.

In order to take advantage of this Reinstatement Privilege, you must inform your investment representative or the Fund's transfer agent of this privilege at the time of your investment.

The proceeds from the earlier sale must also be invested within the same share class as that of the sold shares, with the following exceptions:

 Class C shares will be reinvested in Class A shares if at the time of investment you have not appointed an investment representative (financial advisor) of record for the Fund account(s) in which the purchased shares will be held

Proceeds from the earlier sale of Class Z shares from another fund may also be invested in Class A shares under this Reinstatement Privilege.

Generally, if you paid a CDSC when you sold your shares, Franklin Templeton Distributors, Inc. (Distributors) will credit back to you the CDSC paid on the amount you are reinvesting within 90 days of the sale by adding it to the amount of your reinvestment. The new shares issued with your reinvestment WILL BE subject to any otherwise applicable CDSC. If, however, you (except Employer Sponsored Retirement Plans) paid a CDSC when you sold the following shares and you invest the proceeds from that sale in Class A shares within 90 days, you will not receive a credit for the CDSC and new Class A shares issued with your reinvestment WILL NOT BE subject to any otherwise applicable CDSC:

 Class C shares held at the time of sale in a Franklin Templeton fund account without an investment representative (financial advisor) appointed by you

This privilege does not apply to shares you buy and sell under our exchange program. Shares purchased with the proceeds from a money fund may be subject to a sales charge.

#### Qualified Investors - Advisor Class

The following investors or investments qualify to buy Advisor Class shares of the Fund:

Advisory Fee Programs. Shares acquired by an investor in connection
with a comprehensive fee or other advisory fee arrangement between
the investor and a registered broker-dealer or investment advisor, trust
company or bank (referred to as the "Sponsor") in which the investor
pays that Sponsor a fee for investment advisory services and the
Sponsor or a broker-dealer through whom the shares are acquired has
an agreement with Distributors authorizing the sale of Fund shares. No
minimum initial investment.

- Governments, municipalities, and tax-exempt entities that meet the requirements for qualification under section 501 of the Internal Revenue Code when purchasing direct from the Fund. Minimum initial investment: \$1 million in Advisor Class or Class Z shares of any Franklin Templeton fund.
- Current and former officers, trustees, directors, full-time employees (and, in each case, their family members) of both Franklin Templeton Investments and Franklin Templeton funds, consistent with our thencurrent policies. Minimum initial investment: \$1,000 (\$50 for accounts with an automatic investment plan).
- Assets held in accounts managed by a subsidiary of Franklin Resources, Inc.: (1) under an advisory agreement (including sub-advisory agreements); and/or (2) as trustee of an inter vivos or testamentary trust.
- Assets held in accounts managed by a state or federally regulated trust company or bank (Trust Company) either as discretionary trustee of an inter vivos or testamentary trust or as investment manager under an advisory agreement (including sub-advisory) or other agreement that grants the Trust Company investment discretion over those assets (Trust Company Managed Assets) if (i) the aggregate value of Trust Company Managed Assets invested in Franklin Templeton funds at the time of purchase equals at least \$1 million; and (ii) the purchased shares are registered directly to the Trust Company in its corporate capacity (not as trustee of an individual trust) and held solely as Trust Company Managed Assets.
- An individual or entity associated with a current customer of Franklin Templeton Institutional, LLC (FTI, LLC) if approved by FTI, LLC in consultation with its customer.
- Unaffiliated U.S. registered mutual funds, including those that operate as "fund of funds." Minimum initial investment: \$1 million in Advisor Class or Class Z shares of any Franklin Templeton fund.
- Assets held in accounts under the recommendation of an investment consultant provided that (1) assets are held with a firm unaffiliated with the investment consultant's firm; (2) the investment consultant is under a retainer or other similar fee arrangement with its clients; (3) the client

is not an individual; and (4) a subsidiary of Franklin Resources, Inc. approves the investment.

# **Buying Shares**

Effective March 1, 2013, the Franklin California Insured Tax-Free Income Fund was closed to new investors. Please see the first page of the "Fund Details" section for further information.

#### MINIMUM INVESTMENTS - CLASS A & C

	Initial
Regular accounts, UGMA/UTMA accounts, current and former full-time employees, officers, trustees and directors of Franklin Templeton entities, and their family members	\$1,000
Automatic investment plans	\$50
Broker-dealer sponsored wrap account programs	no minimum

Please note that you may only buy shares of a fund eligible for sale in your state or jurisdiction.

In addition, the Fund is not registered in any provincial or territorial jurisdiction in Canada and shares of the Fund have not been qualified for sale in any Canadian jurisdiction. The shares offered by this prospectus may not be directly or indirectly offered or sold in any provincial or territorial jurisdiction in Canada or to or for the benefit of residents thereof. Prospective investors may be required to declare that they are not a Canadian resident and are not acquiring shares on behalf of any Canadian residents. If an investor becomes a Canadian resident after purchasing shares of the Fund, the investor will not be able to purchase any additional shares of the Fund.

Certain Franklin Templeton funds, like the Insured and Intermediate Funds, offer multiple share classes not offered by the Money Fund. Please note that for selling or exchanging your shares, or for other purposes, shares of the Money Fund are considered Class A shares.

Many of the Money Fund's investments must be paid for in federal funds, which are monies held by the Fund's custodian on deposit at the Federal Reserve Bank of San Francisco and elsewhere. The Fund generally cannot invest money it receives from you until it is available to the Fund in federal funds, which may take up to two days. Until then, your purchase may not be considered in proper form. If the Fund is able to make investments within one business day, it may accept your order with payment in other than federal funds.

# **Account Application**

If you are opening a new account, please complete and sign the enclosed account application. For the Insured and Intermediate Funds, make sure you indicate the share class you have chosen. If you do not indicate a class, we will place your purchase in Class A shares. To save time, you can sign up now for services you may want on your account by completing the appropriate sections of the application (see "Investor Services"). For example, if you would like to link one of your bank accounts to your Fund account so that you may use electronic funds transfer to and from your bank account to buy and sell shares, please complete the bank information section of the application. We will keep your bank information on file for future purchases and redemptions. We do not accept cash, credit card convenience checks, non-bank money orders or travelers checks as forms of payment to purchase shares.

#### **BUYING SHARES**

	Opening an account	Adding to an account
Through your investment representative	Contact your investment representative	Contact your investment representative
By Phone/Online (Up to \$100,000 per shareholder per day) (800) 632-2301 franklintempleton.com Note: (1) certain account types are not available for online account access and (2) the amount may be higher for members of Franklin Templeton VIP Services®. Please see "Franklin Templeton VIP Services®" under "Investor Services" for more information regarding eligibility.	If you have another Franklin Templeton fund account with your bank account information on file, you may open a new identically registered account by phone. At this time, a new account may not be opened online.  To make a same day investment in the Insured or Intermediate Funds, your phone order must be received and accepted by us by 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier.  To make a same day investment in the Money Fund, your phone order must be received and accepted by us by 3:00 p.m. Pacific time.	Before requesting a telephone or online purchase into an existing account, please make sure we have your bank account information on file. If we do not have this information, you will need to send written instructions with your bank's name and address and a voided check or savings account deposit slip. If there is a difference between the Fund account owner(s) and the bank account owner(s), your written request must be signed by all Fund and bank account owners, and each individual must have his or her signature guaranteed. If the Fund account is registered to FTB&T as custodian/trustee for a retirement plan or education savings account, or as a custodial account for a minor (UGMA/UTMA) and there is at least one common owner on the Fund account and the bank account, signature guarantees are not required.  To make a same day investment in the Insured or Intermediate Funds, your phone or online order must be received and accepted by us by 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier.  To make a same day investment in the Money Fund, your phone or online order must be received and accepted by us by 3:00 p.m. Pacific time.
By Mail	Make your check payable to the Fund. For the Money Fund, you also may send a Federal Reserve Draft or negotiable bank draft. Instruments drawn on other mutual funds may not be accepted.  Mail the check and your signed application to Investor Services.	Make your check payable to the Fund. Include your account number on the check.  Fill out the deposit slip from your account statement. For the Money Fund, you also may use the deposit slip from your checkbook. If you do not have a slip, include a note with your name, the Fund name, and your account number.  Mail the check and deposit slip or note to Investor Services.
() () fi // / / i i i i	by Phone/Online  Up to \$100,000 per shareholder per day)  800) 632-2301  ranklintempleton.com  Note: (1) certain account types are not available  for online account access and (2) the amount  may be higher for members of Franklin Templeton  All P Services. Please see "Franklin Templeton  All P Services" under "Investor Services" for more  Information regarding eligibility.	hrough your investment representative  Contact your investment representative  If you have another Franklin Templeton fund account with your bank account information on file, you may open a new identically registered account by phone. At this time, a new account may not be opened online.  To make a same day investment in the Insured or Intermediate Funds, your phone order must be received and accepted by us by 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier.  To make a same day investment in the Money Fund, your phone order must be received and accepted by us by 3:00 p.m. Pacific time.  Make your check payable to the Fund. For the Money Fund, you also may send a Federal Reserve Draft or negotiable bank draft. Instruments drawn on other mutual funds may not be accepted.

#### **BUYING SHARES (CONT.)**

	Opening an account	Adding to an account
<b>By Wire</b> (800) 632-2301	Call to receive a wire control number and wire instructions.	Call to receive a wire control number and wire instructions.
or (650) 312-2000 collect	Wire the funds and mail your signed application to Investor Services. Please include the wire control number or your new account number on the application.  To make a same day wire investment in the Insured or Intermediate Funds, the wired funds must be received and accepted by us by 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier.	To make a same day wire investment in the Insured or Intermediate Funds, the wired funds must be received and accepted by us by 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier.  To make a same day wire investment in the Money Fund, please make sure we receive your order by 3:00 p.m. Pacific time.
By Exchange franklintempleton.com	Call Shareholder Services at (800) 632-2301, or send signed written instructions. You also may place an online exchange order. (Please see "Exchanging Shares" for more information on exchanges.)	Call Shareholder Services at (800) 632-2301, or send signed written instructions. You also may place an online exchange order. (Please see "Exchanging Shares" for more information on exchanges.)

Franklin Templeton Investor Services

Insured and Intermediate Funds: P.O. Box 997151, Sacramento, CA 95899-7151

Money Fund: P.O. Box 33030, St. Petersburg, FL 33733-8030

Call toll-free: (800) 632-2301

(Monday through Friday 5:30 a.m. to 5:00 p.m., Pacific time)

or visit us online 24 hours a day, 7 days a week,

at franklintempleton.com

# **Investor Services**

#### **Automatic Investment Plan**

This plan offers a convenient way for you to invest in the Fund by automatically transferring money from your checking or savings account each month to buy shares. To sign up, visit us online at franklintempleton. com or complete the appropriate section of your account application and mail it to Investor Services. If you are opening a new account, please include your minimum initial investment with your application.

# **Automated Telephone System**

Our automated system offers around-the-clock access to information about your account or any Franklin Templeton fund. This service is available by dialing any of the following numbers from a touch-tone phone:

Shareholder Services	(800) 632-2301
Advisor Services	(800) 524-4040

### **Distribution Options**

You may reinvest distributions you receive from the Fund in an existing account in the same share class\* of the Fund or another Franklin Templeton fund. Initial sales charges and CDSCs will not apply to reinvested distributions. You also can have your distributions deposited in a bank account, or mailed by check. Deposits to a bank account may be made by electronic funds transfer.

\*Class C shareholders may reinvest their distributions in Class A shares of any Franklin Templeton money fund. Advisor Class shareholders may reinvest in Advisor Class or Class A shares of another Franklin Templeton fund. To reinvest your distributions in Advisor Class shares of another Franklin Templeton fund, you must be a current shareholder in Advisor Class or otherwise qualify to buy that fund's Advisor Class shares.

If you received a distribution and chose to return it to purchase additional shares in Class A shares of another Franklin Templeton fund, you will not be charged an initial sales charge if you invest the distribution within 90 days of the distribution date.

Please indicate on your application the distribution option you have chosen, otherwise we will reinvest your distributions in the same share class of the Fund. For Money Fund shareholders who choose not to reinvest their distributions, the Money Fund will distribute distributions paid during the month as directed on the last business day of each month.

# **Check Writing Privileges - Money Fund**

You may request redemption drafts (checks) free of charge on your account application or, for an existing account, by calling our automated telephone system. Check writing privileges allow you to write checks against your account and are available unless you hold share certificates.

For security reasons and reasons related to the requirements of check processing systems, the Fund can only accept checks ordered from the Fund. The Fund cannot be responsible for any check not ordered from the Fund that is returned unpaid to the payee.

# Telephone/Online Privileges

You will automatically receive telephone/online privileges when you open your account, allowing you to obtain or view your account information, and conduct a number of transactions by phone or online, including: buy, sell, or exchange shares of most funds; use electronic funds transfer to buy or sell shares of most funds; change your address; and, add or change account services (including distribution options, systematic withdrawal plans, automatic investment plans and ordering money fund checks).

To view your account information or request online transactions, you will first need to register for these services at the shareholder section of our website at franklintempleton.com. You will be asked to accept the terms of an online agreement(s) and establish a password for online services. If you are registered for online services, you may enroll online in Franklin Templeton's electronic delivery program for your shareholder documents. This will allow you to receive electronic delivery (through our website) of most Franklin Templeton funds' prospectuses, annual/semiannual reports to shareholders, and proxy statements, as well as your account(s) statements and trade confirmations, and discontinue receiving your paper copies through the U.S. mail. Using our shareholder website means you are consenting to sending and receiving personal financial information over the Internet, so you should be sure you are comfortable with the risks.

As long as we follow reasonable security procedures and act on instructions we reasonably believe are genuine, we will not be responsible for any losses that may occur from unauthorized requests. We will request passwords or other information, and also may record calls. To help safeguard your account, keep your password confidential, and verify the accuracy of your confirmation statements immediately after you receive them. Contact us immediately if you believe someone has obtained unauthorized access to your account or password. For transactions done

over the Internet, we recommend the use of an Internet browser with 128-bit encryption. Certain methods of contacting us (such as by phone or by Internet) may be unavailable or delayed during periods of unusual market activity. Of course, you can decline telephone buy, sell, or exchange privileges on your account application, or choose not to register for online privileges. If you have telephone/online privileges on your account and want to discontinue them, please contact us for instructions. You may reinstate these privileges at any time in writing, including online registration with respect to online privileges.

**Note:** We discourage you from including confidential or sensitive information in any Internet communication to us. If you do choose to send email (encrypted or not) to us over the Internet, you are accepting the associated risks of lack of confidentiality.

# Systematic Withdrawal Plan

This plan allows you to automatically sell your shares and receive regular payments from your account. A CDSC may apply to withdrawals that exceed certain amounts. Certain terms and minimums apply. To sign up, visit us online at franklintempleton.com or complete the appropriate section of your application.

# Franklin Templeton VIP Services®

You may be eligible for Franklin Templeton VIP Services® if you are currently eligible for the \$250,000 sales charge breakpoint based solely on shares registered directly with the Franklin Templeton funds' transfer agent and excluding shares held indirectly through brokerage accounts. Franklin Templeton VIP Services® shareholders enjoy enhanced service and transaction capabilities. Please contact Shareholder Services at (800) 632-2301 for additional information on this program.

# **Selling Shares**

You can sell your shares at any time. Please keep in mind that a contingent deferred sales charge (CDSC) may apply.

# **Selling Shares in Writing**

Generally, requests to sell \$100,000 or less can be made over the phone, online, or with a simple letter. Sometimes, however, to protect you and the Fund we will need written instructions signed by all registered owners, with a signature guarantee for each owner, if:

- you are selling more than \$100,000 worth of shares
- you want your proceeds paid to someone who is not a registered owner
- you want to send your proceeds somewhere other than the address of record, or preauthorized bank or brokerage firm account

We also may require a signature guarantee when we receive instructions from an agent, not the registered owners; you want to send your proceeds to a bank account that was added or changed on your account without a signature guarantee within the last 15 days; you want to send proceeds to your address that was changed without a signature guarantee within the last 15 days; or we believe it would protect the Fund against potential claims based on the instructions received.

The amount may be higher for members of Franklin Templeton VIP Services<sup>®</sup>. Please see "Franklin Templeton VIP Services<sup>®</sup>" above for more information regarding eligibility.

A **signature guarantee** helps protect your account against fraud. You can obtain a signature guarantee at most banks and securities dealers.

A notary public CANNOT provide a signature guarantee.

# Selling Shares by Check - Money Fund

For accounts with check writing privileges, you may make checks payable to any person and for any amount of \$500 or more. We will impose a \$10 charge against your account if you write a check for an amount less than \$500. Since you will not know the exact amount in your account on the day a check is presented for payment, a check should not be used to close your account.

When a check is presented for payment, we will redeem an equivalent number of shares in your account to cover the amount of the check. The shares will be redeemed at the net asset value next determined after we receive the check, as long as the amount of the check does not exceed the number of available shares in your account. The available shares may not include recently purchased shares if the check, draft or wire/electronic funds transfer used as payment for the shares has not yet cleared. If we receive a check written for an amount that exceeds the total value of the shares in your account, the check may be returned unpaid and we will impose a \$10 charge against your account. The total value of the shares in your account is calculated at the time the check is presented to us for processing.

The checks are drawn through Bank of America, N.A. Bank of America may end this service at any time upon notice to you. You generally will not be able to convert a check drawn on your Fund account into a certified or cashier's check by presenting it at the bank.

Stopping payment on a check. Should you want to stop payment on a check, you must notify us by phone or in writing. Since the Fund is not a bank, we cannot assure you that a stop payment request will be effective. We will use our best efforts, however, to see that these requests are carried out.

# **Selling Recently Purchased Shares**

If you sell shares recently purchased, we may delay sending you the proceeds until your check, draft or wire/electronic funds transfer has cleared, which may take seven business days.

# **Redemption Proceeds**

Your redemption check will be sent within seven days after we receive your request in proper form. We are not able to receive or pay out cash in the form of currency.

# Contingent Deferred Sales Charge (CDSC)

Most Franklin Templeton funds impose a 1% or 0.75% CDSC on certain investments of Class A shares sold within 18 months of purchase. While the Money Fund generally does not have a CDSC, it will impose one if you sell shares exchanged into the Money Fund from another Franklin Templeton fund and those shares would have been assessed a CDSC in the other fund. Please keep in mind that the time the shares are held in the Money Fund does not count towards the CDSC holding period.

The CDSC is based on the current value of the shares being sold or their net asset value when purchased, whichever is less. To keep your CDSC as low as possible, each time you place a request to sell shares we will first sell any shares in your account that are not subject to a CDSC. If there are not enough of these to meet your request, we will sell the shares in the order they were purchased.

FRANKLIN CALIFORNIA TAX-FREE TRUST

For information on the CDSC that may apply when you sell shares of the Insured or Intermediate Funds, please see "Sales Charges."

#### SELLING SHARES

#### To sell some or all of your shares

# Through your investment representative

Contact your investment representative

#### By Mail

Send written instructions and endorsed share certificates (if you hold share certificates) to Investor Services. Corporate, partnership or trust accounts may need to send additional documents.

Specify the Fund, the account number and the dollar value or number of shares you wish to sell. Be sure to include all necessary signatures and any additional documents, as well as signature guarantees if required.

A check will be mailed to the name(s) and address on the account, or otherwise according to your written instructions.

#### By Phone/Online

(800) 632-2301 franklintempleton.com

As long as your transaction is for \$100,000 or less and you do not hold share certificates, you can sell your shares by phone or online. The amount may be higher for members of Franklin Templeton VIP Services®. Please see "Franklin Templeton VIP Services®" above for more information regarding eligibility.

A check will be mailed to the name(s) and address on the account, or a pre-authorized secondary address. Written instructions, with a signature guarantee, are required to send the check to another address or to make it payable to another person.

If you have changed your address within the last 15 days without a signature guarantee, requests to sell your shares and mail the check to the name(s) and address on the account must be in writing and we may require a signature guarantee. Requests to sell your shares and send the proceeds to a pre-authorized secondary address may be requested by phone or online.

#### By Electronic Funds Transfer (ACH)

You can call, write, or visit us online to have redemption proceeds sent to a bank account. See the policies at left for selling shares by mail, phone, or online.

Before requesting to have redemption proceeds sent to a bank account, please make sure we have your bank account information on file. If we do not have this information, you will need to send written instructions with your bank's name and a voided check or savings account deposit slip. If there is a difference between the Fund account owner(s) and the bank account owner(s), you must provide written instructions signed by all Fund and bank account owners, and each individual must have his or her signature guaranteed. If the Fund account is registered to FTB&T as custodian/trustee for a retirement plan or education savings account, or as a custodial account for a minor (UGMA/UTMA) and there is at least one common owner on the Fund account and the bank account, signature guarantees are not required.

If the bank account was added or changed without a signature guarantee within the last 15 days, you may be required to provide written instructions signed by all fund account owners, with a signature guarantee for each fund account owner.

If we receive your request in proper form by 1:00 p.m. Pacific time for the Insured or Intermediate Funds and 3:00 p.m. Pacific time for the Money Fund, proceeds sent by ACH generally will be available within two to three business days.

#### **By Exchange**

Obtain a current prospectus for the fund you are considering. Prospectuses are available online at franklintempleton.com.

Call Shareholder Services at the number below or send signed written instructions. You also may place an exchange order online. See the policies at left for selling shares by mail, phone, or online.

If you hold share certificates, you will need to return them to the Fund before your exchange can be processed.

Franklin Templeton Investor Services

Insured and Intermediate Funds: P.O. Box 997151, Sacramento, CA 95899-7151

Money Fund: P.O. Box 33030, St. Petersburg, FL 33733-8030

Call toll-free: (800) 632-2301

(Monday through Friday 5:30 a.m. to 5:00 p.m., Pacific time) or visit us online 24 hours a day, 7 days a week, at franklintempleton.com

# **Exchanging Shares**

# **Exchange Privilege**

### Class A & C

You can exchange shares between most Franklin Templeton funds within the same class.\*For the Insured and Intermediate Funds, you can exchange shares generally without paying any additional sales charges. If you exchange shares from a money fund and those shares were not charged a sales charge previously, however, a sales charge may apply.

\*Class Z shareholders of Franklin Mutual Series Funds may exchange into Class A without any sales charge. Advisor Class shareholders of another Franklin Templeton fund also may exchange into Class A without any sales charge. If you exchange into Class A shares and you later decide you would like to exchange into a fund that offers an Advisor Class or Class Z, you may exchange your Class A shares for Advisor Class or Class Z shares if you are a current shareholder in Advisor Class or Class Z or you otherwise qualify to buy the fund's Advisor Class or Class Z shares.

Any CDSC will continue to be calculated from the date of your initial investment and will not be charged at the time of the exchange. The purchase price for determining a CDSC on exchanged shares will be the price you paid for the original shares.

### **Advisor Class**

You can exchange your Advisor Class shares for Advisor Class shares of other Franklin Templeton funds. You also may exchange your Advisor Class shares for Class A shares of a fund that does not currently offer an Advisor Class (without any sales charge)\* or for Class Z shares of Franklin Mutual Series Funds.

\*If you exchange into Class A shares and you later decide you would like to exchange into a fund that offers an Advisor Class, you may exchange your Class A shares for Advisor Class shares if you are a current shareholder in Advisor Class or you otherwise qualify to buy the fund's Advisor Class shares.

### **All Classes**

The remainder of the "Exchanging Shares" section applies to all classes.

Generally exchanges may only be made between identically registered accounts, unless you send written instructions with a signature guarantee.

An **exchange** is really two transactions: a sale of one fund and the purchase of another. In general, the same policies that apply to purchases and sales also apply to exchanges, including minimum investment amounts (except exchanges of an entire account balance). Exchanges also generally have the same tax consequences as ordinary sales and purchases.

**Rejected exchanges.** If the Fund rejects an exchange request involving the sale of Fund shares, the rejected exchange request will also mean rejection of the request to purchase shares of another fund with the proceeds of the sale. Of course, you may generally redeem shares of the Fund at any time.

Exchanges through financial intermediaries. If you are investing indirectly in the Fund through a financial intermediary such as a broker-dealer, a bank, an insurance company separate account, an investment advisor, an administrator or trustee of an IRS-recognized tax-deferred savings plan such as a 401(k) retirement plan and a 529 college savings plan that maintains a master account (an Omnibus Account) with the Fund for trading on behalf of its customers, different exchange and/or transfer limit guidelines and restrictions may apply. The financial intermediary through whom you are investing may choose to adopt different trading restrictions designed to discourage short-term or excessive trading. Consult with your financial intermediary (or in the case of a 401(k) retirement plan, your plan sponsor) to determine what trading restrictions, including exchange/ transfer limitations, may be applicable to you.

Fund exchange privilege changes/waiver. The Fund may terminate or modify (temporarily or permanently) this exchange privilege in the future. You will receive 60 days' notice of any material changes, unless otherwise provided by law.

Other funds' exchange privileges. If there is a conflict between the exchange privileges of two funds involved in an exchange transaction, the stricter policy will apply to the transaction. Other Franklin Templeton funds may have different exchange restrictions. Check each fund's prospectus for details.

# Frequent Trading Policy

The Fund's board of trustees has adopted the following policies and procedures with respect to frequent trading in Fund shares (Frequent Trading Policy).

The Fund does not intend to accommodate short-term or frequent purchases and redemptions of Fund shares that may be detrimental to the Fund. For example, this type of trading activity could interfere with the efficient management of the Fund's portfolio or materially increase the Fund's transaction costs, administrative costs or taxes.

Through its transfer agent, the Fund performs ongoing monitoring of shareholder trading in shares of the Fund and other Franklin Templeton funds in order to try and identify shareholder trading patterns that suggest an ongoing short-term trading strategy. If shareholder trading patterns identified by the transfer agent through monitoring or from other information regarding the shareholder's trading activity in non-Franklin Templeton funds leads the transfer agent to reasonably conclude that such trading may be detrimental to the Fund as described in this Frequent Trading Policy, the transfer agent, on behalf of the Fund, may temporarily or permanently bar future purchases into the Fund or, alternatively, may limit the amount, number or frequency of any future purchases and/or the method by which you may request future purchases and redemptions (including purchases and/or redemptions by an exchange or transfer between the Fund and any other mutual fund).

In considering an investor's trading patterns, the Fund may consider, among other factors, the investor's trading history both directly and, if known, through financial intermediaries, in the Fund, in other Franklin Templeton funds, in non-Franklin Templeton mutual funds, or in accounts under common control or ownership (see, for example, "Buying and Selling Shares - Investment by asset allocators and large shareholders" in the SAI). The transfer agent may also reject any purchase or redemption request, whether or not it represents part of any ongoing trading pattern, if the Fund's investment manager or transfer agent reasonably concludes that the amount of the requested transaction may disrupt or otherwise interfere with the efficient management of the Fund's portfolio. In determining what actions should be taken, the Fund's transfer agent may consider a variety of factors, including the potential impact of such remedial actions on the Fund and its shareholders. If the Fund is a "fund of funds," the Fund's transfer agent may take into account the impact of the trading activity and of any proposed remedial action on both the Fund and the underlying funds in which the Fund invests.

Frequent trading through financial intermediaries. You are an investor subject to this Frequent Trading Policy whether you are a direct shareholder of the Fund or you are investing indirectly in the Fund through a financial intermediary, such as a broker-dealer, bank, trust company, insurance company product such as an annuity contract, investment advisor, or an administrator or trustee of an IRS-recognized tax-deferred savings plan such as a 401(k) retirement plan and a 529 college savings plan.

Some financial intermediaries maintain master accounts with the Fund on behalf of their customers ("omnibus accounts"). The Fund has entered

into "information sharing agreements" with these financial intermediaries, which permit the Fund to obtain, upon request, information about the trading activity of the intermediary's customers that invest in the Fund. If the Fund's transfer agent identifies omnibus account level trading patterns that have the potential to be detrimental to the Fund, the transfer agent may, in its sole discretion, request from the financial intermediary information concerning the trading activity of its customers. Based upon its review of the information, if the transfer agent determines that the trading activity of any customer may be detrimental to the Fund, it may, in its sole discretion, request the financial intermediary to restrict or limit further trading in the Fund by that customer. There can be no assurance that the transfer agent's monitoring of omnibus account level trading patterns will enable it to identify all short-term trading by a financial intermediary's customers.

**Revocation of trades.** While the Fund reserves the right to reject any purchase order for any reason, the Fund may also revoke executed purchase orders that the transfer agent reasonably concludes in its sole discretion may have been contrary to the objectives of the Fund's Frequent Trading Policy.

# **Account Policies**

# **Calculating Share Price**

The Money Fund calculates its NAV per share normally as of 1:00 p.m. Pacific time, each day the New York Stock Exchange (NYSE) is open and, alternatively, if the NYSE is closed, or if the NYSE closes early because trading has been halted for the day (other than for a national holiday or weekend), on each day that the U.S. government securities markets are open and the investment manager determines that there is sufficient liquidity in those markets, by dividing its net assets by the number of shares outstanding. The Fund's assets are generally valued at their amortized cost.

# Class A & C

When you buy shares of the Insured and Intermediate Funds, you pay the "offering price" for the shares. The "offering price" is determined by dividing the NAV per share by an amount equal to 1 minus the sales charge applicable to the purchase (expressed in decimals), calculated to two decimal places using standard rounding criteria. The number of Fund shares you will be issued will equal the amount invested divided by the applicable offering price for those shares, calculated to three decimal places using standard rounding criteria. For example, if the NAV per share is \$10.25 and the applicable sales charge for the purchase is 5.75%, the offering price would be calculated as follows: 10.25 divided by 1.00 minus 0.0575 [10.25/0.9425] equals 10.87533, which, when rounded to two decimal points, equals 10.88. The offering price per share would be \$10.88.

When you sell shares, you receive the NAV minus any applicable CDSC.

### All Classes

The value of a mutual fund is determined by deducting the fund's liabilities from the total assets of the portfolio. The NAV per share is determined by dividing the total net asset value of each fund's share class by the applicable number of shares outstanding per share class.

The Insured and Intermediate Funds calculates the NAV per share each business day at 1 p.m. Pacific time which normally coincides with the close of trading on the New York Stock Exchange (NYSE). The Fund does not calculate the NAV on days the NYSE is closed for trading, which include New Year's Day, Martin Luther King Jr. Day, President's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. If the NYSE has a scheduled early close or unscheduled

early close, the Fund's share price would still be determined as of 1 p.m. Pacific time/4 p.m. Eastern time.

When determining its NAV, the Insured and Intermediate Funds value cash and receivables at their realizable amounts, and records interest as accrued and dividends on the ex-dividend date. The Fund generally utilizes two independent pricing services to assist in determining a current market value for each security. If market quotations are readily available for portfolio securities listed on a securities exchange, the Fund values those securities at the last quoted sale price or the official closing price of the day, respectively, or, if there is no reported sale, within the range of the most recent quoted bid and ask prices. The Fund values over-the-counter portfolio securities within the range of the most recent bid and ask prices. If portfolio securities trade both in the over-the-counter market and on a stock exchange, the Fund values them according to the broadest and most representative market.

Requests to buy and sell shares are processed at the NAV next calculated after we or an approved financial intermediary receive your request in proper form.

Generally, trading in corporate bonds, U.S. government securities and money market instruments is substantially completed each day at various times before the close of the NYSE. The value of these securities used in computing the NAV is determined as of such times. Occasionally, events affecting the values of these securities may occur between the times at which they are determined and the close of the NYSE that will not be reflected in the computation of the NAV. The Fund relies on third-party pricing vendors to provide evaluated prices that reflect current fair market value at the close of the NYSE.

#### Fair Valuation - Individual Securities

The Fund has procedures, approved by the board of trustees, to determine the fair value of individual securities and other assets for which market prices are not readily available (such as certain restricted or unlisted securities and private placements) or which may not be reliably priced (such as in the case of trade suspensions or halts, price movement limits set by certain foreign markets, and thinly traded or illiquid securities). Some methods for valuing these securities may include: fundamental analysis (earnings multiple, etc.), matrix pricing, discounts from market prices of similar securities, or discounts applied due to the nature and duration

of restrictions on the disposition of the securities. The board of trustees oversees the application of fair value pricing procedures.

The application of fair value pricing procedures represents a good faith determination based upon specifically applied procedures. There can be no assurance that the Fund could obtain the fair value assigned to a security if it were able to sell the security at approximately the time at which the Fund determines its NAV per share.

# Security Valuation - Municipal Securities - Matrix Pricing (Fair Valuation)

Municipal securities generally trade in the over-the-counter market rather than on a securities exchange. The Fund's pricing services use valuation models or matrix pricing to determine current value. In general, they use information with respect to comparable bond and note transactions, quotations from bond dealers or by reference to other securities that are considered comparable in such characteristics as rating, interest rate and maturity date. Matrix pricing is considered a form of fair value pricing.

### **Accounts with Low Balances**

If your account has been open for more than one year and its value falls below \$500, we will mail you a notice asking you to bring the account back up to its applicable minimum investment amount. If you choose not to do so within 30 days, we will close your account and mail the proceeds to the address of record. You will not be charged a CDSC if your account is closed for this reason. This policy does not apply to: (1) certain broker-controlled accounts established through the National Securities Clearing Corporation's Networking system; (2) Class A accounts established pursuant to a conversion from Class B; (3) tax-deferred retirement plan accounts; (4) active automatic investment plan accounts; (5) broker-dealer sponsored separately managed accounts (wrap accounts); (6) accounts held through a 529 college savings program; and (7) Coverdell Education Savings Plan accounts.

# Statements, Reports and Prospectuses

For the Insured and Intermediate Funds, you will receive quarterly account statements that show all your account transactions during the quarter. For the Money Fund, you will receive monthly account statements that show all your account transactions during the month. For each Fund, except the Money Fund, you also will receive written notification after each transaction affecting your account (except for distributions and

transactions made through automatic investment or withdrawal programs, and, in the case of the Money Fund, shares sold by check, which will be reported on your quarterly or monthly statement, as applicable).

You also will receive the Fund's financial reports every six months as well as an annual updated prospectus. To reduce Fund expenses, we try to identify related shareholders in a household and send only one copy of the financial reports and prospectus. This process, called "householding," will continue indefinitely unless you instruct us otherwise.

If you prefer not to have these documents householded, please call us at (800) 632-2301. At any time you may view current prospectuses and financial reports on our website.

If you choose, you may receive your statements, financial reports and prospectuses through electronic delivery (please see "Investor Services - Telephone/Online Privileges").

# **Investment Representative Account Access**

If there is a dealer or other investment representative of record on your account, he or she will be able to obtain your account information, conduct transactions for your account, and also will receive copies of all notifications and statements and other information about your account directly from the Fund.

#### Street or Nominee Accounts

You may transfer your shares from the street or nominee name account of one dealer to another, as long as both dealers have an agreement with Distributors. We will process the transfer after we receive authorization in proper form from your delivering securities dealer.

#### Joint Accounts

Unless you specify a different registration, shares issued to two or more owners are registered as "joint tenants with rights of survivorship" (shown as "Jt Ten" on your account statement). To make any ownership changes to jointly owned shares, or to sever a joint tenancy in jointly owned shares, all owners must agree in writing.

# Joint Account Risk with Telephone/Online Privileges

You will automatically receive telephone/online privileges when you open your account. If your account has more than one registered owner, telephone/online privileges allow the Fund to accept online registration for

online services (including electronic delivery of shareholder documents) and transaction instructions online or by telephone from only one registered owner. This means that any one registered owner on your account, acting alone and without the consent of any other registered owner, may give the Fund instructions by telephone, online or in writing (subject to any limitations in telephone or online privileges) to:

- Exchange shares from a jointly registered Fund account requiring all registered owner signatures into an identically registered money fund account that only requires one registered owner's signature to redeem shares;
- Redeem Fund shares and direct the redemption proceeds to a preestablished bank account that may or may not be owned by you and, if owned by you jointly with someone else, only requires one person to withdraw funds by check or otherwise; and
- Purchase Fund shares by debiting a pre-established bank account that may be owned by you.

If you do NOT want another registered owner on your account to be able to issue these kinds of instructions to the Fund without your consent, you must instruct the Fund to deny/terminate online privileges and the ability to issue such instructions by telephone so that these types of instructions will only be accepted in writing signed by all account owners. This decision will apply to any other fund into which you may exchange your jointly owned Fund shares. Any later decision to permit these types of instructions by telephone and/or online will need to be given to the Fund in a written instruction signed by all registered owners.

#### **Additional Policies**

Please note that the Fund maintains additional policies and reserves certain rights, including:

- The Fund may restrict, reject or cancel any purchase orders, including an exchange request.
- The Fund may modify, suspend, or terminate telephone/online privileges at any time.
- When you buy shares, it does not create a checking or other bank account relationship with the Money Fund or any bank.

- The Fund may make material changes to or discontinue the exchange privilege on 60 days' notice or as otherwise provided by law.
- The Fund may stop offering shares completely or may offer shares only on a limited basis, for a period of time or permanently.
- Normally, redemptions are processed by the next business day, but may take up to seven days to be processed if making immediate payment would adversely affect the Fund.
- In unusual circumstances, we may temporarily suspend redemptions or postpone the payment of proceeds, as allowed by federal securities laws.
- For redemptions over a certain amount, the Fund may pay redemption proceeds in securities or other assets rather than cash if the investment manager determines it is in the best interest of the Fund, consistent with applicable law.
- You may only buy shares of a fund (including the purchase side of an exchange) eligible for sale in your state or jurisdiction.
- To permit investors to obtain the current price, dealers are responsible for transmitting all orders to the Fund promptly.

# **Dealer Compensation**

#### Class A & C

Qualifying dealers who sell Fund shares may receive sales commissions and other payments. These are paid by Distributors from sales charges received from purchasing or redeeming shareholders, from distribution and service (12b-1) fees from the Fund and from Distributors' other financial resources. Dealers may also receive shareholder servicing fees for servicing investors who indirectly hold Franklin Templeton fund shares through dealer-maintained brokerage accounts as more fully described under "Shareholder servicing and transfer agent" of the "Management and Other Services" section in the SAI. These fees are paid by the Fund's transfer agent from payments it receives under its agreement with the Fund.

If any dealer commissions are paid in connection with a purchase which is subsequently rejected or results in any trading restriction placed on the purchaser as a result of a determination by the Fund's investment manager or transfer agent that the purchase may be connected with trading activity that may be detrimental to the Fund as described in the Fund's "Frequent Trading Policy," the dealer shall, upon demand, refund such commissions to Distributors.

#### **INSURED FUND**

	Class A	Class B	Class C
Commission (%)	_	_	1.00 <sup>1</sup>
Investment under \$100,000	4.00	_	_
\$100,000 but under \$250,000	2.80	_	_
\$250,000 but under \$500,000	2.00	_	_
\$500,000 but under \$1 million	1.60	_	_
\$1 million or more	up to 0.75 <sup>2</sup>	_	_
12b-1 fee to dealer	0.102	$0.15^{3}$	0.654

#### INTERMEDIATE FUND

	Class A	Class C
Commission (%)	_	1.00 <sup>1</sup>
Investment under \$100,000	2.00	_
\$100,000 but under \$250,000	1.50	_
\$250,000 but under \$500,000	1.00	_
\$500,000 but under \$1 million	0.85	_
\$1 million or more	up to 0.75 <sup>2</sup>	_
12b-1 fee to dealer	$0.10^{2}$	0.654

- 1. Commission includes advance of the first year's 0.15% 12b-1 service fee. Distributors may pay a prepaid commission.
- 2. For purchases at NAV where Distributors paid a prepaid commission, dealers may start to receive the 12b-1 fee in the 13th month after purchase. For purchases at NAV where Distributors did not pay a prepaid commission, dealers may start to receive the 12b-1 fee at the time of purchase.
- 3. After eight years, Class B shares convert to Class A shares and dealers may then receive the 12b-1 fee applicable to Class A.
- 4. Dealers may be eligible to receive up to 0.15% at the time of purchase and may be eligible to receive 0.65% starting in the 13th month. During the first 12 months, the full 12b-1 fee will be paid to Distributors to partially offset the commission and the prepaid service fee paid at the time of purchase. For purchases at NAV where Distributors did not pay a prepaid commission, dealers may start to receive the 12b-1 fee at the time of purchase.

Other dealer and financial intermediary compensation. Distributors may make payments (a portion of which may be reimbursable under the terms of the Fund's Rule 12b-1 distribution plans) to certain dealers who have sold shares of the Franklin Templeton mutual funds. In the case of any one dealer, marketing support payments will not exceed the sum of 0.08% of that dealer's current year's total sales of Franklin Templeton mutual funds, and 0.05% (or 0.03%) of the total assets of equity (or fixed income) funds attributable to that dealer, on an annual basis. Marketing support payments made to organizations located outside the U.S., with respect to investments in the Fund by non-U.S. persons, may exceed this limitation.

Distributors makes these payments in connection with the qualifying dealers' efforts to educate financial advisors about the Franklin Templeton funds. Any current year sales to, or assets held on behalf of, Employer Sponsored Retirement Plans for which payment is made to a financial intermediary pursuant to the following paragraph will be excluded from the calculation of marketing support payments pursuant to this paragraph.

Distributors and/or its affiliates may also make payments (a portion of which may be reimbursable under the terms of the Fund's Rule 12b-1 distribution plans) to certain financial intermediaries in connection with their activities that are intended to assist in the sale of shares of the Franklin Templeton mutual funds, directly or indirectly, to certain Employer Sponsored Retirement Plans. In the case of any one financial intermediary, such payments will not exceed 0.10% of the total assets of Franklin Templeton mutual funds held, directly or indirectly, by such Employer Sponsored Retirement Plans, on an annual basis.

A number of factors will be considered in determining these payments, including the qualifying dealer or financial intermediary's sales, assets and redemption rates, the nature and quality of any servicing provided by the financial intermediary, and the quality of the dealer or financial intermediary's relationship with Distributors. Distributors will, on an annual basis, determine the advisability of continuing these payments. These payments may be in addition to any shareholder servicing fees paid by the Fund's transfer agent from payments it receives under its agreement with the Fund.

To the extent permitted by SEC and Financial Industry Regulatory Authority rules and other applicable laws and regulations, Distributors may pay or allow other promotional incentives or payments to dealers.

Sale of Fund shares, as well as shares of other funds in Franklin Templeton Investments, is not considered a factor in the selection of broker-dealers to execute the Fund's portfolio transactions. Accordingly, the allocation of portfolio transactions for execution by broker-dealers that sell Fund shares is not considered marketing support payments to such broker-dealers.

You can find further details in the SAI about the payments made by Distributors and the services provided by your financial advisor. Your financial advisor may charge you additional fees or commissions other than those disclosed in this prospectus. You should ask your financial advisor for information about any payments it receives from Distributors and any services it provides, as well as about fees and/or commissions it charges.

# Questions

If you have any questions about the Fund or your account, you can write to us at P.O. Box 997151, Sacramento, CA 95899-7151 for the Insured and Intermediate Funds and at P.O. Box 33030, St. Petersburg, FL 33733-8030 for the Money Fund. You also can call us at one of the following numbers. For your protection and to help ensure we provide you with quality service, all calls may be monitored or recorded.

Department Name	Telephone Number	Hours (Pacific time, Monday through Friday)
Shareholder Services	(800) 632-2301	5:30 a.m. to 5:00 p.m.
Fund Information	(800) DIAL BEN (800) 342-5236	5:30 a.m. to 5:00 p.m.
Retirement Services	(800) 527-2020	5:30 a.m. to 5:00 p.m.
Advisor Services	(800) 524-4040	5:30 a.m. to 5:00 p.m.
Hearing Impaired Assistance	For hearing impaired assistance, please contact us via a Relay Service.	
Automated Telephone System	(800) 632-2301 (800) 524-4040 (800) 527-2020	(around-the-clock access)

#### FRANKLIN TEMPLETON FUNDS

Literature Request. To receive a summary prospectus and/or prospectus, please call us at (800) DIAL BEN/ 342-5236 or visit franklintempleton.com. Investors should carefully consider a fund's investment goals, risks. charges and expenses before investing. The prospectus contains this and other information. Please carefully read a prospectus before investing.

VALUE Franklin All Cap Value Fund Franklin Balance Sheet Investment Fund Franklin Large Cap Value Fund Franklin MicroCap Value Fund Franklin MidCap Value Fund Franklin Small Cap Value Fund Mutual Beacon Fund Mutual Quest Fund Mutual Recovery Fund<sup>2</sup> Mutual Shares Fund **BLEND** Franklin Focused Core Equity Fund

Franklin Large Cap Equity Fund Franklin Rising Dividends Fund

#### GROWTH

Franklin DynaTech Fund Franklin Flex Cap Growth Fund Franklin Growth Fund Franklin Growth Opportunities Fund Franklin Small Cap Growth Fund Franklin Small-Mid Cap Growth Fund

#### **SECTOR**

Franklin Biotechnology Discovery Fund Franklin Global Listed Infrastructure Fund Franklin Global Real Estate Fund Franklin Gold & Precious Metals Fund Franklin Natural Resources Fund Franklin Real Estate Securities Fund Franklin Utilities Fund Mutual Financial Services Fund

#### GLOBAL

Franklin World Perspectives Fund Mutual Global Discovery Fund Templeton Global Opportunities Trust Templeton Global Smaller Companies Fund Templeton Growth Fund

Templeton World Fund

INTERNATIONAL

Franklin India Growth Fund Franklin International Growth Fund

Franklin International Small Cap Growth Fund<sup>3</sup> Mutual European Fund Mutual International Fund Templeton Asian Growth Fund Templeton BRIC Fund Templeton China World Fund Templeton Developing Markets Trust Templeton Emerging Markets Small Cap Fund Templeton Foreign Fund Templeton Foreign Smaller Companies Fund Templeton Frontier Markets Fund<sup>4</sup> **HYBRID** 

Franklin Balanced Fund Franklin Convertible Securities Fund Franklin Equity Income Fund Franklin Income Fund Templeton Emerging Markets Balanced Fund

Templeton Global Balanced Fund

ASSET ALLOCATION

Franklin LifeSmart™ Retirement Target Funds (2015-2050)5 Franklin Templeton Corefolio® Allocation Fund Franklin Templeton Founding Funds Allocation Fund Franklin Templeton Conservative Allocation Fund Franklin Templeton Growth Allocation Franklin Templeton Moderate Allocation Fund

Franklin Templeton Global Allocation Fund Franklin Templeton Multi-Asset Real Return Fund

# FIXED INCOME

Franklin Adjustable U.S. Government Securities Fund<sup>6</sup>

Franklin Floating Rate Daily Access Fund

Franklin Global Government Bond Fund Franklin High Income Fund Franklin Limited Maturity U.S. Government Securities Fund<sup>6</sup> Franklin Low Duration Total Return Fund Franklin Real Return Fund Franklin Short Duration U.S. Government Franklin Strategic Income Fund Franklin Strategic Mortgage Portfolio

Franklin Templeton

Hard Currency Fund Franklin Total Return Fund Franklin U.S. Government Securities Fund<sup>6</sup> Templeton Constrained Bond Fund Templeton Emerging Markets Bond Fund Templeton Global Bond Fund

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Limited-/Intermediate-Term

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Federal Limited-Term Tax-Free Income Fund

New York Intermediate-Term Tax-Free Income Fund

State-Specific 10, 11

**INSURANCE FUNDS** Franklin Templeton Variable Insurance Products Trust12

- 1. The fund is closed to new investors. Existing shareholders and select retirement plans can continue adding to their accounts.
- 2. The fund is a continuously offered, closed-end fund. Shares may be purchased daily; there is no daily redemption. However, each quarter, pending board approval, the fund will authorize the repurchase of 5%-25% of the outstanding number of shares. Investors may tender all or a portion of their shares during the tender period.
- 3. Effective June 3, 2013, the fund closed to new investors, with limited exceptions
- 4. Effective June 28, 2013, the fund closed to new investors. Existing shareholders and select retirement plans may add to their accounts.
- 5. Effective May 1, 2013, the Franklin Templeton Retirement Target Funds changed their names to Franklin LifeSmart Retirement Target Funds. The funds' investment goals and principal investment strategies remained unchanged. These funds are in increments of 5 years.

- 6. An investment in the fund is neither insured nor guaranteed by the U.S. government or by any other entity or institution.
- 7. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.
- 8. The fund is closed to all new investments (other than reinvestment of dividends and capital gains distributions). 9. The fund invests primarily in insured municipal securities
- 10. Effective at the close of market March 1, 2013, Franklin Insured Tax-Free Income Fund and Franklin California Insured Tax-Free Income Fund closed to all new investments (other than reinvestment of dividends and capital gains distributions).
- 11. Visit franklintempleton.com for a list of state-specific taxfree funds available and their respective prospectuses.
- 12. The funds of the Franklin Templeton Variable Insurance Products Trust are generally available only through insurance company variable contracts

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#### FOR MORE INFORMATION

You can learn more about the Fund in the following documents:

# **Annual/Semiannual Report to Shareholders**

Includes a discussion of recent market conditions and Fund strategies that significantly affected Fund performance during its last fiscal year, financial statements, detailed performance information, portfolio holdings and, in the annual report only, the independent registered public accounting firm's report.

# Statement of Additional Information (SAI)

Contains more information about the Fund, its investments and policies. It is incorporated by reference (is legally a part of this prospectus).

For a free copy of the current annual/semiannual report or the SAI, please contact your investment representative or call us at the number below. You also can view the current annual/semiannual report and the SAI online through franklintempleton.com.

You also can obtain information about the Fund by visiting the SEC's Public Reference Room in Washington, DC (phone (202) 551-8090) or the EDGAR Database on the SEC's Internet site at http://www.sec.gov. You can obtain copies of this information, after paying a duplicating fee, by writing to the SEC's Public Reference Section, Washington, DC 20549-1520 or by electronic request at the following email address: publicinfo@sec.gov.



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For hearing impaired assistance. please contact us via a Relay Service.

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