

OCTOBER 31, 2011

SEMIANNUAL REPORT  
AND SHAREHOLDER LETTER

Sign up for electronic delivery  
on [franklintempleton.com](http://franklintempleton.com)



TAX-FREE INCOME

# FRANKLIN FEDERAL TAX-FREE INCOME FUND



FRANKLIN TEMPLETON  
INVESTMENTS

Franklin • Templeton • Mutual Series

# Franklin Templeton Investments

## Gain From Our Perspective®

Franklin Templeton's distinct multi-manager structure combines the specialized expertise of three world-class investment management groups—Franklin, Templeton and Mutual Series.

### SPECIALIZED EXPERTISE

Each of our portfolio management groups operates autonomously, relying on its own research and staying true to the unique investment disciplines that underlie its success.

**Franklin.** Founded in 1947, Franklin is a recognized leader in fixed income investing and also brings expertise in growth- and value-style U.S. equity investing.

**Templeton.** Founded in 1940, Templeton pioneered international investing and, in 1954, launched what has become the industry's oldest global fund. Today, with offices in over 25 countries, Templeton offers investors a truly global perspective.

**Mutual Series.** Founded in 1949, Mutual Series is dedicated to a unique style of value investing, searching aggressively for opportunity among what it believes are undervalued stocks, as well as arbitrage situations and distressed securities.

### TRUE DIVERSIFICATION

Because our management groups work independently and adhere to different investment approaches, Franklin, Templeton and Mutual Series funds typically have distinct portfolios. That's why our funds can be used to build truly diversified allocation plans covering every major asset class.

### RELIABILITY YOU CAN TRUST

At Franklin Templeton Investments, we seek to consistently provide investors with exceptional risk-adjusted returns over the long term, as well as the reliable, accurate and personal service that has helped us become one of the most trusted names in financial services.

MUTUAL FUNDS | RETIREMENT PLANS | 529 COLLEGE SAVINGS PLANS | SEPARATE ACCOUNTS



# Contents

Shareholder Letter .....	1	<b>Semiannual Report</b>	Financial Statements .....	49
		Franklin Federal Tax-Free Income Fund ....	Notes to Financial Statements .....	52
		Performance Summary .....	Shareholder Information .....	60
		Your Fund's Expenses .....		
		Financial Highlights and		
		Statement of Investments .....		

## Shareholder Letter

Dear Shareholder:

During the six-month period ended October 31, 2011, the municipal bond market strengthened after a period of underperformance and net redemptions in late 2010 and January 2011.

U.S. economic data seemed to indicate a modest recovery albeit hindered by high unemployment and a still-struggling housing market. Gross domestic product annualized growth rates for the second and third quarters of 2011 were 1.3% and 2.0%. Early in the reporting period, the mild growth rate as well as other relatively weak data and declining consumer sentiment led many economists to reduce their growth expectations for the remainder of the year. Some economists also thought it more likely the economy would slip into another recession in the short term. Many observers speculated about the likelihood of a third round of quantitative easing (QE3) by the Federal Reserve Board (Fed), whose QE2 program expired on June 30, 2011. On September 21, the Fed announced a program (dubbed Operation Twist by commentators) in which it intends to buy hundreds of billions of dollars of long-term Treasuries in an attempt to lower the yield on long-term debt. The Fed believed this action would help support conditions in mortgage markets and contribute to a stronger recovery. The Fed also anticipated it would keep short-term rates near zero through mid-2013.

For the third consecutive summer, troubles in the eurozone took center stage and undermined equity markets' performance globally. In March 2011, Portugal officially sought a bailout from the European Union and International Monetary Fund. Furthermore, as Greece appeared to be increasingly at risk of defaulting on its debt, another bailout package was devised for it. Shortly after the package was adopted, many observers thought it was insufficient for Greece to avoid restructuring its debt. The crisis of confidence spread to the economies

**NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE**

of Italy and Spain, which are each significantly larger than the Portuguese and Greek economies. Many analysts believe a default or restructuring by Italy or Spain would have a more meaningful impact on the global economy.

In the U.S., financial markets were further rattled by negotiations between Democrats and Republicans over raising the U.S. debt ceiling, as well as reducing the budget deficit and how to accomplish that. The ultimate agreement, which narrowly averted the possibility of the U.S. defaulting on some obligations (but not on Treasury bond interest), called for expenditure reductions of approximately \$2 trillion over the next 10 years. On August 5, 2011, Standard & Poor's downgraded its rating on U.S. Treasury bonds to AA+ from AAA, citing not only the size of the U.S. deficits but also its concerns about U.S. leaders' ability to make meaningful progress in reducing the federal deficits.

Throughout the six-month reporting period, the municipal bond market performed well as investors generally overcame fears of potentially widespread defaults prompted by extreme forecasts made toward the end of 2010. For the calendar year through October 31, 2011, only about \$2.8 billion in defaults had been reported, far below the possibility for "hundreds of billions of dollars" the press had reported and also below 2009 and 2010 levels.<sup>1</sup> Furthermore, 49 of the 50 states (Minnesota being the lone exception) signed balanced budgets into law by June 30, the end of the 2011 fiscal year, despite doubts expressed by some critics at the beginning of the year that they would be able to do so. States made many hard decisions and took difficult steps to balance those budgets but, as we have often pointed out, states are generally constitutionally and legally bound to balance their budgets each year.

In this recent environment, the municipal bond market's performance for the six-month period was strong. The Barclays Capital Municipal Bond Index, which tracks investment-grade municipal securities, posted a +5.56% total return, placing the municipal bond market as one of the best-performing of all U.S. asset classes for the period.<sup>2</sup>

Franklin Federal Tax-Free Income Fund's semiannual report goes into greater detail about municipal bond market conditions during the period under review. In addition, you will find performance data, financial information and a discussion from the portfolio managers. We invite you to periodically check our

1. Source: © 2011 Income Securities Advisor Inc., *Distressed Debt Securities Newsletter*, November 2011. Used with permission.

2. Source: © 2011 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

website, [franklintempleton.com](http://franklintempleton.com), for updated commentary by our municipal bond experts. Please remember all securities markets fluctuate, as do mutual fund share prices. Municipal bonds can provide tax-free income and diversification from equities. Despite periods of volatility, municipal bonds historically have had a solid long-term record of performance, driven mostly by their income component.

As always, we recommend investors seek the counsel and advice of qualified financial advisors to help them make the best decisions for the long term. In a constantly changing market environment, we remain committed to our disciplined strategy as we manage the Fund, keeping in mind the trust you have placed in us. We appreciate your confidence and encourage you to contact us when you have questions about your Franklin Templeton tax-free investment.

Sincerely,



Charles B. Johnson  
Chairman  
Franklin Federal Tax-Free Income Fund



Sheila Amoroso



Rafael R. Costas Jr.

Senior Vice Presidents and Co-Directors  
Franklin Municipal Bond Department

**This letter reflects our analysis and opinions as of October 31, 2011. The information is not a complete analysis of every aspect of any market, country, industry, security or fund. Statements of fact are from sources considered reliable.**

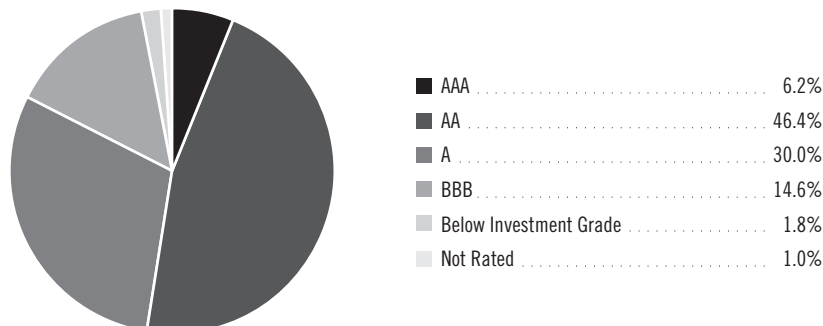
# Semiannual Report

## Franklin Federal Tax-Free Income Fund

**Your Fund's Goal and Main Investments:** Franklin Federal Tax-Free Income Fund seeks to provide as high a level of income exempt from federal income taxes as is consistent with prudent investment management and preservation of capital by investing at least 80% of its total assets in investment-grade municipal securities that pay interest free from such taxes.<sup>1</sup>

### Credit Quality Breakdown\*

Based on Total Long-Term Investments as of 10/31/11\*\*



\*Standard & Poor's (S&P) is used as the primary independent rating agency source. Moody's is secondary, and Fitch, if available, is used for securities not rated by Moody's or S&P. The ratings are an indication of an issuer's creditworthiness, with long-term ratings typically ranging from AAA (highest) to Below Investment Grade (lowest; includes ratings BB to D). This methodology differs from that used in Fund marketing materials.

\*\*Does not include short-term investments and other net assets.

*Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown.*

*Please visit [franklintempleton.com](http://franklintempleton.com) or call (800) 342-5236 for most recent month-end performance.*

We are pleased to bring you Franklin Federal Tax-Free Income Fund's semi-annual report for the period ended October 31, 2011.

### Performance Overview

The Fund's Class A share price, as measured by net asset value, increased from \$11.47 on April 30, 2011, to \$12.00 on October 31, 2011. The Fund's Class A shares paid dividends totaling 26.16 cents per share for the reporting period.<sup>2</sup> The Performance Summary beginning on page 8 shows that at the

1. Dividends are generally subject to state and local taxes, if any. For investors subject to alternative minimum tax, a small portion of Fund dividends may be taxable. Distributions of capital gains are generally taxable. To avoid imposition of 28% backup withholding on all Fund distributions and redemption proceeds, U.S. investors must be properly certified on Form W-9 and non-U.S. investors on Form W-8BEN.

2. All Fund distributions will vary depending upon current market conditions, and past distributions are not indicative of future trends.

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI). The SOI begins on page 17.

## Dividend Distributions<sup>2</sup>

Month	Dividend per Share			
	Class A	Class B	Class C	Advisor Class
May	4.36 cents	3.83 cents	3.85 cents	4.45 cents
June	4.36 cents	3.82 cents	3.84 cents	4.46 cents
July	4.36 cents	3.82 cents	3.84 cents	4.46 cents
August	4.36 cents	3.82 cents	3.84 cents	4.46 cents
September	4.36 cents	3.76 cents	3.82 cents	4.45 cents
October	4.36 cents	3.76 cents	3.82 cents	4.45 cents

end of this reporting period the Fund's Class A shares' distribution rate was 4.18% based on an annualization of October's 4.36 cent per share dividend and the maximum offering price of \$12.53 on October 31, 2011. An investor in the 2011 maximum federal personal income tax bracket of 35.00% would need to earn a distribution rate of 6.43% from a taxable investment to match the Fund's Class A tax-free distribution rate. For the Fund's Class B, C and Advisor shares' performance, please see the Performance Summary.

## Municipal Bond Market Overview

For the six months ended October 31, 2011, the municipal bond market posted a gain of 5.56% as measured by the Barclays Capital (BC) Municipal Bond Index, which tracks investment-grade municipal securities.<sup>3</sup> During the same period, Treasuries fared well, rising 6.90% according to the BC U.S. Treasury Index, which tracks various U.S. Treasury securities.<sup>3</sup>

During the reporting period, domestic and global events affected the municipal bond market. Domestically, the economic recovery slowly made gains with real gross domestic product rising modestly in the second and third quarters of 2011. In Europe, several countries struggled with financial challenges. Amid this volatile environment, the municipal bond market delivered strong results. The tax-exempt market enjoyed an extended period of low supply, thus reducing the availability of bonds to meet investor demand. This reduced supply resulted mostly from the expiration of the Build America Bonds (BAB) program. Total municipal bond issuance was \$230 billion from January through October 2011, or approximately 33% less than the same period in 2010.<sup>4</sup>

3. Source: © 2011 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

4. Source: Thomson Reuters, "A Decade of Municipal Bond Finance," 11/9/11.

The Federal Reserve Board's (Fed's) commitment to maintain an accommodative monetary policy stance with historically low interest rates further supported the municipal market. Municipal bond after-tax yields generally were more attractive than those of other high-quality, taxable bonds.

On August 2, 2011, the U.S. raised its debt ceiling and avoided defaulting on its debt obligations. Independent credit rating agency Standard & Poor's (S&P) lowered the country's long-term rating to AA+ from AAA, citing political risks and a rising debt burden.<sup>5</sup> A few days later, S&P similarly lowered the long-term ratings of government-sponsored enterprises (GSEs) such as Fannie Mae and Freddie Mac. In addition, all municipal bonds backed by the U.S. government or GSEs were downgraded along with the country's rating.

S&P's downgrade of U.S. Treasury securities led to the review of more than 11,000 municipal credits supported by federal programs and agency escrows. Primarily, prerefunded municipals and housing bonds tied to federal subsidy programs were affected by the downgrade. The rating agency continues to review the universe of credits, stating that state and municipal governments that rely less on the national government for revenue and that manage their budgets well enough to weather declines in such funding may retain AAA ratings.

Moody's Investors Service, another independent credit rating agency, on July 19, 2011, placed five AAA-rated states on its watch list for potential rating cuts based on their dependency on federal funding. After the debt ceiling was raised, Moody's reconfirmed the AAA rating to states and public finance issuers previously identified as directly or indirectly linked to the U.S. government.<sup>5</sup> The same credits are currently assigned a negative outlook based on the identification of certain shared characteristics. The rating agencies planned to review the group of securities based on individual merit in subsequent weeks.

Raising the debt ceiling was agreed upon only with stipulations. Congress enacted the Budget Control Act of 2011 with the potential to reduce the federal deficit by approximately \$2 trillion by 2021. While the plan of action is unknown, one can expect it to impact state and local programs dependent on federal subsidies. State and local officials may need to reevaluate current budget forecasts and the potential effects. One important element to recognize is that most states are constitutionally required to balance their budgets regardless of any monetary changes in aid received from the federal government.

During this reporting period, state and local officials made unpopular and difficult decisions to close budget gaps. Proactive states successfully balanced and passed budgets on time using a variety of measures. For example, they raised tuition and fees at higher education institutions, reduced government expenditures by eliminating and consolidating departments, and lowered aid

5. These do not indicate ratings of the Fund.



to various programs. Despite the challenges, many states continued to show mild growth in state revenues.

At period-end, the current climate of low tax-exempt issuance and accommodative Fed policy led us to maintain a positive view of the municipal bond market. Municipal bonds continued to offer attractive yields when compared with Treasury bonds. We intend to follow our solid discipline of investing to maximize income while seeking value in the municipal bond market to offer our shareholders a monthly tax-free distribution.

### Investment Strategy

We use a consistent, disciplined strategy in an effort to maximize tax-exempt income for our shareholders by seeking to maintain exposure to higher coupon securities while balancing risk and return within the Fund's range of allowable investments. We generally employ a buy-and-hold approach and invest in securities we believe should provide the most relative value in the market. As we invest during different interest rate environments, the Fund's portfolio remains diversified with a broad range of securities. This broad diversification may help mitigate interest rate risk. We do not use leverage or exotic derivatives, nor do we use hedging techniques that could add volatility and contribute to underperformance in adverse markets. We generally stay fully invested to help maximize income distribution.

### Manager's Discussion

Our value-oriented philosophy of investing primarily for income and stability of principal, when combined with a positive-sloping municipal yield curve, favored longer term bonds during the six months under review. Consistent with our strategy, we sought to remain fully invested in bonds ranging from 20 to 30 years in maturity with good call features. Our relative-value, income-oriented philosophy also led the Fund to maintain its positions in higher coupon bonds, which provided income performance during the reporting period. We believe our conservative, buy-and-hold investment strategy can help us achieve high, current, tax-free income for shareholders.

Thank you for your continued participation in Franklin Federal Tax-Free Income Fund. We look forward to serving your future investment needs.

The foregoing information reflects our analysis, opinions and portfolio holdings as of October 31, 2011, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

### Portfolio Breakdown

10/31/11

	% of Total Long-Term Investments*
Utilities	16.7%
General Obligation	16.2%
Transportation	15.9%
Hospital & Health Care	12.4%
Subject to Government Appropriations	11.3%
Tax-Supported	6.8%
Other Revenue	6.5%
Refunded	6.1%
Higher Education	5.5%
Corporate-Backed	1.3%
Housing	1.3%

\*Does not include short-term investments and other net assets.

# Performance Summary as of 10/31/11

Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses of each class. Capital gain distributions are net profits realized from the sale of portfolio securities. The performance table does not reflect any taxes that a shareholder would pay on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares. Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses.

## Price and Distribution Information

<b>Class A (Symbol: FKTIX)</b>	<b>Change</b>	<b>10/31/11</b>	<b>4/30/11</b>
Net Asset Value (NAV)	+\$0.53	\$12.00	\$11.47
<b>Distributions (5/1/11–10/31/11)</b>			
Dividend Income	\$0.2616		
<b>Class B (Symbol: FFTBX)</b>	<b>Change</b>	<b>10/31/11</b>	<b>4/30/11</b>
Net Asset Value (NAV)	+\$0.53	\$12.00	\$11.47
<b>Distributions (5/1/11–10/31/11)</b>			
Dividend Income	\$0.2281		
<b>Class C (Symbol: FRFTX)</b>	<b>Change</b>	<b>10/31/11</b>	<b>4/30/11</b>
Net Asset Value (NAV)	+\$0.54	\$12.00	\$11.46
<b>Distributions (5/1/11–10/31/11)</b>			
Dividend Income	\$0.2301		
<b>Advisor Class (Symbol: FAFTX)</b>	<b>Change</b>	<b>10/31/11</b>	<b>4/30/11</b>
Net Asset Value (NAV)	+\$0.53	\$12.01	\$11.48
<b>Distributions (5/1/11–10/31/11)</b>			
Dividend Income	\$0.2673		

# Performance Summary *(continued)*

## Performance

Cumulative total return excludes sales charges. Average annual total returns include maximum sales charges. **Class A:** 4.25% maximum initial sales charge; **Class B:** contingent deferred sales charge (CDSC) declining from 4% to 1% over six years, and eliminated thereafter; **Class C:** 1% CDSC in first year only; **Advisor Class:** no sales charges.

Class A	6-Month	1-Year	5-Year	10-Year
Cumulative Total Return <sup>1</sup>	+6.98%	+4.14%	+23.45%	+58.36%
Average Annual Total Return <sup>2</sup>	+2.42%	-0.25%	+3.40%	+4.25%
Avg. Ann. Total Return (9/30/11) <sup>3</sup>		-0.31%	+3.63%	+4.39%
Distribution Rate <sup>4</sup>	4.18%			
Taxable Equivalent Distribution Rate <sup>5</sup>	6.43%			
30-Day Standardized Yield <sup>6</sup>	3.43%			
Taxable Equivalent Yield <sup>5</sup>	5.28%			
Total Annual Operating Expenses <sup>7</sup>	0.62%			
Class B	6-Month	1-Year	5-Year	10-Year
Cumulative Total Return <sup>1</sup>	+6.67%	+3.53%	+20.09%	+51.44%
Average Annual Total Return <sup>2</sup>	+2.67%	-0.45%	+3.39%	+4.24%
Avg. Ann. Total Return (9/30/11) <sup>3</sup>		-0.38%	+3.61%	+4.38%
Distribution Rate <sup>4</sup>	3.76%			
Taxable Equivalent Distribution Rate <sup>5</sup>	5.78%			
30-Day Standardized Yield <sup>6</sup>	3.04%			
Taxable Equivalent Yield <sup>5</sup>	4.68%			
Total Annual Operating Expenses <sup>7</sup>	1.17%			
Class C	6-Month	1-Year	5-Year	10-Year
Cumulative Total Return <sup>1</sup>	+6.78%	+3.57%	+20.20%	+49.95%
Average Annual Total Return <sup>2</sup>	+5.78%	+2.57%	+3.75%	+4.13%
Avg. Ann. Total Return (9/30/11) <sup>3</sup>		+2.65%	+3.96%	+4.27%
Distribution Rate <sup>4</sup>	3.82%			
Taxable Equivalent Distribution Rate <sup>5</sup>	5.88%			
30-Day Standardized Yield <sup>6</sup>	3.03%			
Taxable Equivalent Yield <sup>5</sup>	4.66%			
Total Annual Operating Expenses <sup>7</sup>	1.17%			
Advisor Class <sup>8</sup>	6-Month	1-Year	5-Year	10-Year
Cumulative Total Return <sup>1</sup>	+7.02%	+4.23%	+24.11%	+59.83%
Average Annual Total Return <sup>2</sup>	+7.02%	+4.23%	+4.41%	+4.80%
Avg. Ann. Total Return (9/30/11) <sup>3</sup>		+4.31%	+4.63%	+4.94%
Distribution Rate <sup>4</sup>	4.45%			
Taxable Equivalent Distribution Rate <sup>5</sup>	6.85%			
30-Day Standardized Yield <sup>6</sup>	3.68%			
Taxable Equivalent Yield <sup>5</sup>	5.66%			
Total Annual Operating Expenses <sup>7</sup>	0.52%			

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to [franklintempleton.com](http://franklintempleton.com) or call (800) 342-5236.

# Performance Summary *(continued)*

## Endnotes

Because municipal bonds are sensitive to interest rate movements, the Fund's yield and share price will fluctuate with market conditions. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in the Fund adjust to a rise in interest rates, the Fund's share price may decline. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

**Class B:** These shares have higher annual fees and expenses than Class A shares.

**Class C:** Prior to 1/1/04, these shares were offered with an initial sales charge; thus actual total returns would have differed. These shares have higher annual fees and expenses than Class A shares.

**Advisor Class:** Shares are available to certain eligible investors as described in the prospectus.

1. Cumulative total return represents the change in value of an investment over the periods indicated.
2. Average annual total return represents the average annual change in value of an investment over the periods indicated. Six-month return has not been annualized.
3. In accordance with SEC rules, we provide standardized average annual total return information through the latest calendar quarter.
4. Distribution rate is based on an annualization of the respective class's October dividend and the maximum offering price (NAV for Classes B, C and Advisor) per share on 10/31/11.
5. Taxable equivalent distribution rate and yield assume the 2011 maximum federal income tax rate of 35.00%.
6. The 30-day standardized yield for the 30 days ended 10/31/11 reflects an estimated yield to maturity (assuming all portfolio securities are held to maturity). It should be regarded as an estimate of the Fund's rate of investment income, and it may not equal the Fund's actual income distribution rate (which reflects the Fund's past dividends paid to shareholders) or the income reported in the Fund's financial statements.
7. Figures are as stated in the Fund's prospectus current as of the date of this report. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.
8. Effective 3/20/02, the Fund began offering Advisor Class shares, which do not have sales charges or a Rule 12b-1 plan. Performance quotations for this class reflect the following methods of calculation: (a) For periods prior to 3/20/02, a restated figure is used based upon the Fund's Class A performance, excluding the effect of Class A's maximum initial sales charge, but reflecting the effect of the Class A Rule 12b-1 fees; and (b) for periods after 3/20/02, actual Advisor Class performance is used reflecting all charges and fees applicable to that class. Since 3/20/02 (commencement of sales), the cumulative and average annual total returns of Advisor Class shares were +60.97% and +5.08%.

# Your Fund's Expenses

As a Fund shareholder, you can incur two types of costs:

- Transaction costs, including sales charges (loads) on Fund purchases; and
- Ongoing Fund costs, including management fees, distribution and service (12b-1) fees, and other Fund expenses. All mutual funds have ongoing costs, sometimes referred to as operating expenses.

The following table shows ongoing costs of investing in the Fund and can help you understand these costs and compare them with those of other mutual funds. The table assumes a \$1,000 investment held for the six months indicated.

## Actual Fund Expenses

The first line (Actual) for each share class listed in the table provides actual account values and expenses. The “Ending Account Value” is derived from the Fund’s actual return, which includes the effect of Fund expenses.

You can estimate the expenses you paid during the period by following these steps. *Of course, your account value and expenses will differ from those in this illustration:*

1. Divide your account value by \$1,000.  
*If an account had an \$8,600 value, then  $\$8,600 \div \$1,000 = 8.6$ .*
2. Multiply the result by the number under the heading “Expenses Paid During Period.”  
*If Expenses Paid During Period were \$7.50, then  $8.6 \times \$7.50 = \$64.50$ .*

In this illustration, the estimated expenses paid this period are \$64.50.

## Hypothetical Example for Comparison with Other Funds

Information in the second line (Hypothetical) for each class in the table can help you compare ongoing costs of investing in the Fund with those of other mutual funds. This information may not be used to estimate the actual ending account balance or expenses you paid during the period. The hypothetical “Ending Account Value” is based on the actual expense ratio for each class and an assumed 5% annual rate of return before expenses, which does not represent the Fund’s actual return. The figure under the heading “Expenses Paid During Period” shows the hypothetical expenses your account would have incurred under this scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds.

# Your Fund's Expenses *(continued)*

Please note that expenses shown in the table are meant to highlight ongoing costs and do not reflect any transaction costs, such as sales charges. Therefore, the second line for each class is useful in comparing ongoing costs only, and will not help you compare total costs of owning different funds. In addition, if transaction costs were included, your total costs would have been higher. Please refer to the Fund prospectus for additional information on operating expenses.

Class A	Beginning Account Value 5/1/11	Ending Account Value 10/31/11	Expenses Paid During Period* 5/1/11–10/31/11
Actual	\$1,000	\$1,069.80	\$3.17
Hypothetical (5% return before expenses)	\$1,000	\$1,022.07	\$3.10
<b>Class B</b>			
Actual	\$1,000	\$1,066.70	\$6.03
Hypothetical (5% return before expenses)	\$1,000	\$1,019.30	\$5.89
<b>Class C</b>			
Actual	\$1,000	\$1,067.80	\$6.03
Hypothetical (5% return before expenses)	\$1,000	\$1,019.30	\$5.89
<b>Advisor Class</b>			
Actual	\$1,000	\$1,070.20	\$2.65
Hypothetical (5% return before expenses)	\$1,000	\$1,022.57	\$2.59

\*Expenses are calculated using the most recent six-month expense ratio, annualized for each class (A: 0.61%; B: 1.16%; C: 1.16%; and Advisor: 0.51%), multiplied by the average account value over the period, multiplied by 184/366 to reflect the one-half year period.

# Franklin Federal Tax-Free Income Fund

## Financial Highlights

Class A	Six Months Ended		Year Ended April 30,			
	October 31, 2011 (unaudited)	2011	2010	2009	2008	2007
<b>Per share operating performance</b> (for a share outstanding throughout the period)						
Net asset value, beginning of period . . .	\$11.47	\$11.89	\$11.21	\$11.82	\$12.11	\$11.99
Income from investment operations <sup>a</sup> :						
Net investment income <sup>b</sup> . . . . .	0.26	0.52	0.52	0.53	0.53	0.55
Net realized and unrealized gains (losses) . . . . .	0.53	(0.43)	0.69	(0.61)	(0.29)	0.12
Total from investment operations . . . . .	0.79	0.09	1.21	(0.08)	0.24	0.67
Less distributions from net investment income . . . . .	(0.26)	(0.51)	(0.53)	(0.53)	(0.53)	(0.55)
Redemption fees <sup>c</sup> . . . . .	—	—	—	— <sup>d</sup>	— <sup>d</sup>	— <sup>d</sup>
Net asset value, end of period . . . . .	\$12.00	\$11.47	\$11.89	\$11.21	\$11.82	\$12.11
Total return <sup>e</sup> . . . . .	6.98%	0.78%	11.00%	(0.55)%	2.06%	5.66%
<b>Ratios to average net assets<sup>f</sup></b>						
Expenses . . . . .	0.61%	0.62%	0.61%	0.61%	0.60%	0.61%
Net investment income . . . . .	4.41%	4.41%	4.51%	4.73%	4.44%	4.58%
<b>Supplemental data</b>						
Net assets, end of period (000's) . . . . .	\$8,194,942	\$7,925,674	\$8,768,920	\$7,513,448	\$6,901,918	\$6,570,140
Portfolio turnover rate . . . . .	2.68%	14.14%	8.16%	6.74%	15.47%	6.13%

<sup>a</sup>The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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.

<sup>b</sup>Based on average daily shares outstanding.

<sup>c</sup>Effective September 1, 2008, the redemption fee was eliminated.

<sup>d</sup>Amount rounds to less than \$0.01 per share.

<sup>e</sup>Total return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.

<sup>f</sup>Ratios are annualized for periods less than one year.

# Franklin Federal Tax-Free Income Fund

## Financial Highlights *(continued)*

Class B	Six Months Ended	Year Ended April 30,				
	October 31, 2011 (unaudited)	2011	2010	2009	2008	2007
<b>Per share operating performance</b> (for a share outstanding throughout the period)						
Net asset value, beginning of period . . . . .	\$11.47	\$11.88	\$11.21	\$11.81	\$12.10	\$11.98
Income from investment operations <sup>a</sup> :						
Net investment income <sup>b</sup> . . . . .	0.23	0.45	0.46	0.47	0.46	0.49
Net realized and unrealized gains (losses) . . . . .	0.53	(0.42)	0.67	(0.60)	(0.29)	0.11
Total from investment operations . . . . .	0.76	0.03	1.13	(0.13)	0.17	0.60
Less distributions from net investment income . . . . .	(0.23)	(0.44)	(0.46)	(0.47)	(0.46)	(0.48)
Redemption fees <sup>c</sup> . . . . .	—	—	—	— <sup>d</sup>	— <sup>d</sup>	— <sup>d</sup>
Net asset value, end of period . . . . .	\$12.00	\$11.47	\$11.88	\$11.21	\$11.81	\$12.10
Total return <sup>e</sup> . . . . .	6.67%	0.28%	10.28%	(1.02)%	1.49%	5.08%
<b>Ratios to average net assets<sup>f</sup></b>						
Expenses . . . . .	1.16%	1.17%	1.17%	1.17%	1.16%	1.17%
Net investment income . . . . .	3.86%	3.86%	3.95%	4.17%	3.88%	4.02%
<b>Supplemental data</b>						
Net assets, end of period (000's) . . . . .	\$18,133	\$30,321	\$78,742	\$130,925	\$178,156	\$225,834
Portfolio turnover rate . . . . .	2.68%	14.14%	8.16%	6.74%	15.47%	6.13%

<sup>a</sup>The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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.

<sup>b</sup>Based on average daily shares outstanding.

<sup>c</sup>Effective September 1, 2008, the redemption fee was eliminated.

<sup>d</sup>Amount rounds to less than \$0.01 per share.

<sup>e</sup>Total return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.

<sup>f</sup>Ratios are annualized for periods less than one year.



# Franklin Federal Tax-Free Income Fund

## Financial Highlights *(continued)*

Class C	Six Months Ended October 31, 2011 (unaudited)					
	2011	2010	2009	2008	2007	
<b>Per share operating performance</b> (for a share outstanding throughout the period)						
Net asset value, beginning of period . . . . .	\$11.46	\$11.88	\$11.21	\$11.81	\$12.11	\$11.99
Income from investment operations <sup>a</sup> :						
Net investment income <sup>b</sup> . . . . .	0.23	0.45	0.46	0.47	0.46	0.49
Net realized and unrealized gains (losses) . . .	0.54	(0.42)	0.67	(0.60)	(0.30)	0.11
Total from investment operations . . . . .	0.77	0.03	1.13	(0.13)	0.16	0.60
Less distributions from net investment income . . . . .	(0.23)	(0.45)	(0.46)	(0.47)	(0.46)	(0.48)
Redemption fees <sup>c</sup> . . . . .	—	—	—	— <sup>d</sup>	— <sup>d</sup>	— <sup>d</sup>
Net asset value, end of period . . . . .	\$12.00	\$11.46	\$11.88	\$11.21	\$11.81	\$12.11
Total return <sup>e</sup> . . . . .	6.78%	0.22%	10.31%	(1.01)%	1.41%	5.08%
<b>Ratios to average net assets<sup>f</sup></b>						
Expenses . . . . .	1.16%	1.17%	1.17%	1.17%	1.16%	1.17%
Net investment income . . . . .	3.86%	3.86%	3.95%	4.17%	3.88%	4.02%
<b>Supplemental data</b>						
Net assets, end of period (000's) . . . . .	\$1,172,507	\$1,116,089	\$1,222,493	\$808,779	\$594,724	\$449,918
Portfolio turnover rate . . . . .	2.68%	14.14%	8.16%	6.74%	15.47%	6.13%

<sup>a</sup>The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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.

<sup>b</sup>Based on average daily shares outstanding.

<sup>c</sup>Effective September 1, 2008, the redemption fee was eliminated.

<sup>d</sup>Amount rounds to less than \$0.01 per share.

<sup>e</sup>Total return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.

<sup>f</sup>Ratios are annualized for periods less than one year.

# Franklin Federal Tax-Free Income Fund

## Financial Highlights *(continued)*

Advisor Class	Six Months Ended	Year Ended April 30,				
	October 31, 2011 (unaudited)	2011	2010	2009	2008	2007
<b>Per share operating performance</b> (for a share outstanding throughout the period)						
Net asset value, beginning of period . . . . .	\$11.48	\$11.89	\$11.22	\$11.82	\$12.12	\$12.00
Income from investment operations <sup>a</sup> :						
Net investment income <sup>b</sup> . . . . .	0.27	0.53	0.54	0.54	0.54	0.57
Net realized and unrealized gains (losses) . . . .	0.53	(0.42)	0.67	(0.60)	(0.30)	0.11
Total from investment operations . . . . .	0.80	0.11	1.21	(0.06)	0.24	0.68
Less distributions from net investment income . . . . .	(0.27)	(0.52)	(0.54)	(0.54)	(0.54)	(0.56)
Redemption fees <sup>c</sup> . . . . .	—	—	—	— <sup>d</sup>	— <sup>d</sup>	— <sup>d</sup>
Net asset value, end of period . . . . .	\$12.01	\$11.48	\$11.89	\$11.22	\$11.82	\$12.12
Total return <sup>e</sup> . . . . .	7.02%	0.96%	11.01%	(0.38)%	2.07%	5.76%
<b>Ratios to average net assets<sup>f</sup></b>						
Expenses . . . . .	0.51%	0.52%	0.52%	0.52%	0.51%	0.52%
Net investment income . . . . .	4.51%	4.51%	4.60%	4.82%	4.53%	4.67%
<b>Supplemental data</b>						
Net assets, end of period (000's) . . . . .	\$1,163,489	\$1,079,061	\$875,566	\$458,341	\$252,943	\$191,387
Portfolio turnover rate . . . . .	2.68%	14.14%	8.16%	6.74%	15.47%	6.13%

<sup>a</sup>The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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.

<sup>b</sup>Based on average daily shares outstanding.

<sup>c</sup>Effective September 1, 2008, the redemption fee was eliminated.

<sup>d</sup>Amount rounds to less than \$0.01 per share.

<sup>e</sup>Total return is not annualized for periods less than one year.

<sup>f</sup>Ratios are annualized for periods less than one year.

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited)

	Principal Amount	Value
<b>Municipal Bonds 97.6%</b>		
<b>Alabama 1.1%</b>		
Alabama State Port Authority Docks Facilities Revenue, Refunding, 6.00%, 10/01/40 . . . .	\$ 6,000,000	\$ 6,400,200
Birmingham Waterworks Board Water Revenue, Series A, Assured Guaranty, 5.125%, 1/01/34 . . . . .	5,600,000	5,843,264
Courtland IDB Solid Waste Disposal Revenue, Champion International Corp. Project, Refunding, 6.00%, 8/01/29 . . . . .	12,000,000	12,000,600
East Alabama Health Care Authority Health Care Facilities Revenue, Mandatory Put 9/01/18, Series B, 5.50%, 9/01/33 . . . . .	18,500,000	19,575,960
Fairfield IDB Environmental Improvement Revenue, USX Corp. Project, Refunding, 5.45%, 9/01/14 . . . . .	1,445,000	1,447,529
Mobile GO, wts., Refunding and Improvement, AMBAC Insured, 5.00%, 2/15/30 . . . . .	5,000,000	5,208,750
Montgomery County PBA Revenue, wts., Facilities Project, NATL Insured, 5.00%, 3/01/31 . . . . .	6,250,000	6,505,875
Tuscaloosa Public Educational Building Authority Student Housing Revenue, Ridgecrest Student Housing LLC University of Alabama Ridgecrest Residential Project, Assured Guaranty, 6.75%, 7/01/38 . . . . .	10,000,000	11,386,600
University of Alabama General Revenue, Series A, NATL Insured, 5.00%, 7/01/29 . . . . .	10,000,000	10,455,300
NATL Insured, 5.00%, 7/01/34 . . . . .	10,500,000	10,775,310
XLCA Insured, 5.00%, 7/01/28 . . . . .	5,000,000	5,256,000
XLCA Insured, 5.00%, 7/01/32 . . . . .	5,500,000	5,703,060
University of South Alabama University Revenue, Tuition, Capital Improvement, Refunding, AMBAC Insured, 5.00%, 12/01/36 . . . . .	11,570,000	11,882,390
		<u>112,440,838</u>
<b>Alaska 0.5%</b>		
Alaska State HFC Revenue, General Housing, Series A, FGIC Insured, 5.00%, 12/01/29 . . . . .	4,000,000	4,108,800
12/01/30 . . . . .	3,500,000	3,588,060
Alaska State International Airports Revenues, Series B, NATL Insured, 5.00%, 10/01/28 . . . . .	5,100,000	5,169,309
Series C, 5.00%, 10/01/33 . . . . .	12,565,000	13,077,652
Matanuska-Susitna Borough Lease Revenue, Goose Creek Correctional Center, Assured Guaranty, 6.00%, 9/01/32 . . . . .	20,000,000	22,578,400
		<u>48,522,221</u>
<b>Arizona 3.1%</b>		
Arizona State COP, Department of Administration, Series A, AGMC Insured, 5.00%, 10/01/27 . . . . .	14,440,000	15,476,936
Arizona State Lottery Revenue, Series A, AGMC Insured, 5.00%, 7/01/27 . . . . .	15,000,000	16,034,850
Downtown Phoenix Hotel Corp. Revenue, Senior Series A, FGIC Insured, 5.00%, 7/01/29 . . . . .	14,465,000	12,366,996
7/01/36 . . . . .	15,000,000	11,972,400
Glendale Western Loop 101 Public Facilities Corp. Excise Tax Revenue, third lien, Series A, 6.25%, 7/01/38 . . . . .	10,000,000	10,237,800
Maricopa County IDA Hospital Facility Revenue, Mayo Clinic Hospital, 5.25%, 11/15/37 . . .	19,000,000	19,009,500
Maricopa County PCC, PCR, El Paso Electric Co. Project, Series A, 7.25%, 2/01/40 . . . . .	10,000,000	11,051,800
Navajo County PCC Revenue, Mandatory Put 6/01/16, Series E, 5.75%, 6/01/34 . . . . .	7,200,000	8,103,168

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Arizona (continued)</b>		
Phoenix Civic Improvement Corp. Airport Revenue, junior lien, Series A, 5.00%, 7/01/40 .....	\$ 24,000,000	\$ 24,608,880
senior lien, Series A, 5.00%, 7/01/33 .....	28,000,000	28,975,520
Phoenix Civic Improvement Corp. Distribution Revenue, Capital Appreciation, Civic Plaza, Series B, NATL RE, FGIC Insured, zero cpn. to 7/01/13, 5.50% thereafter, 7/01/32 .....	6,000,000	6,075,360
7/01/34 .....	5,000,000	5,010,050
7/01/35 .....	9,860,000	9,857,042
Phoenix Civic Improvement Corp. Water System Revenue, junior lien, Refunding, 5.00%, 7/01/32 .....	21,095,000	22,531,570
Series A, 5.00%, 7/01/34 .....	10,000,000	10,718,900
Pima County IDA Lease Revenue, Clark County Detention Facility Project, 5.00%, 9/01/39 .....	20,000,000	20,020,000
Metro Police Facility, Nevada Project, Series A, 5.25%, 7/01/31 .....	8,900,000	9,056,551
Metro Police Facility, Nevada Project, Series A, 5.50%, 7/01/39 .....	22,500,000	23,020,200
Salt River Project Agricultural Improvement and Power District Electric System Revenue, Salt River Project, Series A, Pre-Refunded, 5.125%, 1/01/27 .....	23,095,000	23,508,863
Salt River Project, Series B, Pre-Refunded, 5.00%, 1/01/25 .....	17,500,000	18,435,725
Series A, 5.00%, 1/01/38 .....	10,000,000	10,501,800
Salt Verde Financial Corp. Senior Gas Revenue, 5.00%, 12/01/37 .....	5,000,000	4,533,800
University Medical Center Corp. Hospital Revenue, 5.00%, 7/01/35 .....	7,000,000	6,384,140
		<u>327,491,851</u>
<b>Arkansas 0.0%<sup>†</sup></b>		
University of Arkansas University Revenues, Various Facility, Fayetteville Campus, NATL RE, FGIC Insured, 5.00%, 12/01/27 .....	5,000,000	<u>5,106,250</u>
<b>California 12.8%</b>		
Bay Area Toll Authority Toll Bridge Revenue, San Francisco Bay Area, Refunding, Series F, 5.00%, 4/01/31 .....	20,000,000	20,605,000
Series F-1, 5.00%, 4/01/28 .....	24,000,000	25,446,240
Series F-1, 5.00%, 4/01/34 .....	20,250,000	21,013,223
Series F-1, 5.00%, 4/01/34 .....	9,530,000	9,936,931
Series F-1, 5.00%, 4/01/39 .....	14,000,000	14,543,480
Series F-1, 5.50%, 4/01/43 .....	30,000,000	31,739,100
California Educational Facilities Authority Revenue, Carnegie Institute of Washington, Refunding, Series A, 5.00%, 7/01/40 .....	24,525,000	26,322,682
California Health Facilities Financing Authority Revenue, Children's Hospital of Orange County, Series A, 6.50%, 11/01/24 .....	5,000,000	5,704,850
11/01/38 .....	8,000,000	8,613,600
California Infrastructure and Economic Development Bank Revenue, Bay Area Toll Bridges, first lien, Series A, AMBAC Insured, Pre-Refunded, 5.00%, 7/01/33 .....	24,500,000	30,134,755
California State Economic Recovery GO, Refunding, Series A, 5.25%, 7/01/21 .....	28,580,000	32,552,334
California State GO, 6.00%, 5/01/18 .....	535,000	547,701
5.90%, 4/01/23 .....	1,200,000	1,218,588
5.00%, 10/01/29 .....	15,000,000	15,687,000

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>California (continued)</b>		
California State GO, (continued)		
5.25%, 11/01/40 .....	\$ 50,000,000	\$ 51,078,000
FGIC Insured, 6.00%, 5/01/20 .....	850,000	868,513
Refunding, 5.00%, 2/01/26 .....	27,000,000	27,133,110
Refunding, 5.00%, 2/01/26 .....	20,000,000	20,636,000
Various Purpose, 5.25%, 11/01/25 .....	16,260,000	17,046,821
Various Purpose, 5.50%, 11/01/33 .....	2,500,000	2,581,375
Various Purpose, 6.00%, 4/01/38 .....	100,000,000	110,420,000
Various Purpose, 6.00%, 11/01/39 .....	25,000,000	27,636,000
Various Purpose, Refunding, 5.25%, 3/01/30 .....	30,000,000	31,355,700
Various Purpose, Refunding, 6.00%, 3/01/33 .....	12,000,000	13,396,680
Various Purpose, Refunding, 5.25%, 3/01/38 .....	20,000,000	20,375,400
Various Purpose, Refunding, 5.50%, 3/01/40 .....	25,000,000	26,345,750
California State Public Works Board Lease Revenue,		
Department of Education, Riverside Campus Project, Series B, 6.125%, 4/01/28 .....	2,740,000	3,043,345
Department of General Services, Buildings 8 and 9, Series A, 6.00%, 4/01/27 .....	3,980,000	4,437,382
Department of General Services, Buildings 8 and 9, Series A, 6.125%, 4/01/29 .....	5,000,000	5,497,100
Various Capital Projects, Series I, 6.125%, 11/01/29 .....	29,300,000	32,405,214
California Statewide CDA, PCR, Refunding, 4.50%, 9/01/29 .....	14,830,000	14,721,296
California Statewide CDA Revenue,		
Adventist, Series B, Assured Guaranty, 5.00%, 3/01/37 .....	10,000,000	9,705,800
St. Joseph Health System, Series B, FGIC Insured, 5.75%, 7/01/47 .....	5,000,000	5,164,100
St. Joseph Health System, Series E, AGMC Insured, 5.25%, 7/01/47 .....	10,000,000	10,167,800
Colton Joint USD, GO, Election of 2008, Series A, Assured Guaranty, 5.375%, 8/01/34 ...	15,000,000	15,531,600
Corona-Norco USD, GO, Capital Appreciation, Election of 2006, Series C, AGMC Insured,		
zero cpn., 8/01/39 .....	7,500,000	1,359,900
zero cpn. to 8/01/17, 6.20% thereafter, 8/01/29 .....	3,250,000	2,690,253
zero cpn. to 8/01/17, 6.80% thereafter, 8/01/39 .....	8,500,000	6,866,470
Foothill/Eastern Corridor Agency Toll Road Revenue,		
Capital Appreciation, Refunding, 5.85%, 1/15/23 .....	35,000,000	35,216,300
Capital Appreciation, Refunding, zero cpn., 1/15/24 .....	65,000,000	31,080,400
Refunding, 5.75%, 1/15/40 .....	20,000,000	18,237,800
Golden State Tobacco Securitization Corp. Tobacco Settlement Revenue,		
Asset-Backed, Series A-1, Pre-Refunded, 6.25%, 6/01/33 .....	16,245,000	17,413,503
Enhanced, Asset-Backed, Refunding, Series A, AMBAC Insured, 5.00%, 6/01/45 .....	13,255,000	12,206,397
Hartnell Community College District GO, Capital Appreciation, Election of 2002, Series D,		
zero cpn., 8/01/39 .....	45,000,000	6,291,000
Inland Empire Tobacco Securitization Authority Revenue, Tobacco Settlement Asset-Backed		
Bonds, Turbo Capital Appreciation, Series C-1, zero cpn., 6/01/36 .....	100,000,000	9,087,000
Jefferson UHSD San Mateo County GO, Capital Appreciation, Election of 2006, Series D,		
zero cpn.,		
8/01/35 .....	10,500,000	1,888,845
8/01/40 .....	10,000,000	1,182,500
8/01/41 .....	13,590,000	1,476,418
Los Angeles Community College District GO, Election of 2008, Series C, 5.25%,		
8/01/39 .....	30,000,000	32,904,600

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>California (continued)</b>		
Los Angeles Department of Airports Airport Revenue, Los Angeles International Airport, Senior, Refunding, Series A, 5.00%, 5/15/40 .....	\$ 25,485,000	\$ 26,821,943
senior bond, Series D, 5.00%, 5/15/40 .....	50,000,000	52,696,500
Los Angeles USD, GO, Election of 2002, Series B, AMBAC Insured, 4.50%, 7/01/31 .....	28,745,000	28,943,340
Election of 2004, Series F, AGMC Insured, 5.00%, 7/01/30 .....	52,475,000	54,570,327
Election of 2004, Series G, AMBAC Insured, 5.00%, 7/01/26 .....	10,250,000	10,914,610
Election of 2004, Series G, AMBAC Insured, 5.00%, 7/01/31 .....	10,000,000	10,407,900
Series KRY, 5.25%, 7/01/34 .....	36,625,000	39,226,107
Los Angeles Wastewater System Revenue, Refunding, NATL Insured, 5.00%, 6/01/25 .....	10,000,000	10,482,700
M-S-R Energy Authority Gas Revenue, Series B, 6.50%, 11/01/39 .....	12,500,000	14,216,375
Metropolitan Water District of Southern California Waterworks Revenue, Series B-2, NATL RE, FGIC Insured, Pre-Refunded, 5.00%, 10/01/27 .....	9,645,000	10,488,841
New Haven USD, GO, Capital Appreciation, Assured Guaranty, zero cpn., 8/01/31 .....	2,055,000	629,837
8/01/32 .....	7,830,000	2,228,653
8/01/33 .....	7,660,000	2,030,589
Placentia-Yorba Linda USD, GO, Election of 2008, Series A, 5.25%, 8/01/32 .....	24,490,000	25,735,561
Pomona USD, GO, Election of 2008, Series A, Assured Guaranty, 5.00%, 8/01/29 .....	5,585,000	5,802,536
Rialto USD, GO, Series A, AGMC Insured, zero cpn., 8/01/36 .....	20,000,000	4,167,400
Sacramento County Airport System Revenue, Senior Series B, AGMC Insured, 5.25%, 7/01/33 .....	16,355,000	16,269,954
San Diego Public Facilities Financing Authority Water Revenue, Series B, 5.375%, 8/01/34 .....	15,000,000	16,236,450
San Francisco City and County COP, Multiple Capital Improvement Project, Series A, 5.25%, 4/01/31 .....	10,000,000	10,252,300
San Joaquin Hills Transportation Corridor Agency Toll Road Revenue, Capital Appreciation, Refunding, Series A, 5.75%, 1/15/21 .....	50,000,000	45,775,000
senior lien, 5.00%, 1/01/33 .....	5,000,000	3,818,150
senior lien, ETM, zero cpn., 1/01/23 .....	7,000,000	5,048,330
San Mateo UHSD, GO, Capital Appreciation, Election of 2010, Refunding, Series A, zero cpn. to 9/01/28, 6.70% thereafter, 9/01/41, .....	20,000,000	7,217,200
zero cpn. to 9/01/28, 6.45% thereafter, 9/01/33 .....	5,725,000	2,131,246
Santa Ana USD, GO, Capital Appreciation, Election of 2008, Series B, Assured Guaranty, zero cpn., 8/01/35 .....	10,000,000	2,250,900
8/01/36 .....	18,865,000	3,949,765
8/01/37 .....	10,000,000	1,960,600
Santa Clara County GO, 5.00%, 8/01/34 .....	25,000,000	26,563,750
Upland USD, GO, Election of 2008, Series B, zero cpn., 8/01/39 .....	50,075,000	8,398,579
Washington Township Health Care District Revenue, Series A, 6.25%, 7/01/39 .....	3,000,000	3,148,410
West Contra Costa USD, GO, Election of 2005, Series C-1, Assured Guaranty, zero cpn., 8/01/29 .....	10,000,000	3,343,700
8/01/30 .....	20,845,000	6,493,426
8/01/31 .....	20,000,000	5,765,400
8/01/32 .....	10,730,000	2,863,730
Whittier UHSD, GO, Capital Appreciation Bonds, Refunding, zero cpn., 8/01/34 .....	20,000,000	4,360,600
		1,346,724,565

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) *(continued)*

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Colorado 2.0%</b>		
Aurora Water Improvement Revenue, first lien, Series A, AMBAC Insured, 5.00%, 8/01/32 .....	\$ 10,000,000	\$ 10,529,100
8/01/36 .....	41,235,000	43,114,904
8/01/39 .....	26,930,000	28,115,458
Colorado State Board of Governors University Enterprise System Revenue, Series A, AGMC Insured, 5.00%, 3/01/37 .....	10,000,000	10,372,900
NATL RE, FGIC Insured, 5.00%, 3/01/37 .....	10,000,000	10,372,900
Colorado State Health Facilities Authority Revenue, Health Facility Authority, Hospital, Refunding, Series B, AGMC Insured, 5.25%, 3/01/36 .....	10,000,000	10,254,900
Valley View Hospital Assn. Project, Refunding, 5.50%, 5/15/28 .....	5,000,000	5,082,100
Valley View Hospital Assn. Project, Refunding, 5.75%, 5/15/36 .....	7,000,000	7,052,850
Colorado State Higher Education Capital Construction Lease Purchase Financing Program COP, 5.50%, 11/01/27 .....	7,335,000	7,930,822
Pre-Refunded, 5.50%, 11/01/27 .....	2,665,000	3,322,216
Colorado Water Resources and Power Development Authority Water Resources Revenue, Arapahoe County Water Improvement, Series E, NATL Insured, 5.00%, 12/01/35 .....	10,000,000	10,025,200
Mesa State College Auxiliary Facilities Enterprise Revenue, XLCA Insured, 5.00%, 5/15/35 .....	9,950,000	9,988,108
Park Creek Metropolitan District Revenue, Senior Property Tax Support, Refunding and Improvement, Assured Guaranty, 6.25%, 12/01/30 .....	6,000,000	6,657,120
Public Authority for Colorado Energy Natural Gas Purchase Revenue, 6.50%, 11/15/38 ...	20,000,000	21,869,600
Pueblo County School District No. 060 GO, NATL RE, FGIC Insured, Pre-Refunded, 5.00%, 12/15/22 .....	5,500,000	5,786,660
Thornton Water Enterprise Revenue, NATL Insured, 5.00%, 12/01/34 .....	10,000,000	10,274,900
University of Colorado Enterprise System Revenue, Series A, 5.375%, 6/01/32 .....	3,500,000	3,833,375
University of Colorado Hospital Authority Revenue, Series A, AMBAC Insured, 5.00%, 11/15/29 .....	8,500,000	8,506,885
		<u>213,089,998</u>
<b>Connecticut 0.0%<sup>†</sup></b>		
Meriden Housing Authority MFR, Connecticut Baptist Housing Project, GNMA Secured, 5.80%, 8/20/39 .....	2,515,000	2,641,127
<b>District of Columbia 2.6%</b>		
District of Columbia Ballpark Revenue, Series B-1, BHAC Insured, 5.00%, 2/01/24 .....	12,120,000	12,904,528
2/01/25 .....	7,000,000	7,416,080
2/01/26 .....	9,950,000	10,501,230
District of Columbia GO, Series E, NATL Insured, ETM, 6.00%, 6/01/13 .....	15,000	15,065
District of Columbia Hospital Revenue, Children's Hospital Obligation, Sub Series 1, AGMC Insured, 5.45%, 7/15/35 .....	24,515,000	25,353,413
District of Columbia Income Tax Secured Revenue, Refunding, Series A, 5.00%, 12/01/31 .....	10,000,000	10,894,000
Series A, 5.25%, 12/01/34 .....	11,000,000	11,996,270

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) *(continued)*

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>District of Columbia (continued)</b>		
District of Columbia Revenue,		
<sup>a</sup> Assn. of American Medical Colleges, Series B, 5.25%, 10/01/41 .....	\$ 15,000,000	\$ 15,079,800
Capital Appreciation, Georgetown University, Growth and Income Securities, AMBAC Insured, zero cpn. to 4/01/18, 5.00% thereafter, 4/01/32 .....	15,370,000	10,684,917
Deed Tax, Housing Product Trust Fund, Series A, NATL Insured, 5.00%, 6/01/32 .....	5,000,000	5,087,400
Georgetown University, Refunding, Series D, 5.50%, 4/01/36 .....	5,000,000	5,284,850
Medlantic/Helix, Series B, AGMC Insured, 5.00%, 8/15/38 .....	20,000,000	20,350,000
National Academy of Sciences, Series A, 5.00%, 4/01/35 .....	10,905,000	11,391,581
National Academy of Sciences, Series A, 5.00%, 4/01/40 .....	16,960,000	17,644,166
National Public Radio, Series A, 5.00%, 4/01/35 .....	7,750,000	8,013,035
District of Columbia Tobacco Settlement FICO Revenue, Asset-Backed Bonds, Refunding, 6.50%, 5/15/33 .....	35,000,000	36,407,700
District of Columbia Water and Sewer Authority Public Utility Revenue, Refunding, Series A, 6.00%, 10/01/35 .....	8,000,000	9,239,280
Metropolitan Washington D.C. Airports Authority Airport System Revenue,		
Refunding, Series A, 5.375%, 10/01/29 .....	5,000,000	5,227,000
Refunding, Series A, 5.00%, 10/01/35 .....	5,000,000	5,237,750
Refunding, Series C, 5.25%, 10/01/27 .....	10,745,000	11,649,836
Series A, 5.00%, 10/01/39 .....	5,000,000	5,226,500
Series C, 5.00%, 10/01/26 .....	10,235,000	10,981,438
Metropolitan Washington D.C. Airports Authority Dulles Toll Road Revenue, Capital Appreciation, second lien, Series C, Assured Guaranty, zero cpn. to 10/01/16, 6.50% thereafter, 10/01/41 .....	25,000,000	20,410,500
		<u>276,996,339</u>
<b>Florida 7.1%</b>		
Brevard County Health Facilities Authority Health Care Facilities Revenue, Health First Inc. Project, 7.00%, 4/01/39 .....	6,500,000	7,203,170
Brevard County Local Option Fuel Tax Revenue, NATL RE, FGIC Insured, 5.00%, 8/01/37 .....	12,245,000	11,714,547
Broward County School Board COP, NATL Insured, 5.00%, 7/01/28 .....	17,415,000	17,626,941
Broward County Water and Sewer Utility Revenue, Series A, 5.25%, 10/01/34 .....	8,800,000	9,458,152
Cape Coral Water and Sewer Revenue, AMBAC Insured, 5.00%, 10/01/36 .....	5,000,000	4,888,300
Citizens Property Insurance Corp. Revenue,		
Costal Account, senior secured, Series A-1, 5.00%, 6/01/20 .....	20,000,000	21,112,400
High-Risk Account, senior secured, Series A-1, 5.25%, 6/01/17 .....	24,250,000	26,472,512
High-Risk Account, senior secured, Series A-1, 5.50%, 6/01/17 .....	10,000,000	11,015,800
High-Risk Account, senior secured, Series A-1, 6.00%, 6/01/17 .....	25,000,000	28,100,750
Clearwater Water and Sewer Revenue, Series A, 5.25%, 12/01/39 .....	7,000,000	7,508,760
Davie Water and Sewer Revenue, AGMC Insured, 5.00%, 10/01/32 .....	8,575,000	8,914,484
Florida State Board of Education Capital Outlay GO, Public Education, Refunding, Series D, 6.00%, 6/01/23 .....	17,500,000	22,742,300
Florida State Mid-Bay Bridge Authority Revenue, Series A,		
AMBAC Insured, zero cpn., 10/01/23 .....	4,950,000	2,386,445
AMBAC Insured, zero cpn., 10/01/24 .....	2,970,000	1,321,739
Pre-Refunded, zero cpn., 10/01/23 .....	50,000	32,857
Pre-Refunded, zero cpn., 10/01/24 .....	30,000	18,618



# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) *(continued)*

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Florida (continued)</b>		
Florida State Municipal Loan Council Revenue, Series D, AGMC Insured, 5.50%, 10/01/41 .....	\$ 4,750,000	\$ 5,087,013
Hernando County School Board COP, NATL Insured, 5.00%, 7/01/30 .....	10,000,000	10,081,500
Hillsborough County Aviation Authority Revenue, Series A, Assured Guaranty, 5.50%, 10/01/38 .....	5,000,000	5,153,150
Hillsborough County IDA, PCR, Tampa Electric Co. Project, Series A, 5.65%, 5/15/18 .....	6,500,000	7,423,325
Hillsborough County IDAR, Refunding, Series A, 5.25%, 10/01/24 .....	13,500,000	13,658,220
Hillsborough County School Board COP, Master Lease Program, Series B, NATL Insured, 5.00%, 7/01/27 .....	5,000,000	5,121,400
Indian River County School Board COP, NATL RE, FGIC Insured, 5.00%, 7/01/27 .....	16,485,000	17,108,792
Jacksonville Capital Improvement Revenue, Series A, AMBAC Insured, 5.00%, 10/01/30 .....	20,175,000	20,288,383
Jacksonville Economic Development Commission Health Care Facilities Revenue, Mayo Clinic, 5.00%, 11/15/36 .....	17,950,000	18,145,296
Jacksonville Excise Taxes Revenue, Series A, AMBAC Insured, 5.00%, 10/01/32 .....	6,015,000	6,193,224
Jacksonville Sales Tax Revenue, AMBAC Insured, 5.00%, 10/01/26 .....	20,000,000	20,029,000
Jacksonville Transportation Revenue, NATL Insured, 5.00%, 10/01/31 .....	5,000,000	5,008,400
Lee County Transportation Facilities Revenue, Sanibel Bridges and Causeway, Series B, CIFG Insured, 5.00%, 10/01/35 .....	10,645,000	10,738,570
Miami-Dade County Aviation Revenue, Miami International Airport, Hub of the Americas, Refunding, Series A, CIFG Insured, 5.00%, 10/01/38 .....	15,000,000	14,214,000
Refunding, Series A, 5.50%, 10/01/36 .....	20,000,000	20,645,800
Refunding, Series A, Assured Guaranty, 5.25%, 10/01/33 .....	11,000,000	11,088,220
Refunding, Series A, Assured Guaranty, 5.25%, 10/01/38 .....	13,000,000	13,059,150
Miami-Dade County Educational Facilities Authority Revenue, University of Miami, Series A, 5.50%, 4/01/38 .....	12,500,000	12,754,000
Miami-Dade County Expressway Authority Toll System Revenue, Series A, 5.00%, 7/01/40 .....	30,265,000	30,292,541
Miami-Dade County GO, Building Better Communities Program, Series B-1, 5.75%, 7/01/33 .....	20,000,000	21,711,200
Miami-Dade County Public Facilities Revenue, Jackson Health System, Series A, NATL Insured, 5.00%, 6/01/30 .....	10,630,000	10,341,183
Miami-Dade County School Board COP, Assured Guaranty, 5.25%, 2/01/27 .....	10,000,000	10,752,800
Miami-Dade County Special Obligation Revenue, Juvenile Courthouse Project, Series A, AMBAC Insured, 5.00%, 4/01/32 .....	10,000,000	10,041,400
sub. bond, Series B, NATL Insured, zero cpn., 10/01/34 .....	5,500,000	1,217,810
Miami-Dade County Transit Sales Surtax Revenue, Refunding, AGMC Insured, 5.00%, 7/01/38 .....	18,845,000	19,035,146
Orange County Health Facilities Authority Revenue, Hospital, Orlando Regional Healthcare System, Refunding, Series B, AGMC Insured, 5.00%, 12/01/32 .....	20,000,000	20,682,200
Orange County School Board COP, Series A, Assured Guaranty, 5.50%, 8/01/34 .....	15,000,000	16,153,500
Orlando Tourist Development Tax Revenue, 6th Cent Contract Payments, second lien sub. bonds, Series B, Assured Guaranty, 5.50%, 11/01/38 .....	18,490,000	18,133,143
third lien sub. bonds, Series C, Assured Guaranty, 5.50%, 11/01/38 .....	5,000,000	4,842,950
Orlando-Orange County Expressway Authority Revenue, Series A, AGMC Insured, 5.00%, 7/01/32 .....	12,000,000	12,435,720
Series B, AMBAC Insured, 5.00%, 7/01/28 .....	10,630,000	10,793,489
Series C, 5.00%, 7/01/40 .....	15,000,000	15,456,150

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) *(continued)*

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Florida (continued)</b>		
Palm Beach County School Board COP, Refunding, Series D, AGMC Insured, 5.00%, 8/01/28 .....	\$ 25,000,000	\$ 25,327,250
Palm Beach County Solid Waste Authority Revenue, Improvement, Series B, 5.50%, 10/01/28 .....	10,000,000	11,024,400
Pensacola Airport Revenue, Airport Revenue Bonds, Refunding, 6.25%, 10/01/38 .....	16,500,000	17,077,995
Port St. Lucie GO, NATL Insured, 5.00%, 7/01/32 .....	7,000,000	7,238,210
Port St. Lucie Utility Revenue, System, Refunding, Assured Guaranty, 5.25%, 9/01/35 .....	3,000,000	3,143,400
South Broward Hospital District Revenue, South Broward Hospital District Obligated Group, Refunding, 4.75%, 5/01/28 .....	10,000,000	10,115,600
5.00%, 5/01/36 .....	12,500,000	12,707,750
South Lake County Hospital District Revenue, South Lake Hospital, Series A, 6.25%, 4/01/39 .....	5,735,000	5,802,329
South Miami Health Facilities Authority Hospital Revenue, Baptist Health South Florida Group, 5.00%, 8/15/32 .....	31,070,000	31,629,571
St. Lucie County Transportation Revenue, AMBAC Insured, 5.00%, 8/01/27 .....	5,785,000	6,033,697
Tallahassee Energy System Revenue, Refunding, NATL Insured, 5.00%, 10/01/37 .....	20,000,000	20,523,600
		<u>748,828,252</u>
<b>Georgia 4.2%</b>		
Athens-Clarke County Unified Government Water and Sewer Revenue, 5.50%, 1/01/38 .....	14,500,000	15,682,475
Atlanta Airport Passenger Facility Charge Revenue, General, sub. lien, Refunding, Series C, AGMC Insured, 5.00%, 1/01/33 .....	19,500,000	19,858,215
Series J, AGMC Insured, 5.00%, 1/01/29 .....	10,000,000	10,248,800
Atlanta Airport Revenue, General, Refunding, Series C, 6.00%, 1/01/30 .....	15,000,000	17,256,450
Atlanta Development Authority Revenue, Tuff Yamacraw LLC Project, Refunding, Series A, AMBAC Insured, 5.00%, 1/01/24 .....	6,385,000	6,632,546
Tuff Yamacraw LLC Project, Refunding, Series A, AMBAC Insured, 5.00%, 1/01/25 .....	6,955,000	7,143,828
Tuff Yamacraw LLC Project, Refunding, Series A, AMBAC Insured, 5.00%, 1/01/26 .....	5,000,000	5,096,450
Tuff Yamacraw LLC Project, Refunding, Series A, AMBAC Insured, 5.00%, 1/01/27 .....	5,000,000	5,047,400
Yamacraw Design Center Project, Series A, NATL Insured, Pre-Refunded, 5.125%, 1/01/27 .....	5,000,000	5,039,200
Atlanta Development Authority Student Housing Facilities Revenue, Piedmont Ellis LLC, Series A, XLCA Insured, 5.00%, 9/01/30 .....	10,000,000	10,134,800
Atlanta Water and Wastewater Revenue, Refunding, Series A, 6.25%, 11/01/34 .....	20,000,000	22,471,000
Series A, NATL Insured, 5.00%, 11/01/33 .....	13,000,000	13,048,360
Series B, AGMC Insured, 5.25%, 11/01/34 .....	30,000,000	31,190,400
Bleckley-Dodge County Joint Development Authority Student Housing Facilities Revenue, MGC Real Estate Foundation II LLC Project, 5.00%, 7/01/33 .....	5,000,000	5,078,900
5.25%, 7/01/38 .....	10,000,000	10,282,000
Bulloch County Development Authority Revenue, Assured Guaranty, 5.375%, 7/01/39 .....	23,075,000	24,305,821
Burke County Development Authority PCR, Oglethorpe Power Corp., Vogtle Project, Series B, 5.50%, 1/01/33 .....	15,000,000	15,553,200
Series E, 7.00%, 1/01/23 .....	25,000,000	29,281,000
Clark County Hospital Authority Revenue, Athens Regional Medical Center Project, NATL Insured, 5.00%, 1/01/27 .....	5,000,000	5,178,900

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Georgia (continued)</b>		
Clayton County Development Authority Student Housing and Activity Center Revenue, CSU Foundation Real Estate I LLC Project, XLCA Insured, 5.00%, 7/01/33	\$ 11,125,000	\$ 11,444,399
Cobb County Hospital Authority Revenue, Refunding, AMBAC Insured, 5.00%, 4/01/28	18,000,000	18,561,240
DeKalb Newton and Gwinnett Counties Joint Development Authority Revenue, Georgia Gwinnett College Foundation LLC Project, 6.00%, 7/01/34	10,000,000	10,894,600
Georgia State Higher Education Facilities Authority Revenue, USG Real Estate Foundation I LLC Project, 5.50%, 6/15/34	10,000,000	10,435,100
USG Real Estate Foundation I LLC Project, 6.25%, 6/15/40	13,970,000	15,023,897
USG Real Estate Foundation I LLC Project, Assured Guaranty, 5.625%, 6/15/38	5,000,000	5,219,650
USG Real Estate Foundation III LLC Project, Series A, 5.00%, 6/15/40	5,000,000	5,041,550
Griffin Combined Public Utility Revenue, Refunding and Improvement, AMBAC Insured, 5.00%, 1/01/25	5,000,000	5,158,950
Gwinnett County Hospital Authority Revenue, Anticipation Certificates, Gwinnett Hospital System Inc. Project, Series B, NATL Insured, Pre-Refunded, 5.30%, 9/01/27	10,000,000	10,341,400
Gwinnett County Water and Sewerage Authority Revenue, Pre-Refunded, 5.25%, 8/01/25	20,000,000	20,747,800
Henry County and Henry County Water and Sewer Authority Revenue, Refunding and Improvement, Series A, NATL Insured, 5.00%, 2/01/26	5,770,000	5,999,877
Houston County Hospital Authority Revenue, Anticipation Certificates, Houston Healthcare Project, 5.25%, 10/01/35	10,485,000	10,537,320
Jefferson PBA Revenue, Jackson County Facilities, Series A, XLCA Insured, 5.00%, 3/01/32	1,805,000	1,877,561
Pre-Refunded, 5.00%, 3/01/32	4,270,000	5,049,232
Main Street Natural Gas Inc. Gas Project Revenue, Series A, 5.50%, 9/15/28	5,000,000	4,881,600
Medical Center Hospital Authority Revenue, Anticipation Certificates, Columbus Regional Healthcare Systems, Refunding, Assured Guaranty, 6.50%, 8/01/38	10,000,000	10,974,700
Private Colleges and Universities Authority Revenue, Emory University, Refunding, Series C, 5.25%, 9/01/39	21,000,000	22,704,150
Richmond County Development Authority Educational Facilities Revenue, MCG-PPG Cancer Research Center, Series A, AMBAC Insured, 5.00%, 12/15/29	5,000,000	5,041,300
		<u>438,464,071</u>
<b>Hawaii 0.4%</b>		
Hawaii State Airports System Revenue, Second Series, ETM, 6.90%, 7/01/12	130,000	135,333
NATL Insured, ETM, 6.90%, 7/01/12	110,000	114,474
Hawaii State Department of Budget and Finance Special Purpose Revenue, Hawaiian Electric Co. and Subsidiary, 6.50%, 7/01/39	7,500,000	8,016,225
Wilcox Memorial Hospital Projects, Refunding, 5.25%, 7/01/13	300,000	300,627
Wilcox Memorial Hospital Projects, Refunding, 5.35%, 7/01/18	2,040,000	2,042,326
Wilcox Memorial Hospital Projects, Refunding, 5.50%, 7/01/28	1,470,000	1,470,426
Hawaii State Housing Finance and Development Corp. SFM Purchase Revenue, Refunding, Series A, FNMA Insured, 5.75%, 7/01/30	115,000	115,013
Honolulu City and County Board of Water Supply Water System Revenue, Refunding, Series A, NATL Insured, 5.00%, 7/01/36	20,000,000	20,841,800
Honolulu City and County GO, ETM, 6.00%, 12/01/14	150,000	174,013
Honolulu City and County MFHR, Waipahu Towers Project, Series A, GNMA Secured, 6.90%, 6/20/35	1,135,000	1,136,441
<sup>a</sup> Honolulu City and County Wastewater System Revenue, Senior Series A, 5.00%, 7/01/38	10,000,000	10,695,000
		<u>45,041,678</u>

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Idaho 0.1%</b>		
Idaho Health Facilities Authority Revenue, St. Luke's Health System Project, Series A, 6.75%, 11/01/37	\$ 12,500,000	\$ 13,785,500
<b>Illinois 5.9%</b>		
Aurora Waterworks and Sewer Revenue, XLCA Insured, 4.75%, 12/01/36	7,765,000	7,866,721
Bourbonnais Industrial Project Revenue, Olivet Nazarene University Project, Radian Insured, 5.125%, 11/01/37	5,000,000	4,762,150
Chicago Board of Education GO, Refunding, 5.00%, 12/01/31	12,500,000	12,599,375
Refunding, Series C, AGMC Insured, 5.25%, 12/01/23	15,860,000	17,020,476
<sup>a</sup> Series A, 5.50%, 12/01/39	6,500,000	6,854,575
Chicago GO, Lakefront Millennium Parking Facilities, NATL Insured, ETM, 5.75%, 1/01/23	8,955,000	11,524,548
Refunding, Series A, 5.25%, 1/01/37	13,785,000	13,870,467
Refunding, Series A, AGMC Insured, 5.00%, 1/01/28	13,445,000	13,733,261
Refunding, Series A, AGMC Insured, 5.00%, 1/01/29	26,000,000	26,381,160
Chicago Midway Airport Revenue, Refunding, Series C, Assured Guaranty, 5.50%, 1/01/24	18,460,000	20,990,312
Chicago O'Hare International Airport Revenue, AGMC Insured, 5.25%, 1/01/35	12,850,000	13,253,361
General, third lien, Series A, 5.75%, 1/01/39	5,000,000	5,413,900
Chicago Park District GO, Series A, 5.00%, 1/01/33	4,500,000	4,742,145
<sup>a</sup> Chicago Transit Authority Sales Tax Receipts Revenue, 5.25%, 12/01/40	10,000,000	10,323,500
Chicago Wastewater Transmission Revenue, Series A, BHAC Insured, 5.50%, 1/01/38	18,000,000	18,829,980
Cook County GO, Refunding, Series A, 5.25%, 11/15/33	8,720,000	9,011,161
Illinois Development Finance Authority Revenue, Provena Health, Refunding, Series A, NATL Insured, 5.50%, 5/15/21	10,000,000	10,005,000
Illinois Finance Authority Revenue, Alexian Brothers Health System, Refunding, Series A, AGMC Insured, 5.50%, 1/01/28	45,000,000	47,725,200
Art Institute of Chicago, Refunding, Series A, 5.25%, 3/01/40	16,215,000	16,811,388
Columbia College, NATL Insured, 5.00%, 12/01/32	15,440,000	14,931,561
Resurrection Health Care, Series B, AGMC Insured, 5.25%, 5/15/29	28,650,000	28,980,907
Riverside Health System, 6.25%, 11/15/35	5,000,000	5,314,100
Roosevelt University Project, Refunding, 6.50%, 4/01/39	15,000,000	15,667,350
Rush University Medical Center, Refunding, Series B, NATL Insured, 5.75%, 11/01/28	2,500,000	2,588,650
Rush University Medical Center, Refunding, Series B, NATL Insured, 5.25%, 11/01/35	3,000,000	3,010,440
Rush University Medical Center Obligation Group, Series B, 7.25%, 11/01/38	10,000,000	11,145,800
Sherman Health System, Series A, 5.50%, 8/01/37	5,000,000	4,642,950
Illinois Health Facilities Authority Revenue, Loyola University Health Systems, Series A, NATL Insured, ETM, 5.625%, 7/01/18	2,105,000	2,617,210
Northwestern Medical Facility Foundation, Refunding, NATL Insured, 5.125%, 11/15/28	7,500,000	7,247,700
South Suburban Hospital, ETM, 7.00%, 2/15/18	3,440,000	3,906,051
Illinois Municipal Electric Agency Power Supply Revenue, Series A, NATL RE, FGIC Insured, 5.00%, 2/01/35	20,000,000	20,405,000
Illinois State Finance Authority Student Housing Revenue, CHF-DeKalb II LLC, Northern Illinois University Project, 6.875%, 10/01/43	15,000,000	15,571,500
Normal LLC, Illinois State University, 7.00%, 4/01/43	7,500,000	7,889,625

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Illinois (continued)</b>		
Illinois State GO,		
AGMC Insured, 5.00%, 9/01/29 .....	\$ 12,000,000	\$ 12,123,960
Assured Guaranty, 5.25%, 4/01/34 .....	10,000,000	10,157,100
Refunding, 5.00%, 1/01/24 .....	12,820,000	13,306,263
Illinois State Revenue, Build Illinois, Series B, 5.25%, 6/15/34 .....	15,000,000	15,619,800
Illinois State Toll Highway Authority Toll Highway Revenue, Senior, Refunding, Series A-1, 5.00%, 1/01/31 .....	10,245,000	10,576,938
Kane County School District No. 129 GO, Series A, FGIC Insured, Pre-Refunded, 5.25%, 2/01/22 .....	5,285,000	5,350,164
Metropolitan Pier and Exposition Authority Dedicated State Tax Revenue,		
Capital Appreciation, McCormick Place, Refunding, Series B, NATL Insured, zero cpn. to 6/15/12, 5.50% thereafter, 6/15/20 .....	8,240,000	8,601,654
Capital Appreciation, McCormick Place, Refunding, Series B, NATL Insured, zero cpn. to 6/15/12, 5.55% thereafter, 6/15/21 .....	6,000,000	6,229,800
Capital Appreciation, McCormick Place, Refunding, Series B, NATL Insured, zero cpn. to 6/14/17, 5.65% thereafter, 6/15/22 .....	30,000,000	24,726,000
McCormick Place Expansion Project, Series A, 5.50%, 6/15/50 .....	15,000,000	15,444,900
McCormick Place Expansion Project, Series A, NATL Insured, 5.00%, 12/15/28 .....	26,795,000	26,913,166
Metropolitan Pier and Exposition Authority Hospitality Facilities Revenue, McCormick Place Convention Center, ETM, 7.00%, 7/01/26 .....	12,000,000	16,657,200
Railsplitter Tobacco Settlement Authority Revenue, Refunding, 6.00%, 6/01/28 .....	14,530,000	15,119,482
Regional Transportation Authority Revenue, Series A, AMBAC Insured, 7.20%, 11/01/20 . . .	945,000	1,125,807
Southwestern Illinois Development Authority Revenue, Capital Appreciation, Local Government Program, AGMC Insured, zero cpn.,		
12/01/24 .....	3,850,000	2,015,667
12/01/26 .....	7,700,000	3,540,460
University of Illinois University Revenues, Auxiliary Facilities System,		
Refunding, Series A, 5.125%, 4/01/36 .....	2,950,000	3,044,341
Refunding, Series A, 5.25%, 4/01/41 .....	5,000,000	5,191,600
Refunding, Series A, AMBAC Insured, 5.00%, 4/01/30 .....	5,000,000	5,001,750
Series A, 5.75%, 4/01/38 .....	7,000,000	7,450,660
Upper River Valley Development Authority Environmental Facilities Revenue, General Electric Co. Project, 5.45%, 2/01/23 .....	3,600,000	3,609,288
		<u>627,443,524</u>
<b>Indiana 1.0%</b>		
Indiana Bond Bank Revenue, Special Program, Hendricks Regional Health, Series A, 5.50%, 2/01/29 .....	9,000,000	9,677,160
Indiana Finance Authority Hospital Revenue, Deaconess Hospital Obligation, Series A, 6.75%, 3/01/39 .....	9,750,000	10,823,085
Indiana Health and Educational Facility Financing Authority Hospital Revenue, 5.50%, 3/01/27 .....	6,500,000	6,577,155
Indiana Health Facility Financing Authority Hospital Revenue, Community Foundation Northwest Indiana, Refunding, Series A, 6.375%, 8/01/21 .....	15,590,000	15,758,060
Indiana Health Facility Financing Authority Revenue, Greenwood Village South Project, Refunding, 5.625%, 5/15/28 .....	1,750,000	1,475,565
Indiana Municipal Power Agency Power Supply System Revenue, Indiana Municipal Power Agency, Series B, 6.00%, 1/01/39 .....	4,000,000	4,322,880

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Indiana (continued)</b>		
Indiana State Finance Authority Environmental Revenue, Duke Energy Indiana Inc., Refunding, Series B, 6.00%, 8/01/39 .....	\$ 10,000,000	\$ 10,929,900
Indiana State Finance Authority Revenue, Educational Facilities, Marian University Project, 6.375%, 9/15/41 .....	12,500,000	12,566,875
Indiana State Finance Authority Wastewater Utility Revenue, first lien, CWA Authority Inc., Series A, 5.25%, 10/01/38 .....	12,000,000	12,693,120
Indianapolis Local Public Improvement Bond Bank Revenue, Pilot Infrastructure Project, Series F, Assured Guaranty, 5.00%, 1/01/35 .....	10,000,000	10,554,500
Jasper County EDR, Georgia-Pacific Corp. Project, 5.625%, 12/01/27 .....	3,500,000	3,499,825
Refunding, 6.70%, 4/01/29 .....	3,000,000	3,001,770
Jasper County PCR, Northern Indiana Public Service Co., Refunding, Series C, NATL Insured, 5.60%, 11/01/16 .....	5,000,000	5,586,500
Madison County Authority Anderson Hospital Revenue, Refunding, Series A, NATL Insured, 8.00%, 1/01/14 .....	45,000	45,245
University of Southern Indiana Revenue, Student Fee, Series J, Assured Guaranty, 5.75%, 10/01/28 .....	2,000,000	2,208,160
		<u>109,719,800</u>
<b>Kansas 0.6%</b>		
Burlington PCR, Kansas Gas and Electric Co. Project, Refunding, Series A, NATL Insured, 5.30%, 6/01/31 .....	18,000,000	18,429,660
Series B, NATL Insured, 4.85%, 6/01/31 .....	8,000,000	8,177,440
Kansas State Development Finance Authority Hospital Revenue, Adventist Health, Refunding, 5.75%, 11/15/38 .....	6,250,000	6,758,563
Susan B. Allen Memorial Hospital, Series Z, Radian Insured, 5.25%, 12/15/23 .....	2,000,000	1,983,960
Kansas State Development Finance Authority Revenue, Water Pollution Control, Revolving Fund, Series II, Pre-Refunded, 5.125%, 11/01/18 .....	5,000,000	5,000,000
Overland Park Development Corp. Revenue, second tier, Overland Park Convention Center Hotel, Refunding, Series B, AMBAC Insured, 5.125%, 1/01/32 .....	20,000,000	16,853,400
Wyandotte County Kansas City Unified Government Utility System Revenue, Series A, BHAC Insured, 5.25%, 9/01/34 .....	5,000,000	5,436,300
		<u>62,639,323</u>
<b>Kentucky 1.4%</b>		
Carroll County Environmental Facilities Revenue, AMBAC Insured, 5.75%, 2/01/26 .....	12,500,000	13,307,500
Jefferson County Capital Projects Corp. Lease Revenue, Refunding, Series A, zero cpn., 8/15/13 .....	6,825,000	6,631,443
8/15/14 .....	6,860,000	6,519,058
8/15/16 .....	7,005,000	6,217,148
8/15/17 .....	7,115,000	6,082,329
Kentucky Economic Development Finance Authority Health System Revenue, Norton Healthcare Inc., Refunding, Series B, NATL Insured, zero cpn., 10/01/18 .....	8,585,000	6,123,165
Refunding, Series C, NATL Insured, 6.05%, 10/01/19 .....	7,385,000	7,776,553
Refunding, Series C, NATL Insured, 6.10%, 10/01/21 .....	6,050,000	6,364,842
Refunding, Series C, NATL Insured, 6.10%, 10/01/23 .....	11,295,000	11,822,928
Series C, NATL Insured, Pre-Refunded, 6.05%, 10/01/19 .....	3,695,000	4,113,607

# Franklin Federal Tax-Free Income Fund

Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Kentucky (continued)</b>		
Kentucky Economic Development Finance Authority Health System Revenue, Norton Healthcare Inc., (continued)		
Series C, NATL Insured, Pre-Refunded, 6.10%, 10/01/21 .....	\$ 2,875,000	\$ 3,203,411
Series C, NATL Insured, Pre-Refunded, 6.10%, 10/01/23 .....	5,650,000	6,295,399
Kentucky Economic Development Finance Authority Hospital System Revenue, Appalachian Regional Health Center Facility, Refunding and Improvement,		
5.80%, 10/01/12 .....	1,000,000	1,003,390
5.85%, 10/01/17 .....	5,615,000	5,565,027
Kentucky Economic Development Finance Authority Louisville Arena Project Revenue,		
Louisville Arena, Sub Series A-1, Assured Guaranty, 6.00%, 12/01/38 .....	4,000,000	4,251,600
Kentucky State Municipal Power Agency Power System Revenue, Prairie State Project,		
Series A, NATL Insured, 5.00%, 9/01/32 .....	10,000,000	10,206,900
Kentucky State Property and Buildings Commission Revenues, Project No. 90, Refunding,		
5.50%, 11/01/28 .....	15,000,000	16,456,800
Louisville and Jefferson County Metropolitan Government College Revenue, Bellarmine University Project, Refunding and Improvement, Series A, 6.00%, 5/01/33 .....		
3,000,000	3,000,000	3,094,170
Louisville and Jefferson County Metropolitan Government Health Facilities Revenue, Jewish Hospital and St. Mary's HealthCare Inc. Project, Refunding, 6.125%, 2/01/37 .....		
11,500,000	11,500,000	11,880,535
Paducah Electric Plant Board Revenue, Series A, Assured Guaranty, 5.25%, 10/01/35 .....		
7,000,000	7,000,000	7,404,250
		144,320,055
<b>Louisiana 2.8%</b>		
Calcasieu Parish Inc. IDB, PCR, Gulf States Utilities Co. Project, Refunding, 6.75%, 10/01/12 .....		
7,695,000	7,695,000	7,721,625
East Baton Rouge Sewerage Commission Revenue, Refunding, Series A, 5.25%, 2/01/39 .....		
6,000,000	6,000,000	6,424,440
Greater New Orleans Expressway Commission Revenue, Refunding, AMBAC Insured, 5.00%, 11/01/27 .....		
5,655,000	5,655,000	5,684,802
Lafayette Communications Systems Revenue, XLCA Insured, 5.25%, 11/01/27 .....		
12,485,000	12,485,000	13,005,500
Lafayette Public Improvement Sales Tax GO, Series B, NATL Insured, 4.75%, 3/01/30 .....		
5,055,000	5,055,000	5,214,485
Lafayette Public Trust Financing Authority Revenue, Ragin' Cajun Facilities, Housing and Package Project, Assured Guaranty, 5.50%, 10/01/35 .....		
6,000,000	6,000,000	6,314,700
Louisiana Local Government Environmental Facilities and CDA Revenue,		
Bossier City Public Improvement Projects, AMBAC Insured, 5.00%, 11/01/32 .....	6,730,000	7,045,368
Jefferson Parking Garage Project, AMBAC Insured, 5.00%, 9/01/31 .....	4,290,000	4,168,807
NATL Insured, Pre-Refunded, 5.00%, 12/01/26 .....	5,605,000	5,883,849
Louisiana Public Facilities Authority Hospital Revenue, Franciscan Missionaries of Our Lady Health System Project, 6.75%, 7/01/39 .....		
10,000,000	10,000,000	10,955,100
Louisiana Public Facilities Authority Revenue,		
Cleco Power LLC Project, Mandatory Put 12/01/11, 7.00%, 12/01/38 .....	10,000,000	10,041,600
Millennium Housing LLC Student Housing, CIFG Insured, 5.00%, 11/01/30 .....	10,000,000	9,795,900
Ochsner Clinic Foundation Project, 6.75%, 5/15/41 .....	15,500,000	16,672,110
Ochsner Clinic Foundation Project, Series B, 5.25%, 5/15/38 .....	10,260,000	9,658,764
Ochsner Clinic Foundation Project, Series B, 5.50%, 5/15/47 .....	10,000,000	9,478,600
Ochsner Clinic Foundation Project, Series B, ETM, 5.75%, 5/15/23 .....	10,000,000	12,936,200
Tulane University of Louisiana, Series A, AMBAC Insured, Pre-Refunded, 5.00%, 7/01/32 .....	5,000,000	5,154,400

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) *(continued)*

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Louisiana (continued)</b>		
Louisiana State Gasoline and Fuels Tax Revenue, second lien, Series B, 5.00%, 5/01/45	\$ 23,690,000	\$ 24,928,513
Series A, AGMC Insured, 5.00%, 5/01/35	31,040,000	31,758,266
Series A, AMBAC Insured, 5.00%, 6/01/27	19,250,000	19,454,050
New Orleans GO, Public Improvement, NATL Insured, 5.00%, 10/01/33	3,545,000	3,479,772
Radian Insured, 5.00%, 12/01/27	5,935,000	6,027,942
Radian Insured, 5.125%, 12/01/33	11,645,000	11,621,593
Pointe Coupee Parish PCR, Gulf States Utilities Co. Project, Refunding, 6.70%, 3/01/13	1,490,000	1,495,677
St. Charles Parish Consolidated Waterworks and Wastewater District No. 1 Revenue, Series A, AMBAC Insured, 5.00%, 7/01/36	6,230,000	6,340,146
St. John the Baptist Parish Revenue, Marathon Oil Corp. Project, Series A, 5.125%, 6/01/37	40,500,000	39,678,660
		<u>290,940,869</u>
<b>Maine 0.4%</b>		
Maine Educational Loan Authority Student Loan Revenue, Series A-3, Assured Guaranty, 5.875%, 12/01/39	16,600,000	17,304,172
Maine Health and Higher Educational Facilities Authority Revenue, MaineGeneral Medical Center Issue, 6.75%, 7/01/36	4,250,000	4,408,143
MaineGeneral Medical Center Issue, 7.00%, 7/01/41	10,000,000	10,477,600
Series A, NATL Insured, 5.00%, 7/01/32	6,045,000	6,121,469
		<u>38,311,384</u>
<b>Maryland 0.6%</b>		
Baltimore Project Revenue, Water Projects, Series C, AMBAC Insured, 5.00%, 7/01/37	8,130,000	8,592,597
Maryland State EDC, PCR, Potomac Electric Project, Refunding, 6.20%, 9/01/22	5,000,000	5,872,700
Maryland State EDC Student Housing Revenue, University of Maryland College Park Projects, Refunding, Assured Guaranty, 5.00%, 6/01/33	15,000,000	14,960,100
Maryland State Health and Higher Educational Facilities Authority Revenue, Anne Arundel Health System, Series A, 6.75%, 7/01/39	3,000,000	3,381,300
LifeBridge Health, Refunding, Assured Guaranty, 5.00%, 7/01/28	3,000,000	3,111,990
Upper Chesapeake Hospitals, Series C, 6.00%, 1/01/38	5,000,000	5,165,600
Western Maryland Health, Series A, NATL Insured, 5.00%, 7/01/34	19,345,000	19,519,685
		<u>60,603,972</u>
<b>Massachusetts 2.6%</b>		
Massachusetts Bay Transportation Authority Revenue, Assessment, Refunding, Series A, 5.25%, 7/01/34	27,630,000	29,983,800
Massachusetts Bay Transportation Authority Sales Tax Revenue, Refunding, Senior Series A, 5.00%, 7/01/28	10,000,000	11,728,500
Massachusetts Educational Financing Authority Education Loan Revenue, Series H, Assured Guaranty, 6.35%, 1/01/30	6,775,000	7,014,699
Series I, 6.00%, 1/01/28	18,300,000	19,575,876
Massachusetts State Department of Transportation Metropolitan Highway System Revenue, Senior, Refunding, Series B, 5.00%, 1/01/37	31,000,000	31,961,620



# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Massachusetts (continued)</b>		
Massachusetts State Development Finance Agency Revenue, Brandeis University, Refunding, Series O-1, 5.00%, 10/01/40 .....	\$ 19,865,000	\$ 20,254,155
Massachusetts/Saltonstall Building Redevelopment Corp. Project, 100 Cambridge Street Redevelopment, Series A, NATL Insured, 5.125%, 8/01/28 .....	6,735,000	6,685,835
Worcester Polytechnic Institute, Refunding, NATL Insured, 5.00%, 9/01/37 .....	10,000,000	10,242,900
Massachusetts State GO, Consolidated Loan, Series C, AMBAC Insured, 5.00%, 8/01/37 .....	10,000,000	10,624,100
NATL Insured, Pre-Refunded, 5.00%, 8/01/22 .....	4,100,000	4,239,400
Massachusetts State Health and Educational Facilities Authority Revenue, Berklee College of Music, Refunding, Series A, 5.00%, 10/01/37 .....	10,000,000	10,158,000
Berkshire Health System, Series E, 6.25%, 10/01/31 .....	2,250,000	2,257,043
Berkshire Health System, Series E, Radian Insured, 5.70%, 10/01/25 .....	4,500,000	4,507,785
Emmanuel College, NATL Insured, 5.00%, 7/01/37 .....	10,000,000	9,316,100
Northeastern University, Series A, 5.00%, 10/01/35 .....	20,000,000	20,623,000
Northeastern University, Series R, 5.00%, 10/01/33 .....	6,830,000	6,965,575
Springfield College, 5.50%, 10/15/31 .....	1,710,000	1,717,592
Springfield College, 5.625%, 10/15/40 .....	7,000,000	6,916,000
Massachusetts State HFA Housing Revenue, Series B, 7.00%, 12/01/38 .....	10,000,000	10,820,400
Massachusetts State School Building Authority Dedicated Sales Tax Revenue, Series A, AGMC Insured, 5.00%, 8/15/30 .....	15,000,000	15,987,300
AMBAC Insured, 4.50%, 8/15/35 .....	30,000,000	30,502,500
Massachusetts State Water Pollution Abatement Trust Revenue, MWRA Program, Series A, 5.00%, 8/01/32 .....	225,000	228,528
Pre-Refunded, 5.00%, 8/01/32 .....	4,775,000	4,944,656
Massachusetts State Water Pollution Abatement Trust Water Pollution Abatement Revenue, MWRA Program, Refunding, Sub Series A, 5.75%, 8/01/29 .....	450,000	451,458
		277,706,822
<b>Michigan 3.5%</b>		
Anchor Bay School District GO, Pre-Refunded, 5.00%, 5/01/29 .....	5,000,000	5,000,000
Chippewa Valley School GO, Pre-Refunded, 5.125%, 5/01/27 .....	5,310,000	5,439,192
Detroit City School District GO, School Building and Site Improvement, Series A, AGMC Insured, Pre-Refunded, 5.125%, 5/01/31 .....	14,925,000	15,288,125
Series A, FGIC Insured, Pre-Refunded, 5.00%, 5/01/23 .....	2,000,000	2,134,460
Series B, FGIC Insured, 5.00%, 5/01/33 .....	16,870,000	16,500,378
Detroit GO, Distribution State Aid, 5.00%, 11/01/30 .....	22,500,000	23,090,175
Detroit Sewage Disposal System Revenue, second lien, Series A, NATL Insured, 5.00%, 7/01/30 .....	5,470,000	5,430,288
Detroit Water Supply System Revenue, second lien, Series B, AGMC Insured, 7.00%, 7/01/36 .....	5,000,000	5,890,700
senior lien, Refunding, Series B, Assured Guaranty, 5.00%, 7/01/21 .....	10,000,000	10,477,200
senior lien, Refunding, Series D, AGMC Insured, 5.00%, 7/01/32 .....	32,650,000	32,701,587
senior lien, Series A, NATL RE, FGIC Insured, 5.00%, 7/01/30 .....	17,575,000	17,575,176
Detroit/Wayne County Stadium Authority Revenue, NATL RE, FGIC Insured, 5.25%, 2/01/27 .....	8,625,000	8,628,364
Grand Rapids Public Schools GO, School Building and Site, AGMC Insured, 4.50%, 5/01/31 .....	21,800,000	22,032,606
Michigan State Building Authority Revenue, Facilities Program, Refunding, Series I, 6.25%, 10/15/38 .....	15,000,000	16,693,200
Facilities Program, Refunding, Series I-A, 5.375%, 10/15/36 .....	6,730,000	7,203,590

# Franklin Federal Tax-Free Income Fund

Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Michigan (continued)</b>		
Michigan State Building Authority Revenue, (continued)		
Facilities Program, Series H, 5.125%, 10/15/33	\$ 12,500,000	\$ 13,102,125
Facilities Program, Series H, AGMC Insured, 5.00%, 10/15/26	5,000,000	5,341,050
Refunding, Series IA, NATL RE, FGIC Insured, 5.00%, 10/15/31	9,475,000	9,746,364
Michigan State Finance Authority Revenue, 5.50%, 6/01/21	10,000,000	10,516,300
Michigan State GO, Environmental Program, Refunding, Series A,		
6.00%, 11/01/24	1,000,000	1,167,140
5.50%, 11/01/25	1,000,000	1,117,570
Michigan State HDA, SFMR, Series A, 5.00%, 12/01/19	10,000,000	10,389,300
Michigan State Hospital Finance Authority Revenue, Mid-Michigan Obligation Group,		
Series A,		
6.00%, 6/01/29	4,000,000	4,236,640
6.125%, 6/01/39	5,000,000	5,273,550
Michigan State Strategic Fund Limited Obligation Revenue, Detroit Education, Refunding,		
5.625%, 7/01/20	7,000,000	8,217,020
Michigan State Strategic Fund Resources Recovery Limited Obligation Revenue, Detroit		
Education Exempt Facilities, Refunding, Series D, XLCA Insured, 5.25%, 12/15/32	10,000,000	10,041,300
Michigan State Trunk Line Revenue, Series A, AGMC Insured, Pre-Refunded, 5.25%,		
11/01/30	10,000,000	10,000,000
Michigan Tobacco Settlement Finance Authority Revenue, Tobacco Settlement Asset,		
Senior Series A, 6.00%, 6/01/34	42,680,000	32,211,877
Royal Oak Hospital Finance Authority Hospital Revenue, William Beaumont Hospital,		
Refunding, 8.25%, 9/01/39	20,000,000	23,642,600
Refunding, Series W, 6.375%, 8/01/29	10,000,000	10,819,700
Series M, NATL Insured, 5.25%, 11/15/31	10,000,000	9,999,500
Wayne State University Revenues, General, AMBAC Insured, 5.00%, 11/15/36	5,000,000	5,118,200
West Ottawa Public School District GO, Series A, 5.00%, 5/01/27	5,000,000	5,051,200
		<u>370,076,477</u>
<b>Minnesota 0.3%</b>		
Cloquet PCR, Potlatch Corp. Projects, Refunding, 5.90%, 10/01/26	9,100,000	9,098,999
Golden Valley Revenue, Covenant Retirement Communities, Series A, 5.50%, 12/01/29	1,500,000	1,481,325
Minneapolis Health Care System Revenue, Fairview Health Services, Series A,		
6.625%, 11/15/28	11,000,000	12,304,380
6.75%, 11/15/32	6,250,000	6,978,000
Minnesota Agricultural and Economic Development Board Revenue, Health Care System,		
Refunding, Series A, NATL Insured, 5.75%, 11/15/26	510,000	510,362
University of Minnesota Revenue, Series A, ETM, 5.75%, 7/01/13	1,250,000	1,344,313
		<u>31,717,379</u>
<b>Mississippi 0.8%</b>		
Claiborne County PCR, Systems Energy Resources Inc. Project, Refunding, 6.20%,		
2/01/26	36,500,000	36,595,265
Mississippi Business Finance Corp. PCR, System Energy Resource Inc. Project, Refunding,		
5.875%, 4/01/22	40,000,000	40,241,600
5.90%, 5/01/22	8,250,000	8,299,913
Mississippi State GO, Refunding, 5.75%, 12/01/12	2,000,000	2,114,280
		<u>87,251,058</u>

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Missouri 0.7%</b>		
Jackson County Special Obligation Revenue, NATL Insured, 5.00%, 12/01/22	\$ 9,095,000	\$ 9,305,731
Missouri Development Finance Board Cultural Facilities Revenue, Nelson Gallery Foundation, Series A, NATL Insured, 5.00%, 12/01/30	11,500,000	11,518,975
Missouri Joint Municipal Electric Utility Commission Power Project Revenue, Iatan 2 Project, Series A, AMBAC Insured, 5.00%, 1/01/34	14,000,000	14,368,900
Plum Point Project, NATL Insured, 5.00%, 1/01/34	13,000,000	12,776,920
Missouri State Board of Public Buildings Special Obligation Revenue, Series A, 4.75%, 10/15/28	8,250,000	8,620,343
Missouri State Health and Educational Facilities Authority Health Facilities Revenue, St. Luke's Health System, Series B, AGMC Insured, 5.50%, 11/15/35	15,000,000	15,757,200
Taney County IDA Hospital Revenue, The Skaggs Community Hospital Assn., Refunding, 5.40%, 5/15/28	4,000,000	3,434,760
		<u>75,782,829</u>
<b>Montana 0.2%</b>		
Forsyth PCR, Puget Sound Energy, Refunding, Series A, AMBAC Insured, 5.00%, 3/01/31	20,000,000	<u>20,230,600</u>
<b>Nebraska 1.4%</b>		
Adams County School District No. 018 GO, Hastings Public Schools, AGMC Insured, 5.00%, 12/15/31	5,795,000	6,176,427
Lancaster County Correctional Facility Joint Public Agency GO, Building, 5.00%, 12/01/28	5,000,000	5,650,300
Lancaster County School District No. 001 GO, Lincoln Public Schools, 5.00%, 1/15/36	24,725,000	26,033,200
Lincoln Electric System Revenue, 5.00%, 9/01/31	8,645,000	9,169,060
Madison County Hospital Authority No. 001 Hospital Revenue, Faith Regional Health Services Project, Series A-1, 6.00%, 7/01/33	12,000,000	12,380,400
Municipal Energy Agency of Nebraska Power Supply System Revenue, Refunding, Series A, BHAC Insured, 5.375%, 4/01/39	5,000,000	5,407,350
Omaha Convention Hotel Corp. Revenue, Convention Center, first tier, Refunding, AMBAC Insured, 5.00%, 2/01/35	30,000,000	30,960,300
Series A, AMBAC Insured, Pre-Refunded, 5.125%, 4/01/26	12,500,000	12,750,250
Omaha Public Facilities Corp. Lease Revenue, Baseball Stadium Project, 5.00%, 6/01/36	9,000,000	9,607,320
Omaha Public Power District Separate Electric System Revenue, Nebraska City 2, Series A, AMBAC Insured, 5.00%, 2/01/30	12,165,000	12,824,099
University of Nebraska Revenues, Kearney Student Fees and Facilities, 5.00%, 7/01/30	5,000,000	5,307,750
Lincoln Student Fees and Facilities, Series A, 5.25%, 7/01/34	5,000,000	5,466,950
Omaha Student Facilities Project, 5.00%, 5/15/32	5,000,000	5,322,500
University of Nebraska Omaha Health and Recreation Project, 5.00%, 5/15/38	5,000,000	5,329,300
		<u>152,385,206</u>
<b>Nevada 0.5%</b>		
Clark County Airport Revenue, sub. lien, Series A-2, NATL RE, FGIC Insured, 5.125%, 7/01/27	10,000,000	10,242,700
Clark County School District GO, Refunding, Series A, NATL RE, FGIC Insured, 5.00%, 6/15/24	15,000,000	16,258,350
Series C, AGMC Insured, 5.00%, 6/15/21	10,000,000	10,752,700

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) *(continued)*

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Nevada (continued)</b>		
Nevada State GO, Municipal Bond Bank Project No. 40-41, Series A, ETM, 6.375%, 12/01/17 .....	\$ 9,105,000	\$ 9,141,147
Washoe County GO, Reno Sparks Convention, Refunding, Series A, NATL RE, FGIC Insured, 5.00%, 7/01/24 .....	5,000,000	5,010,250
		<u>51,405,147</u>
<b>New Hampshire 0.3%</b>		
Nashua Housing Authority MFR, Clocktower Project, Refunding, GNMA Secured, 6.25%, 6/20/33 .....	5,167,000	5,170,875
New Hampshire Health and Education Facilities Authority Revenue, Exeter Project, 6.00%, 10/01/24 .....	2,000,000	2,022,980
Exeter Project, 5.75%, 10/01/31 .....	1,000,000	1,010,680
The Memorial Hospital, Refunding, 5.25%, 6/01/26 .....	1,000,000	923,180
The Memorial Hospital, Refunding, 5.25%, 6/01/36 .....	1,100,000	951,610
New Hampshire Higher Educational and Health Facilities Authority Revenue, New Hampshire Catholic Charities, 5.80%, 8/01/22 .....	1,050,000	1,049,895
New Hampshire Municipal Bond Bank Revenue, Series B, 5.00%, 8/15/39 .....	11,250,000	11,981,250
New Hampshire State Business Finance Authority Revenue, Elliot Hospital Obligation Group, Series A, 6.125%, 10/01/39 .....	5,000,000	4,950,200
		<u>28,060,670</u>
<b>New Jersey 3.1%</b>		
Bayonne GO, General Improvement, Refunding, 5.75%, 7/01/35 .....	9,000,000	9,899,010
Health Care Facilities Financing Authority Revenue, Englewood Hospital, NATL Insured, 5.00%, 8/01/23 .....	5,000,000	5,059,250
New Jersey EDA Lease Revenue, International Center for Public Health Project, University of Medicine and Dentistry, AMBAC Insured, 6.00%, 6/01/32 .....	5,000,000	5,003,200
New Jersey EDA Revenue, Cigarette Tax, 5.75%, 6/15/29 .....	20,000,000	19,694,000
Motor Vehicle Surcharge Revenue, Series A, NATL Insured, 5.00%, 7/01/29 .....	10,000,000	10,300,500
Motor Vehicle Surcharge Revenue, Series A, NATL Insured, 5.00%, 7/01/34 .....	5,000,000	5,100,700
School Facilities Construction, Series C, NATL Insured, 4.75%, 6/15/25 .....	7,500,000	7,531,800
School Facilities Construction, Series O, 5.125%, 3/01/28 .....	20,000,000	20,883,600
School Facilities Construction, Series U, 5.00%, 9/01/37 .....	22,000,000	22,602,360
New Jersey Health Care Facilities Financing Authority State Contract Revenue, Hospital Asset Transformation Program, Series A, 5.25%, 10/01/38 .....	10,000,000	10,303,100
New Jersey State COP, Equipment Lease Purchase, Series A, 5.25%, 6/15/25 .....	20,305,000	21,832,139
6/15/26 .....	8,000,000	8,569,280
6/15/27 .....	4,000,000	4,255,080
6/15/28 .....	2,000,000	2,118,200
New Jersey State Housing and Mortgage Finance Agency Revenue, Series AA, 6.375%, 10/01/28 .....	6,995,000	7,529,698
New Jersey State Transportation Trust Fund Authority Revenue, Transportation System, Series A, 6.00%, 12/15/38 .....	39,505,000	44,018,051
Series A, Pre-Refunded, 6.00%, 12/15/38 .....	20,495,000	26,283,403
Series D, 5.25%, 12/15/23 .....	50,000,000	56,363,500

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>New Jersey (continued)</b>		
New Jersey State Turnpike Authority Turnpike Revenue, Growth and Income Securities, Series B, AMBAC Insured, zero cpn. to 1/01/15, 5.15% thereafter, 1/01/35 .....		
	\$ 10,000,000	\$ 8,634,300
Series E, 5.25%, 1/01/40 .....	13,925,000	14,618,326
Tobacco Settlement FICO Revenue, Asset-Backed, Pre-Refunded, 5.75%, 6/01/32 .....	12,810,000	13,214,924
		<u>323,814,421</u>
<b>New Mexico 0.1%</b>		
New Mexico Finance Authority Revenue, New Mexico Finance Authority, Series B, 5.50%, 6/01/39 .....		
	9,735,000	<u>9,735,000</u>
<b>New York 6.2%</b>		
Long Island Power Authority Electric System Revenue, General, Refunding, Series A, 6.00%, 5/01/33 .....		
	12,500,000	14,053,500
MTA Dedicated Tax Fund Revenue, Series B, 5.25%, 11/15/28 .....		
	6,000,000	6,553,920
5.25%, 11/15/29 .....	4,000,000	4,354,920
5.25%, 11/15/30 .....	3,000,000	3,251,160
5.00%, 11/15/34 .....	15,000,000	15,800,400
MTA Revenue, Refunding, Series E, 5.25%, 11/15/31 .....		
	10,000,000	10,253,900
Refunding, Series U, 5.125%, 11/15/31 .....	20,720,000	21,209,199
Series A, 5.00%, 11/15/37 .....	25,000,000	25,640,250
Transportation, Refunding, Series D, 5.25%, 11/15/40 .....	15,000,000	15,668,700
Transportation, Series C, 6.50%, 11/15/28 .....	15,000,000	17,630,550
MTA Transit Facilities Revenue, Service Contract, Series 8, Pre-Refunded, 5.375%, 7/01/21 .....		
	15,000,000	16,234,200
New York City GO, Refunding, Series C, 5.00%, 8/01/23 .....		
	24,620,000	27,871,810
Refunding, Series H, 6.125%, 8/01/25 .....	5,000	5,018
Series D, 8.00%, 8/01/16 .....	5,000	5,086
Series D, 5.50%, 6/01/24 .....	16,085,000	16,433,723
Series D, Pre-Refunded, 5.50%, 6/01/24 .....	7,855,000	8,091,985
Series E, 6.50%, 12/01/12 .....	20,000	20,701
Series E, Sub Series E-1, 6.25%, 10/15/28 .....	10,000,000	11,750,700
Series F, 5.25%, 1/15/23 .....	10,065,000	10,503,331
Series F, Pre-Refunded, 5.25%, 1/15/23 .....	9,935,000	10,519,873
New York City Municipal Water Finance Authority Water and Sewer System Revenue, Refunding, Series FF-2, 5.50%, 6/15/40 .....		
	15,000,000	16,578,150
Second General Resolution, Refunding, Series AA, 5.00%, 6/15/37 .....	10,000,000	10,391,100
Second General Resolution, Refunding, Series EE, 5.25%, 6/15/40 .....	64,970,000	70,298,190
Series A, 5.75%, 6/15/40 .....	6,000,000	6,794,760
New York City Transitional Finance Authority Building Aid Revenue, Fiscal 2009, Series S-2, 6.00%, 7/15/38 .....		
	20,000,000	22,454,200
Fiscal 2009, Series S-3, 5.25%, 1/15/34 .....	10,170,000	10,826,880
Fiscal 2009, Series S-4, 5.50%, 1/15/34 .....	12,890,000	14,004,469
Series S-2, Sub Series S-2A, 5.00%, 7/15/40 .....	35,000,000	37,038,050

# Franklin Federal Tax-Free Income Fund

Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>New York (continued)</b>		
New York City Transitional Finance Authority Revenue,		
Future Tax Secured, Refunding, Series B, 5.00%, 5/01/30 .....	\$ 170,000	\$ 172,349
Future Tax Secured, Series B, Pre-Refunded, 5.00%, 5/01/30 .....	7,330,000	7,403,300
Future Tax Secured, Series D, 5.00%, 2/01/27 .....	9,590,000	9,893,523
Future Tax Secured, Series D, Pre-Refunded, 5.00%, 2/01/27 .....	410,000	433,493
sub. bond, Future Tax Secured, Series C, 5.00%, 11/01/39 .....	15,000,000	15,972,150
New York City Trust for Cultural Resources Revenue, Museum of Modern Art 2001, Series D, AMBAC Insured, 5.125%, 7/01/31 .....	8,000,000	8,082,240
New York Convention Center Development Corp. Revenue, Hotel Unit Fee Secured, AMBAC Insured, 5.00%, 11/15/30 .....	10,000,000	10,286,400
New York Liberty Development Corp. Liberty Revenue, Second Priority, Bank of America Tower at One Bryant Park Project, Class 1, Refunding, 5.625%, 1/15/46 .....	25,000,000	26,124,000
New York Liberty Development Corp. Revenue,		
5.50%, 10/01/37 .....	24,995,000	25,480,653
Goldman Sachs Headquarters, 5.25%, 10/01/35 .....	14,000,000	14,287,560
New York State Dormitory Authority Lease Revenue, State University Dormitory Facilities, Series A, 5.00%, 7/01/41 .....	10,000,000	10,548,100
New York State Dormitory Authority Revenues, State Supported Debt, Upstate Community Colleges,		
6.00%, 7/01/31 .....	23,215,000	26,018,443
Refunding, Series A, 5.00%, 7/01/28 .....	1,535,000	1,536,996
New York State HFAR, Housing Project Mortgage, Refunding, Series A, AGMC Insured,		
6.10%, 11/01/15 .....	370,000	370,870
6.125%, 11/01/20 .....	305,000	305,537
New York State Urban Development Corp. Revenue, State Personal Income Tax, Series B-1, 5.00%, 3/15/36 .....	5,000,000	5,283,400
Onondaga County GO, 5.875%, 2/15/12 .....	300,000	304,845
Triborough Bridge and Tunnel Authority Revenues,		
General, Series A-2, 5.25%, 11/15/34 .....	7,500,000	8,045,925
General Purpose, 5.25%, 11/15/38 .....	25,000,000	26,603,250
General Purpose, Series A, Pre-Refunded, 5.00%, 1/01/27 .....	5,000,000	5,038,650
General Purpose, Series A, Pre-Refunded, 5.00%, 1/01/32 .....	3,085,000	3,108,847
General Purpose, Series B, Pre-Refunded, 5.50%, 1/01/30 .....	15,000,000	19,002,600
General Purpose, Series X, ETM, 6.625%, 1/01/12 .....	1,055,000	1,065,909
General Purpose, Series Y, ETM, 6.00%, 1/01/12 .....	200,000	201,866
		649,809,631
<b>North Carolina 2.4%</b>		
Charlotte Airport Revenue, Series A, NATL Insured, 5.00%, 7/01/34 .....	6,000,000	6,096,660
Charlotte COP,		
Refunding, Series C, 5.00%, 6/01/34 .....	13,000,000	13,565,630
Transit Projects, Phase II, Series E, 5.00%, 6/01/30 .....	15,940,000	16,305,823
North Carolina Eastern Municipal Power Agency Power System Revenue,		
Refunding, Series B, 6.00%, 1/01/22 .....	1,250,000	1,521,187
Refunding, Series B, 6.25%, 1/01/23 .....	39,030,000	48,221,955
Refunding, Series D, 5.125%, 1/01/23 .....	12,000,000	12,218,040
Refunding, Series D, 5.125%, 1/01/26 .....	3,000,000	3,037,410
Series A, 5.50%, 1/01/26 .....	4,500,000	4,913,505

# Franklin Federal Tax-Free Income Fund

Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>North Carolina (continued)</b>		
North Carolina Medical Care Commission Revenue, Rowan Regional Medical Center, FHA Insured, 4.75%, 9/01/24	\$ 6,970,000	\$ 7,162,581
North Carolina State Capital Improvement Limited Obligation Revenue, 5.00%, 5/01/24	5,500,000	6,194,045
5.00%, 5/01/25	5,750,000	6,402,395
5.00%, 5/01/27	4,500,000	4,944,690
5.00%, 5/01/28	4,250,000	4,643,635
Series A, 5.00%, 5/01/23	20,000,000	23,093,200
Series A, 5.00%, 5/01/26	20,000,000	22,375,000
North Carolina Turnpike Authority Triangle Expressway System Revenue, Capital Appreciation, Series B, Assured Guaranty, zero cpn., 1/01/33	25,000,000	8,453,750
Capital Appreciation, Series B, Assured Guaranty, zero cpn., 1/01/34	15,000,000	4,787,850
Capital Appreciation, Series B, Assured Guaranty, zero cpn., 1/01/35	15,215,000	4,469,102
Series A, Assured Guaranty, 5.50%, 1/01/29	6,750,000	7,344,000
Series A, Assured Guaranty, 5.75%, 1/01/39	10,380,000	11,199,086
Raleigh Combined Enterprise System Revenue, 5.00%, 3/01/40	7,915,000	8,583,501
Wake County GO, Refunding, Series C, 5.00%, 3/01/25	21,780,000	26,697,053
		<u>252,230,098</u>
<b>North Dakota 0.3%</b>		
Grand Forks Health Care System Revenue, Altru Health System Obligation Group, Assured Guaranty, 5.00%, 12/01/26	8,385,000	8,718,136
Refunding, 5.50%, 12/01/20	8,870,000	9,188,877
Refunding, 5.50%, 12/01/24	13,945,000	14,167,283
		<u>32,074,296</u>
<b>Ohio 2.2%</b>		
Akron Bath Copley Joint Township Hospital District Revenue, Hospital Improvement Children's Hospital Center, AGMC Insured, 5.00%, 11/15/31	9,250,000	9,304,390
Akron Income Tax Revenue, Community Learning Centers, NATL RE, FGIC Insured, 5.00%, 12/01/26	6,085,000	6,248,991
12/01/27	3,185,000	3,263,765
American Municipal Power-Ohio Inc. Revenue, Prairie State Energy Campus Project, Refunding, Series A, 5.00%, 2/15/38	22,500,000	22,972,500
Bowling Green Student Housing Revenue, CFP I LLC, State University Project, 6.00%, 6/01/45	6,750,000	6,634,710
Buckeye Tobacco Settlement Financing Authority Revenue, Asset-Backed, Senior Capital Appreciation Turbo Term Bond, Series A-3, zero cpn. to 12/01/12, 6.25% thereafter, 6/01/37	15,000,000	10,555,200
Senior Current Interest Turbo Term Bond, Series A-2, 5.875%, 6/01/30	22,500,000	17,012,700
Senior Current Interest Turbo Term Bond, Series A-2, 5.75%, 6/01/34	11,250,000	8,173,913
Cleveland Airport System Revenue, Series A, AGMC Insured, 5.00%, 1/01/31	17,930,000	17,928,924
Cleveland State University General Receipt Revenue, NATL RE, FGIC Insured, 5.00%, 6/01/29	5,000,000	5,097,800
Hamilton County Sales Tax Revenue, Refunding, Series B, AMBAC Insured, 5.25%, 12/01/32	1,995,000	2,002,920
Kettering City School District GO, School Improvement, FGIC Insured, Pre-Refunded, 5.00%, 12/01/30	1,860,000	2,032,385

# Franklin Federal Tax-Free Income Fund

Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Ohio (continued)</b>		
Little Miami Local School District GO, School Improvement, AGMC Insured, Pre-Refunded, 5.00%, 12/01/34	\$ 4,000,000	\$ 4,716,280
Maple Heights City School District GO, School Facilities Improvement, 5.00%, 1/15/37	29,370,000	30,566,827
Marysville Wastewater Treatment System Revenue, Refunding, XLCA Insured, 5.00%, 12/01/31	8,000,000	8,150,400
12/01/36	13,725,000	13,853,054
Ohio State Air Quality Development Authority Revenue, Environmental Improvement, Buckeye Power Inc. Project, 6.00%, 12/01/40	15,000,000	15,825,600
Pollution Control, FirstEnergy Solutions Corp., Refunding, Series C, 5.625%, 6/01/18	8,500,000	9,484,045
Ohio State GO, Series A, 5.375%, 9/01/28	10,000,000	11,031,600
Ohio State Water Development Authority Pollution Control Facilities Revenue, FirstEnergy Solutions Corp., Mandatory Put 6/01/16, Refunding, Series A, 5.875%, 6/01/33	13,000,000	14,569,490
Scioto County Hospital Revenue, Southern Ohio Medical Center, Refunding, 5.75%, 2/15/38	17,000,000	17,375,530
		<u>236,801,024</u>
<b>Oregon 1.0%</b>		
Lane County School District No. 19 Springfield GO, Refunding, NATL RE, FGIC Insured, 6.00%, 10/15/13	1,250,000	1,367,837
Oregon Health and Science University Revenue, Series A, 5.75%, 7/01/39	5,000,000	5,424,500
NATL Insured, 5.00%, 7/01/26	10,500,000	10,618,650
Oregon State Department of Transportation Highway User Tax Revenue, senior lien, Series A, 4.50%, 11/15/32	30,000,000	30,861,600
Oregon State EDR, Georgia-Pacific Corp. Project, Refunding, Series 183, 5.70%, 12/01/25	3,500,000	3,500,140
Series CLVII, 6.35%, 8/01/25	5,500,000	5,501,045
Oregon State GO, State Board of Higher Education, Series A, 5.00%, 8/01/26	6,630,000	7,281,000
8/01/27	6,955,000	7,609,048
Port of Portland International Airport Revenue, Series Nineteen, 5.50%, 7/01/38	25,000,000	26,467,750
Portland Sewer System Revenue, second lien, Series A, 5.00%, 3/01/35	11,540,000	12,324,605
		<u>110,956,175</u>
<b>Pennsylvania 3.1%</b>		
Centennial School District Bucks County GO, Series B, AGMC Insured, 5.25%, 12/15/37	13,655,000	14,816,904
Coatesville School District GO, AGMC Insured, 5.00%, 8/01/24	6,420,000	6,896,107
Delaware Valley Regional Finance Authority Local Government Revenue, Series B, AMBAC Insured, 5.60%, 7/01/17	5,000,000	5,542,850
Erie Water Authority Water Revenue, Series A, NATL Insured, Pre-Refunded, 5.20%, 12/01/30	18,700,000	18,771,995
Montgomery County IDA Retirement Community Revenue, ACTS Retirement-Life Communities Inc. Obligated Group, 5.25%, 11/15/28	2,500,000	2,426,025
Northampton County General Purpose Authority Hospital Revenue, St. Luke's Hospital Project, Series A, 5.375%, 8/15/28	5,000,000	5,037,700
Northampton County General Purpose Authority Revenue, County Agreement, AGMC Insured, 5.25%, 10/01/30	12,150,000	12,445,488
Pennsylvania Economic Development Financing Authority Exempt Facilities Revenue, Allegheny Energy Supply Co. LLC Project, 7.00%, 7/15/39	20,000,000	21,860,400



# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) *(continued)*

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Pennsylvania (continued)</b>		
Pennsylvania Economic Development Financing Authority Water Facility Revenue, American Water Co. Project, 6.20%, 4/01/39 .....	\$ 12,500,000	\$ 13,934,375
Aqua Inc. Project, Series B, 5.00%, 12/01/43 .....	20,000,000	20,919,800
Pennsylvania State Higher Educational Facilities Authority Revenue, Temple University, Refunding, NATL Insured, 5.00%, 4/01/33 .....	13,225,000	13,646,481
Pennsylvania State Turnpike Commission Turnpike Revenue, 5.00%, 12/01/38 .....	20,000,000	20,932,200
Capital Appreciation, Series C, AGMC Insured, zero cpn. to 6/01/16, 6.25% thereafter, 6/01/33 .....	5,000,000	4,197,450
Refunding, Series C, Sub Series C-1, Assured Guaranty, 6.00%, 6/01/28 .....	5,000,000	5,650,250
Refunding, Series C, Sub Series C-1, Assured Guaranty, 6.25%, 6/01/38 .....	15,000,000	16,741,650
Series B, 5.75%, 6/01/39 .....	20,000,000	21,298,800
Philadelphia Gas Works Revenue, Fifth Series A-1, AGMC Insured, 5.00%, 9/01/29 .....	5,000,000	5,073,350
Philadelphia GO, Refunding, Series A, Assured Guaranty, 5.00%, 8/01/24 .....	11,000,000	11,494,560
Philadelphia Hospitals and Higher Educational Facilities Authority Revenue, Mortgage, North Philadelphia Health Systems, Refunding, Series A, FHA Insured, 5.30%, 1/01/18 .....	1,860,000	1,865,208
5.35%, 1/01/23 .....	5,690,000	5,705,932
5.375%, 1/01/28 .....	3,700,000	3,702,072
Philadelphia Municipal Authority Revenue, Lease, 6.375%, 4/01/29 .....	4,500,000	4,787,370
Philadelphia RDAR, Neighborhood Transformation, Series C, NATL RE, FGIC Insured, 5.00%, 4/15/29 .....	10,965,000	11,082,326
4/15/30 .....	12,000,000	12,116,880
Philadelphia School District GO, Series E, 6.00%, 9/01/38 .....	25,000,000	27,243,000
Philadelphia Water and Wastewater Revenue, Series A, 5.25%, 1/01/25 .....	1,000,000	1,077,760
5.00%, 1/01/26 .....	5,000,000	5,279,700
5.00%, 1/01/27 .....	1,750,000	1,835,715
5.25%, 1/01/32 .....	5,000,000	5,242,700
NATL RE, FGIC Insured, 5.00%, 11/01/31 .....	8,995,000	9,048,700
Pittsburgh and Allegheny County Sports and Exhibition Authority Hotel Room Regional Enterprise Tower Revenue, Refunding, Assured Guaranty, 5.00%, 2/01/35 .....	18,000,000	18,036,540
		<u>328,710,288</u>
<b>Rhode Island 1.2%</b>		
Narragansett Bay Commission Wastewater System Revenue, Series A, NATL Insured, 5.00%, 8/01/30 .....	7,990,000	8,250,794
Rhode Island Convention Center Authority Revenue, Refunding, Series A, Assured Guaranty, 5.50%, 5/15/27 .....	17,300,000	19,103,352
Rhode Island Housing and Mortgage Finance Corp. Revenue, Homeownership Opportunity, Refunding, Series 15-A, 6.85%, 10/01/24 .....	620,000	620,911
Refunding, Series 25-A, 4.95%, 10/01/16 .....	75,000	75,091
Series 10-A, 6.50%, 10/01/22 .....	475,000	475,418
Series 10-A, 6.50%, 4/01/27 .....	265,000	265,204
Rhode Island State EDC Airport Revenue, Series B, NATL Insured, 5.00%, 7/01/27 .....	12,280,000	12,418,273
7/01/30 .....	14,965,000	15,003,610

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) *(continued)*

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Rhode Island (continued)</b>		
Rhode Island State Health and Educational Building Corp. Higher Education Facility Revenue,		
Brown University Rhode Island, Refunding, Series A, 5.00%, 9/01/39 .....	\$ 9,000,000	\$ 9,750,240
New England Institute of Technology, Series A, 5.125%, 3/01/40 .....	16,435,000	16,944,978
Rhode Island State Health and Educational Building Corp. Revenue,		
Higher Education Facility, Board of Governors for Higher Education, University of Rhode Island, Refunding, Series G, AMBAC Insured, 5.00%, 9/15/30 .....	10,000,000	10,210,700
Hospital Financing, Lifespan Obligated Group, 6.375%, 8/15/21 .....	500,000	513,095
Hospital Financing, Lifespan Obligated Group, Pre-Refunded, 6.375%, 8/15/21 .....	6,075,000	6,328,753
Hospital Financing, Lifespan Obligated Group, Refunding, Series A, AGMC Insured, 5.00%, 5/15/26 .....	5,000,000	5,105,500
Hospital Financing, Lifespan Obligated Group, Refunding, Series A, AGMC Insured, 5.00%, 5/15/32 .....	14,440,000	14,503,680
Hospital Financing, Lifespan Obligated Group, Series A, 7.00%, 5/15/39 .....	8,200,000	9,099,376
		<u>128,668,975</u>
<b>South Carolina 2.0%</b>		
Anderson County School District No. 5 GO, 5.00%, 2/01/36 .....	11,415,000	12,209,256
Charleston Educational Excellence Finance Corp. Revenue, Charleston County School District, 5.25%, 12/01/30 .....	8,000,000	8,326,720
Dorchester County Waterworks and Sewer System Revenue, Refunding and Improvement, NATL Insured, 5.00%, 10/01/28 .....	8,000,000	8,082,400
Greenville County School District Installment Purchase Revenue, Building Equity Sooner for Tomorrow, Refunding, 5.00%, 12/01/28 .....	7,500,000	7,933,125
Greenwood Fifty School Facilities Inc. Installment Purchase Revenue, Greenwood School District 50, Refunding, Assured Guaranty, 4.50%, 12/01/32 .....	7,030,000	7,033,445
Lancaster Educational Assistance Program Inc. Revenue, School District of Lancaster County Project, 5.00%, 12/01/26 .....	12,300,000	12,523,983
Medical University of South Carolina Hospital Authority Hospital Facilities Revenue, Mortgage, Refunding, Series A, NATL Insured, 5.00%, 8/15/31 .....	12,720,000	12,787,925
Newberry Investing in Children's Education Installment Revenue, Newberry County School District Project, 5.00%, 12/01/30 .....	4,000,000	4,057,240
Piedmont Municipal Power Agency Electric Revenue, Series A-2, 5.00%, 1/01/24 .....	10,000,000	10,721,300
Scago Educational Facilities Corp. for Beaufort School District Revenue, Beaufort School District, AGMC Insured, 5.00%, 12/01/31 .....	5,340,000	5,643,312
Scago Educational Facilities Corp. for Chesterfield School District Revenue, School Project, Assured Guaranty, 5.00%, 12/01/29 .....	7,500,000	7,806,375
Scago Educational Facilities Corp. for Colleton School District Revenue, School Project, Assured Guaranty, 5.00%, 12/01/25 .....	3,340,000	3,474,869
12/01/26 .....	4,000,000	4,143,000
Scago Educational Facilities Corp. for Pickens School District Revenue, Pickens County Project, AGMC Insured, 5.00%, 12/01/25 .....	18,900,000	20,009,430
12/01/31 .....	10,000,000	10,339,000
South Carolina Jobs EDA Hospital Facilities Revenue, Palmetto Health, Refunding, Series A, AGMC Insured, 5.00%, 8/01/35 .....	20,000,000	19,617,000

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>South Carolina (continued)</b>		
South Carolina Jobs EDA Hospital Revenue, Anmed Health, Refunding and Improvement, Series B, Assured Guaranty, 5.375%, 2/01/29 .....	\$ 4,000,000	\$ 4,068,000
Palmetto Health, Refunding and Improvement, 5.75%, 8/01/39 .....	3,000,000	3,012,720
South Carolina State Public Service Authority Revenue, Refunding, Series A, 5.50%, 1/01/38 .....	7,500,000	8,116,425
Refunding, Series B, 5.25%, 1/01/34 .....	6,000,000	6,454,920
Series B, AGMC Insured, Pre-Refunded, 5.25%, 1/01/33 .....	31,835,000	32,093,818
		<u>208,454,263</u>
<b>South Dakota 0.4%</b>		
South Dakota Health and Educational Facilities Authority Revenue, Avera Health Issue, AMBAC Insured, 5.25%, 7/01/22 .....	15,425,000	15,681,672
Avera Health Issue, Series B, 5.50%, 7/01/35 .....	3,000,000	3,114,840
Avera Health Issue, Series B, 5.25%, 7/01/38 .....	5,000,000	5,078,200
Sanford Health, 5.00%, 11/01/27 .....	2,355,000	2,415,218
Sanford Health, 5.00%, 11/01/40 .....	12,945,000	13,068,754
Vocational Education Program, Series A, 5.125%, 8/01/46 .....	7,000,000	7,285,530
		<u>46,644,214</u>
<b>Tennessee 0.2%</b>		
Knox County Health Educational and Housing Facilities Board Hospital Facilities Revenue, Series A, AGMC Insured, Pre-Refunded, 5.00%, 1/01/22 .....	2,740,000	2,884,864
Knox County Health Educational and Housing Facilities Board Revenue, University Health System Inc., Refunding, 5.25%, 4/01/27 .....	17,500,000	17,012,975
Tennessee HDA Revenue, Homeownership Program, Refunding, Series 1D, 4.70%, 7/01/15 .....	145,000	147,595
		<u>20,045,434</u>
<b>Texas 8.4%</b>		
Allen ISD, GO, School Building, Series A, 5.00%, 2/15/39 .....	11,575,000	12,713,401
Austin Community College District Public Facility Corp. Revenue, Educational Facility Project, Round Rock Campus, 5.25%, 8/01/33 .....	8,675,000	9,157,677
Austin Electric Utility System Revenue, Refunding, NATL Insured, 5.00%, 11/15/28 .....	10,000,000	10,214,400
Austin ISD, GO, Refunding, 5.00%, 8/01/33 .....	10,000,000	10,628,000
Bexar County GO, Certificates of Obligation, Combined Flood Control Tax, AGMC Insured, 5.00%, 6/15/37 .....	20,000,000	20,911,800
Bexar County HFC, MFHR, American Opportunity Housing, Series A, NATL Insured, 5.80%, 1/01/31 .....	6,000,000	5,089,440
Bexar County Hospital District GO, Certificates of Obligation, 5.00%, 2/15/38 .....	10,000,000	10,409,100
Central Texas Regional Mobility Authority Revenue, senior lien, Refunding, 6.00%, 1/01/41 .....	14,000,000	14,116,340
Crowley ISD, GO, School Building, PSF Guarantee, 5.00%, 8/01/36 .....	13,900,000	14,909,001
Dallas Civic Center Revenue, Refunding and Improvement, Assured Guaranty, 5.25%, 8/15/34 .....	18,975,000	20,258,848
Dallas County Utility and Reclamation District GO, Refunding, Series A, AMBAC Insured, 5.375%, 2/15/29 .....	28,325,000	29,328,838

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) *(continued)*

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Texas (continued)</b>		
Dallas ISD, GO,		
PSF Guarantee, Pre-Refunded, 5.25%, 2/15/20 .....	\$ 1,695,000	\$ 1,718,984
Refunding, PSF Guarantee, 5.25%, 2/15/20 .....	305,000	308,828
Dallas Waterworks and Sewer System Revenue, Refunding, 5.00%, 10/01/35 .....	10,000,000	10,813,200
Dallas-Fort Worth International Airport Revenue,		
Joint Improvement, Series A, 5.00%, 11/01/42 .....	25,000,000	25,453,000
Refunding and Improvement, Series A, NATL RE, FGIC Insured, 5.625%, 11/01/26 .....	85,000,000	85,088,400
Denton ISD, GO, School Building, PSF Guarantee, 5.00%, 8/15/38 .....	15,710,000	16,738,377
Duncanville ISD, GO, Series B, PSF Guarantee, Pre-Refunded, 5.25%, 2/15/32 .....	9,850,000	9,987,900
Forney ISD, GO, School Building, Series A, PSF Guarantee, 6.00%, 8/15/37 .....	2,000,000	2,302,080
Gulf Coast Waste Disposal Authority Environmental Improvement Revenue, USX Corp.		
Projects, Refunding, 5.50%, 9/01/17 .....	3,250,000	3,255,753
Gulf Coast Waste Disposal Authority Waste Disposal Revenue, Valero Energy Corp. Project,		
5.70%, 4/01/32 .....	3,000,000	2,918,760
Harris County Health Facilities Development Corp. Hospital Revenue, Memorial Hermann		
Healthcare System, Refunding, Series B, 7.25%, 12/01/35 .....	13,500,000	15,274,035
Harris County Hospital District Revenue, senior lien, Refunding, Series A, NATL Insured,		
5.125%, 2/15/32 .....	10,215,000	10,182,312
Harris County MTA Revenue, Contractual Obligations, Series B, 5.00%, 11/01/33 .....	10,000,000	10,728,000
Hays County GO, Road, 5.00%, 2/15/36 .....	6,960,000	7,410,869
Houston Airport System Revenue, Refunding, second lien, Series A, 5.50%,		
7/01/34 .....	5,000,000	5,344,000
7/01/39 .....	30,850,000	32,825,634
Houston Area Water Corp. Contract Revenue, Northeast Water Purification Project,		
FGIC Insured, Pre-Refunded, 5.125%, 3/01/28 .....	15,000,000	15,239,400
Houston GO, Public Improvement, NATL Insured, Pre-Refunded, 5.00%, 3/01/25 .....	5,000,000	5,078,600
Houston Utility System Revenue, Combined, first lien, Refunding, Series D, 5.00%,		
11/15/36 .....	10,000,000	10,725,600
Keller ISD, GO, School Building, 5.50%, 2/15/35 .....	10,000,000	11,207,200
Laredo Waterworks Sewer System Revenue, 5.25%, 3/01/40 .....	16,535,000	17,387,379
Lower Colorado River Authority Revenue,		
LCRA Transmission Services Corp. Project, Refunding, AGMC Insured, 5.00%,		
5/15/31 .....	8,110,000	8,133,924
LCRA Transmission Services Project, Series B, AGMC Insured, Pre-Refunded, 5.00%,		
5/15/31 .....	1,890,000	1,895,576
Refunding and Improvement, Series A, NATL Insured, 5.00%, 5/15/26 .....	1,785,000	1,787,124
Lower Colorado River Authority Transmission Contract Revenue, LCRA Transmission Services		
Corp. Project, Refunding, 5.50%, 5/15/36 .....	15,310,000	16,319,082
Lufkin Health Facilities Development Corp. Health System Revenue, Memorial Health		
System of East Texas, Refunding, 6.25%, 2/15/37 .....	5,000,000	4,863,350
Manor ISD, GO, School Building, PSF Guarantee, 5.00%, 8/01/37 .....	8,175,000	8,560,615
Matagorda County Hospital District Revenue, FHA Insured, 5.00%, 2/15/35 .....	10,000,000	10,073,600
North Central Texas Health Facility Development Corp. Revenue, Children's Medical Center		
Dallas, Refunding, AMBAC Insured, 5.25%, 8/15/24 .....	19,335,000	19,655,768
North Fort Bend Water Authority Water System Revenue, Assured Guaranty, 5.25%,		
12/15/34 .....	20,000,000	21,544,800

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) *(continued)*

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Texas (continued)</b>		
North Harris County Regional Water Authority Revenue, senior lien, 5.25%, 12/15/33 .....	\$ 27,000,000	\$ 28,523,070
5.50%, 12/15/38 .....	25,000,000	26,679,250
North Texas Tollway Authority Revenue, Special Projects System, Capital Appreciation, first tier, Refunding, Series I, zero cpn. to 1/01/15, 6.50% thereafter, 1/01/43 .....	25,000,000	23,144,000
Special Projects System, Capital Appreciation, Series B, zero cpn., 9/01/37 .....	7,500,000	1,500,450
Special Projects System, Capital Appreciation, Series B, zero cpn., 9/01/43 .....	7,500,000	943,500
Special Projects System, Capital Appreciation, Series C, zero cpn. to 9/01/21, 6.75% thereafter, 9/01/45 .....	25,000,000	16,009,250
System, first tier, Refunding, Series A, 6.25%, 1/01/39 .....	12,500,000	13,539,250
System, first tier, Refunding, Series A, 5.75%, 1/01/40 .....	35,000,000	36,262,100
System, first tier, Refunding, Series K-2, 6.00%, 1/01/38 .....	15,000,000	16,022,700
System, second tier, Refunding, Series F, 5.75%, 1/01/38 .....	30,000,000	30,620,400
Port Corpus Christi IDC Revenue, Valero, Refunding, Series B, 5.40%, 4/01/18 .....	3,415,000	3,415,717
Port Corpus Christi Nueces County General Revenue, Union Pacific, Refunding, 5.65%, 12/01/22 .....	15,000,000	15,231,000
Port Houston Authority Harris County GO, Refunding, Series A, 5.625%, 10/01/38 .....	14,000,000	15,150,520
Rio Grande City Consolidated ISD, GO, School Building, PSF Guarantee, 5.00%, 8/15/37 .....	10,510,000	11,032,872
San Antonio Water Revenue, Systems, AGMC Insured, 5.00%, 5/15/25 .....	4,395,000	4,463,386
5.00%, 5/15/28 .....	4,440,000	4,497,454
Pre-Refunded, 5.00%, 5/15/25 .....	605,000	620,470
Pre-Refunded, 5.00%, 5/15/28 .....	560,000	574,319
San Jacinto River Authority Special Project Revenue, Group Project, AGMC Insured, 5.00%, 10/01/32 .....	5,000,000	5,181,500
10/01/37 .....	3,000,000	3,086,730
Southmost Regional Water Authority Water Supply Contract Revenue, NATL Insured, 5.00%, 9/01/25 .....	5,000,000	5,038,400
Tarrant County Health Facilities Development Corp. Health System Revenue, Harris Methodist Health System, FGIC Insured, ETM, 6.00%, 9/01/24 .....	4,000,000	4,960,840
Texas A&M University Revenue, Financing System, Series D, 5.00%, 5/15/34 .....	5,000,000	5,415,550
Texas City IDC Marine Terminal Revenue, ARCO Pipe Line Co. Project, Refunding, 7.375%, 10/01/20 .....	500,000	635,765
Texas State GO, Water Financial Assistance, Refunding, Series C-1, 5.00%, 8/01/34 .....	7,000,000	7,691,600
Texas State Municipal Power Agency Revenue, sub. lien, Transmission, Refunding, 5.00%, 9/01/40 .....	15,250,000	15,878,452
Texas State Revenue, Transportation Commission-Mobility Fund, Series A, 5.00%, 4/01/33 .....	10,000,000	10,743,500
Texas State Turnpike Authority Central Turnpike System Revenue, Capital Appreciation, AMBAC Insured, zero cpn., 8/15/31 .....	43,500,000	12,366,180
Texas State University System Financing Revenue, Refunding, AGMC Insured, 5.00%, 3/15/26 .....	6,425,000	6,917,027
Tyler Health Facilities Development Corp. Hospital Revenue, East Texas Medical Center, Refunding and Improvement, Series A, 5.25%, 11/01/32 .....	6,250,000	5,618,938
Wylie ISD, GO, Refunding, PSF Guarantee, 7.00%, 8/15/24 .....	340,000	345,008
		882,668,193

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Utah 0.9%</b>		
Intermountain Power Agency Power Supply Revenue, ETM, 6.15%, 7/01/14	\$ 11,875,000	\$ 12,397,025
South Valley Water Reclamation Facility Sewer Revenue, AMBAC Insured, 5.00%, 8/15/30	5,730,000	5,844,256
St. George Electric Revenue, AGMC Insured, 5.00%, 6/01/33	5,000,000	5,248,150
6/01/38	5,000,000	5,192,700
Uintah County Municipal Building Authority Lease Revenue, 5.50%, 6/01/37	5,000,000	5,178,100
Utah Associated Municipal Power Systems Revenue, Central St. George Project, Refunding, 5.25%, 12/01/27	9,735,000	10,258,256
Utah State Transit Authority Sales Tax Revenue, Series A, 5.25%, 6/15/38	13,185,000	14,158,053
AGMC Insured, 5.00%, 6/15/36	33,000,000	34,998,810
		<u>93,275,350</u>
<b>Vermont 0.7%</b>		
University of Vermont and State Agricultural College Revenue, Refunding, NATL Insured, 5.00%, 10/01/30	12,210,000	12,692,417
Vermont Educational and Health Buildings Financing Agency Revenue, Hospital, Fletcher Allen Health Care Project, Refunding, Series B, AGMC Insured, 5.00%, 12/01/34	5,500,000	5,598,450
Hospital, Fletcher Allen Health Care Project, Series A, 4.75%, 12/01/36	5,000,000	4,430,800
Hospital, Fletcher Allen Health Care Project, Series A, AMBAC Insured, 6.125%, 12/01/27	13,000,000	13,046,410
Middlebury College Project, Refunding, 5.00%, 11/01/38	10,000,000	10,643,300
Middlebury College Project, Refunding, 5.00%, 11/01/40	26,565,000	28,410,205
		<u>74,821,582</u>
<b>Virginia 0.1%</b>		
Greater Richmond Convention Center Authority Hotel Tax Revenue, Refunding, NATL Insured, 5.00%, 6/15/30	6,000,000	6,128,940
Norfolk Parking System Revenue, Refunding, Series A, NATL Insured, 5.00%, 2/01/27	5,000,000	5,053,300
		<u>11,182,240</u>
<b>Washington 4.0%</b>		
Bellingham Housing Authority Revenue, Pacific Rim and Cascade Meadows Project, Refunding, NATL Insured, 5.20%, 11/01/27	200,000	200,026
Central Puget Sound Regional Transportation Authority Sales and Use Tax Revenue, Series A, 5.00%, 11/01/34	11,405,000	12,038,662
AMBAC Insured, 5.00%, 11/01/30	20,000,000	21,032,400
Clark County PUD No. 1 Generating System Revenue, Refunding, AGMC Insured, 5.50%, 1/01/25	5,280,000	5,296,790
Energy Northwest Electric Revenue, Columbia Generating Station, Refunding, Series B, AGMC Insured, 5.35%, 7/01/18	5,845,000	6,017,954
Series B, AGMC Insured, Pre-Refunded, 5.35%, 7/01/18	5,655,000	5,844,612
FYI Properties Lease Revenue, Washington State District Project, 5.50%, 6/01/34	11,935,000	12,701,585
6/01/39	16,250,000	17,304,462
Goat Hill Properties Lease Revenue, Government Office Building Project, NATL Insured, 5.00%, 12/01/33	18,500,000	18,987,105

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>Washington (continued)</b>		
Grant County PUD No. 2 Wanapum Hydro Electric Revenue, Refunding, Series D, AGMC Insured, 5.20%, 1/01/23	\$ 6,000,000	\$ 6,022,920
King County GO, Limited Tax, Sewer, 5.125%, 1/01/33	10,000,000	10,961,300
King County Public Hospital District No. 1 GO, Series B, 5.25%, 12/01/37	5,000,000	5,251,950
King County Sewer Revenue, Refunding, 5.00%, 1/01/32	7,085,000	7,620,413
NJB Properties Lease Revenue, King County Washington Project, Series A, 5.00%, 12/01/36	10,000,000	10,343,600
Pierce County School District No. 403 Bethel GO, NATL RE, FGIC Insured, Pre-Refunded, 5.25%, 12/01/22	5,000,000	5,265,000
Port of Seattle Revenue, Refunding, Series A, NATL Insured, 5.00%, 7/01/33	10,000,000	10,104,100
NATL RE, FGIC Insured, 5.00%, 4/01/31	21,680,000	21,692,574
Snohomish County Housing Authority Revenue, Pooled, 6.30%, 4/01/16	110,000	110,977
Snohomish County USD No. 6 GO, 6.50%, 12/01/11	2,550,000	2,562,572
Twenty-Fifth Avenue Properties Washington Student Housing Revenue, NATL Insured, 5.125%, 6/01/22	2,925,000	2,944,188
5.25%, 6/01/33	9,770,000	9,789,931
Washington State GO, 5.00%, 6/01/33	5,000,000	5,402,700
Motor Vehicle Fuel Tax, Series B, NATL RE, FGIC Insured, 5.00%, 7/01/27	10,000,000	10,427,300
Series A, NATL RE, FGIC Insured, 5.00%, 7/01/27	10,000,000	10,427,300
Various Purpose, Series A, 5.00%, 7/01/33	44,300,000	48,078,790
Washington State Health Care Facilities Authority Revenue, Central Washington Health Services, 6.75%, 7/01/29	5,000,000	5,217,750
Fred Hutchinson Cancer Center, Refunding, Series A, 6.00%, 1/01/33	7,500,000	7,864,875
MultiCare Health System, Series B, AGMC Insured, 5.00%, 8/15/34	17,550,000	17,861,688
MultiCare Health System, Series B, AGMC Insured, 5.00%, 8/15/41	9,170,000	9,248,037
MultiCare Health System, Series B, Assured Guaranty, 6.00%, 8/15/39	1,500,000	1,612,605
Providence Health and Services, Refunding, Series A, NATL RE, FGIC Insured, 5.00%, 10/01/36	9,750,000	9,838,237
Providence Health and Services, Refunding, Series C, AGMC Insured, 5.25%, 10/01/33	10,000,000	10,480,800
Providence Health and Services, Series A, FGIC Insured, Pre-Refunded, 5.00%, 10/01/36	250,000	291,663
Series C, Radian Insured, 5.50%, 8/15/36	16,000,000	15,130,720
Virginia Mason Medical, Series B, ACA Insured, 6.00%, 8/15/37	30,000,000	30,098,400
Washington State Higher Education Facilities Authority Revenue, Whitworth University Project, Refunding, 5.375%, 10/01/29	3,000,000	2,994,720
5.875%, 10/01/34	6,000,000	6,130,860
Washington State Public Power Supply System Revenue, Nuclear Project No. 2, Refunding, Series A, 6.30%, 7/01/12	7,700,000	8,003,303
Nuclear Project No. 3, Capital Appreciation, Refunding, Series B, zero cpn., 7/01/14	12,450,000	12,021,595
Nuclear Project No. 3, Capital Appreciation, Series B, ETM, zero cpn., 7/01/14	2,550,000	2,488,469
Nuclear Project No. 3, Refunding, Series B, zero cpn., 7/01/12	6,400,000	6,357,120
Nuclear Project No. 3, Refunding, Series B, zero cpn., 7/01/13	11,000,000	10,792,430
		422,862,483

# Franklin Federal Tax-Free Income Fund

Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>West Virginia 0.6%</b>		
County Commission of Harrison County Solid Waste Disposal Revenue, Allegheny Energy Supply Co. LLC, Refunding, Series D, 5.50%, 10/15/37	\$ 9,000,000	\$ 8,639,730
Pleasants County PCR, County Commission, Series F, 5.25%, 10/15/37	14,000,000	13,960,240
West Virginia EDA Lottery Revenue, Series A, 5.00%, 6/15/35	9,415,000	9,843,571
West Virginia State GO, Series A, NATL RE, FGIC Insured, 5.20%, 11/01/26	10,000,000	11,343,900
West Virginia State Water Development Water Revenue, Loan Program 2, Refunding, Series B, AMBAC Insured, 5.00%, 11/01/29	7,500,000	7,743,750
West Virginia University Revenues, Improvement, West Virginia University Projects, Series C, NATL RE, FGIC Insured, 5.00%, 10/01/34	10,000,000	10,305,200
		<u>61,836,391</u>
<b>Wisconsin 0.8%</b>		
Janesville IDR, Simmons Manufacturing Co., 7.00%, 10/15/17	2,200,000	2,208,690
Monroe RDAR, 6.00%, 2/15/39	11,790,000	12,117,408
Wisconsin State General Fund Annual Appropriation Revenue, Series A, 6.00%, 5/01/33	25,290,000	28,502,589
Wisconsin State Health and Educational Facilities Authority Revenue,		
Marquette University, 5.00%, 10/01/30	2,150,000	2,253,823
Marquette University, Refunding, 5.00%, 10/01/30	6,865,000	7,196,511
Marquette University, Refunding, 5.00%, 10/01/33	1,500,000	1,551,585
Marquette University, Refunding, Series B2, 5.00%, 10/01/30	3,470,000	3,637,566
Marquette University, Series B3, 5.00%, 10/01/33	1,750,000	1,810,183
Ministry Health, AGMC Insured, 5.00%, 8/01/31	1,500,000	1,529,040
Ministry Health, AGMC Insured, 5.00%, 8/01/34	8,000,000	8,083,600
Thedacare Inc., AMBAC Insured, 5.00%, 12/15/30	10,000,000	9,794,500
Thedacare Inc., Series A, 5.50%, 12/15/38	5,000,000	5,121,250
		<u>83,806,745</u>
<b>Wyoming 0.1%</b>		
Campbell County Solid Waste Facilities Revenue, Basin Electric Power Cooperative, Series A, 5.75%, 7/15/39	5,500,000	5,931,695
<b>U.S. Territories 2.9%</b>		
<b>Puerto Rico 2.8%</b>		
Children's Trust Fund Puerto Rico Tobacco Settlement Revenue, Asset-Backed Bonds, Refunding, 5.375%, 5/15/33	18,570,000	17,454,129
Puerto Rico Commonwealth Highway and Transportation Authority Highway Revenue, Series Y, Pre-Refunded,		
5.00%, 7/01/36	62,000,000	72,586,500
5.50%, 7/01/36	7,000,000	8,353,380
Puerto Rico Commonwealth Highway and Transportation Authority Transportation Revenue, Refunding, Series K, 5.00%, 7/01/30	19,190,000	19,027,844
Puerto Rico Electric Power Authority Power Revenue, Series XX, 5.25%, 7/01/40	15,000,000	15,133,950
Puerto Rico Industrial Tourist Educational Medical and Environmental Control Facilities Financing Authority Industrial Revenue, Guaynabo Warehouse, Series A, 5.15%, 7/01/19	720,000	735,926
Puerto Rico PBA Guaranteed Revenue, Government Facilities,		
Refunding, Series D, 5.25%, 7/01/27	3,265,000	3,272,967
Refunding, Series N, 5.00%, 7/01/37	20,000,000	19,027,800
Series D, Pre-Refunded, 5.25%, 7/01/27	8,735,000	9,010,240



# Franklin Federal Tax-Free Income Fund

Statement of Investments, October 31, 2011 (unaudited) (continued)

	Principal Amount	Value
<b>Municipal Bonds (continued)</b>		
<b>U.S. Territories (continued)</b>		
<b>Puerto Rico (continued)</b>		
Puerto Rico Sales Tax FICO Sales Tax Revenue,		
Capital Appreciation, first sub., Series A, zero cpn. to 8/01/16, 6.75% thereafter, 8/01/32 .....	\$ 25,000,000	\$ 21,809,750
Capital Appreciation, first sub., Series A, zero cpn. to 8/01/19, 6.25% thereafter, 8/01/33 .....	36,500,000	26,237,295
first sub., Series A, 5.50%, 8/01/42 .....	30,000,000	30,960,000
first sub., Series C, 5.50%, 8/01/40 .....	50,000,000	51,821,000
		<u>295,430,781</u>
<b>U.S. Virgin Islands 0.1%</b>		
Virgin Islands PFAR, Matching Fund Loan Note, sub. lien, Refunding, Series B, 5.25%, 10/01/29 .....	5,750,000	5,810,893
<b>Total U.S. Territories</b> .....		<u>301,241,674</u>
<b>Total Municipal Bonds before Short Term Investments</b> <b>(Cost \$9,848,687,116)</b> .....		<u>10,293,297,977</u>
<b>Short Term Investments 1.4%</b>		
<b>Municipal Bonds 1.4%</b>		
<b>Maryland 0.1%</b>		
<sup>b</sup> Maryland State EDC, EDR, U.S. Pharmacopeial Convention Inc. Project, Refunding, Series B, Daily VRDN and Put, 0.25%, 7/01/38 .....	10,000,000	10,000,000
<b>Massachusetts 0.4%</b>		
<sup>b</sup> Massachusetts State Health and Educational Facilities Authority Revenue, Museum of Fine Arts,		
Series A-1, Daily VRDN and Put, 0.17%, 12/01/37 .....	43,350,000	43,350,000
Series A-2, Daily VRDN and Put, 0.17%, 12/01/37 .....	2,180,000	2,180,000
		<u>45,530,000</u>
<b>Missouri 0.2%</b>		
<sup>b</sup> Missouri State Health and Educational Facilities Authority Educational Facilities Revenue, St. Louis University, Series B, Daily VRDN and Put, 0.13%, 10/01/24 .....	23,000,000	23,000,000
<b>New York 0.1%</b>		
<sup>b</sup> New York City GO, Refunding, Series J, Sub Series J-4, Daily VRDN and Put, 0.16%, 8/01/25 .....	7,000,000	7,000,000
<b>North Carolina 0.2%</b>		
<sup>b</sup> North Carolina Medical Care Commission Health Care Facilities Revenue, Wake Forest University, Refunding, Series D, Daily VRDN and Put, 0.18%, 7/01/34 .....	10,400,000	10,400,000
<sup>b</sup> North Carolina Medical Care Commission Hospital Revenue, Randolph Hospital, Refunding, Daily VRDN and Put, 0.19%, 10/01/37 .....	7,500,000	7,500,000
		<u>17,900,000</u>
<b>Oregon 0.3%</b>		
<sup>b</sup> Medford Hospital Facilities Authority Revenue, Rogue Valley Manor Project, Daily VRDN and Put, 0.18%, 8/15/37 .....	33,300,000	33,300,000

# Franklin Federal Tax-Free Income Fund

## Statement of Investments, October 31, 2011 (unaudited) *(continued)*

	Principal Amount	Value
<b>Short Term Investments (continued)</b>		
<b>Municipal Bonds (continued)</b>		
<b>Virginia 0.1%</b>		
<sup>b</sup> Virginia Commonwealth University Revenue, General, Series B, AMBAC Insured, Daily VRDN and Put, 0.10%, 11/01/30 .....	\$ 7,525,000	\$ 7,525,000
<sup>b</sup> Virginia Small Business Financing Authority Hospital Revenue, Carilion Clinic Obligation, Series A, Daily VRDN and Put, 0.14%, 7/01/42 .....	6,500,000	<u>6,500,000</u>
		<u>14,025,000</u>
<b>Total Short Term Investments (Cost \$150,755,000) .....</b>		<u>150,755,000</u>
<b>Total Investments (Cost \$9,999,442,116) 99.0% .....</b>		10,444,052,977
<b>Other Assets, less Liabilities 1.0% .....</b>		<u>105,018,864</u>
<b>Net Assets 100.0% .....</b>		<u>\$10,549,071,841</u>

See Abbreviations on page 59.

<sup>†</sup>Rounds to less than 0.1% of net assets.

<sup>a</sup>Security purchased on a when-issued basis. See Note 1(b).

<sup>b</sup>Variable rate demand notes (VRDNs) are tax-exempt obligations which contain a floating or variable interest rate adjustment formula and an unconditional right of demand to receive payment of the principal balance plus accrued interest at specified dates. The coupon rate shown represents the rate at period end.

# Franklin Federal Tax-Free Income Fund

## Financial Statements

### Statement of Assets and Liabilities

October 31, 2011 (unaudited)

Assets:	
Investments in securities:	
Cost .....	\$ 9,999,442,116
Value .....	<u>\$10,444,052,977</u>
Cash .....	373,802
Receivables:	
Capital shares sold .....	18,449,492
Interest .....	154,621,048
Other assets .....	<u>1,088</u>
Total assets .....	<u>10,617,498,407</u>
Liabilities:	
Payables:	
Investment securities purchased .....	42,657,840
Capital shares redeemed .....	19,228,575
Affiliates .....	5,442,432
Accrued expenses and other liabilities .....	<u>1,097,719</u>
Total liabilities .....	<u>68,426,566</u>
Net assets, at value .....	<u>\$10,549,071,841</u>
Net assets consist of:	
Paid-in capital .....	\$10,152,394,161
Undistributed net investment income .....	11,498,395
Net unrealized appreciation (depreciation) .....	444,610,861
Accumulated net realized gain (loss) .....	<u>(59,431,576)</u>
Net assets, at value .....	<u>\$10,549,071,841</u>
<b>Class A:</b>	
Net assets, at value .....	<u>\$ 8,194,942,306</u>
Shares outstanding .....	<u>682,646,203</u>
Net asset value per share <sup>a</sup> .....	<u>\$12.00</u>
Maximum offering price per share (net asset value per share ÷ 95.75%) .....	<u>\$12.53</u>
<b>Class B:</b>	
Net assets, at value .....	<u>\$ 18,133,303</u>
Shares outstanding .....	<u>1,510,676</u>
Net asset value and maximum offering price per share <sup>a</sup> .....	<u>\$12.00</u>
<b>Class C:</b>	
Net assets, at value .....	<u>\$ 1,172,507,407</u>
Shares outstanding .....	<u>97,743,819</u>
Net asset value and maximum offering price per share <sup>a</sup> .....	<u>\$12.00</u>
<b>Advisor Class:</b>	
Net assets, at value .....	<u>\$ 1,163,488,825</u>
Shares outstanding .....	<u>96,848,329</u>
Net asset value and maximum offering price per share .....	<u>\$12.01</u>

<sup>a</sup>Redemption price is equal to net asset value less contingent deferred sales charges, if applicable.

# Franklin Federal Tax-Free Income Fund

## Financial Statements *(continued)*

### Statement of Operations

for the six months ended October 31, 2011 (unaudited)

Investment income:	
Interest .....	\$263,092,102
Expenses:	
Management fees (Note 3a) .....	23,418,404
Distribution fees: (Note 3c)	
Class A .....	4,034,472
Class B .....	77,607
Class C .....	3,739,202
Transfer agent fees (Note 3e) .....	2,596,639
Custodian fees .....	74,471
Reports to shareholders .....	196,319
Registration and filing fees .....	228,615
Professional fees .....	80,360
Trustees' fees and expenses .....	64,726
Other .....	249,648
Total expenses .....	<u>34,760,463</u>
Net investment income .....	<u>228,331,639</u>
Realized and unrealized gains (losses):	
Net realized gain (loss) from investments .....	4,437,581
Net change in unrealized appreciation (depreciation) on investments .....	467,427,238
Net realized and unrealized gain (loss) .....	<u>471,864,819</u>
Net increase (decrease) in net assets resulting from operations .....	<u>\$700,196,458</u>

# Franklin Federal Tax-Free Income Fund

## Financial Statements *(continued)*

### Statements of Changes in Net Assets

	Six Months Ended October 31, 2011 (unaudited)	Year Ended April 30, 2011
Increase (decrease) in net assets:		
Operations:		
Net investment income . . . . .	\$ 228,331,639	\$ 473,883,527
Net realized gain (loss) from investments . . . . .	4,437,581	1,683,439
Net change in unrealized appreciation (depreciation) on investments . . . . .	467,427,238	(426,768,674)
Net increase (decrease) in net assets resulting from operations . . . . .	<u>700,196,458</u>	<u>48,798,292</u>
Distributions to shareholders from:		
Net investment income:		
Class A . . . . .	(179,028,866)	(376,841,889)
Class B . . . . .	(476,685)	(2,062,015)
Class C . . . . .	(22,224,364)	(47,762,286)
Advisor Class . . . . .	(25,964,942)	(44,240,036)
Total distributions to shareholders . . . . .	<u>(227,694,857)</u>	<u>(470,906,226)</u>
Capital share transactions: (Note 2)		
Class A . . . . .	(98,078,751)	(513,172,405)
Class B . . . . .	(13,378,693)	(46,616,223)
Class C . . . . .	4,810,296	(54,440,965)
Advisor Class . . . . .	32,071,862	241,761,700
Total capital share transactions . . . . .	<u>(74,575,286)</u>	<u>(372,467,893)</u>
Net increase (decrease) in net assets . . . . .	397,926,315	(794,575,827)
Net assets:		
Beginning of period . . . . .	10,151,145,526	10,945,721,353
End of period . . . . .	<u>\$10,549,071,841</u>	<u>\$10,151,145,526</u>
Undistributed net investment income included in net assets:		
End of period . . . . .	<u>\$ 11,498,395</u>	<u>\$ 10,861,613</u>

# Franklin Federal Tax-Free Income Fund

## Notes to Financial Statements (unaudited)

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNT POLICIES

Franklin Federal Tax-Free Income Fund (Fund) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as an open-end investment company. The Fund offers four classes of shares: Class A, Class B, Class C, and Advisor Class. Each class of shares differs by its initial sales load, contingent deferred sales charges, distribution fees, voting rights on matters affecting a single class and its exchange privilege.

The following summarizes the Fund's significant accounting policies.

#### a. Financial Instrument Valuation

The Fund's investments in securities and other financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Under procedures approved by the Fund's Board of Trustees, the Fund may utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Debt securities generally trade in the over-the-counter market rather than on a securities exchange. The Fund's pricing services use multiple valuation techniques to determine fair value. In instances where sufficient market activity exists, the pricing services may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, option-adjusted spreads, credit spreads, estimated default rates, coupon rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value.

The Fund has procedures to determine the fair value of securities and other financial instruments for which market prices are not readily available or which may not be reliably priced. Under these procedures, the Fund primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. The Fund may also use an income-based valuation approach in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed.

#### b. Securities Purchased on a When-Issued Basis

The Fund purchases securities on a when-issued basis, with payment and delivery scheduled for a future date. These transactions are subject to market fluctuations and are subject to the risk that the value at delivery may be more or less than the trade date purchase price. Although the Fund

# Franklin Federal Tax-Free Income Fund

## Notes to Financial Statements (unaudited) *(continued)*

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNT POLICIES *(continued)*

#### b. Securities Purchased on a When-Issued Basis *(continued)*

will generally purchase these securities with the intention of holding the securities, it may sell the securities before the settlement date. Sufficient assets have been segregated for these securities.

#### c. Income Taxes

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its income and net realized gains to relieve it from federal income and excise taxes. As a result, no provision for U.S. federal income taxes is required. The Fund files U.S. income tax returns as well as tax returns in certain other jurisdictions. The Fund records a provision for taxes in its financial statements including penalties and interest, if any, for a tax position taken on a tax return (or expected to be taken) when it fails to meet the more likely than not (a greater than 50% probability) threshold and based on the technical merits, the tax position may not be sustained upon examination by the tax authorities. As of October 31, 2011, and for all open tax years, the Fund has determined that no provision for income tax is required in the Fund's financial statements. Open tax years are those that remain subject to examination and are based on each tax jurisdiction statute of limitation.

#### d. Security Transactions, Investment Income, Expenses and Distributions

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with accounting principles generally accepted in the United States of America. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Realized and unrealized gains and losses and net investment income, not including class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

#### e. Insurance

The scheduled payments of interest and principal for each insured municipal security in the Fund are insured by either a new issue insurance policy or a secondary insurance policy. Some municipal securities in the Fund are secured by collateral guaranteed by an agency of the U.S. government. Depending on the type of coverage, premiums for insurance are either added to the cost basis of the security or paid by a third party.

# Franklin Federal Tax-Free Income Fund

## Notes to Financial Statements (unaudited) *(continued)*

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNT POLICIES *(continued)*

#### e. Insurance *(continued)*

Insurance companies typically insure municipal bonds that tend to be of very high quality, with the majority of underlying municipal bonds rated A or better. However, an event involving an insurer could have an adverse effect on the value of the securities insured by that insurance company. There is no guarantee the insurer will be able to fulfill its obligations under the terms of the policy.

#### f. Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

#### g. Guarantees and Indemnifications

Under the Fund's organizational documents, its officers and trustees are indemnified by the Fund against certain liabilities arising out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. Currently, the Fund expects the risk of loss to be remote.

### 2. SHARES OF BENEFICIAL INTEREST

At October 31, 2011, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Six Months Ended October 31, 2011		Year Ended April 30, 2011	
	Shares	Amount	Shares	Amount
<b>Class A Shares:</b>				
Shares sold . . . . .	38,350,058	\$ 454,696,735	106,060,207	\$ 1,240,939,776
Shares issued in reinvestment of distributions . . . . .	11,742,397	137,843,354	20,750,738	242,641,091
Shares redeemed . . . . .	(58,509,098)	(690,618,840)	(173,547,870)	(1,996,753,272)
Net increase (decrease) . . . . .	(8,416,643)	\$ (98,078,751)	(46,736,925)	\$ (513,172,405)
<b>Class B Shares:</b>				
Shares sold . . . . .	47,846	\$ 562,831	138,026	\$ 1,622,665
Shares issued in reinvestment of distributions . . . . .	33,274	389,581	126,224	1,483,048
Shares redeemed . . . . .	(1,214,715)	(14,331,105)	(4,248,422)	(49,721,936)
Net increase (decrease) . . . . .	(1,133,595)	\$ (13,378,693)	(3,984,172)	\$ (46,616,223)



# Franklin Federal Tax-Free Income Fund

## Notes to Financial Statements (unaudited) *(continued)*

### 2. SHARES OF BENEFICIAL INTEREST *(continued)*

	Six Months Ended October 31, 2011		Year Ended April 30, 2011	
	Shares	Amount	Shares	Amount
<b>Class C Shares:</b>				
Shares sold . . . . .	8,216,634	\$ 97,397,702	24,336,501	\$ 287,377,194
Shares issued in reinvestment of distributions . . . . .	1,504,185	17,649,459	2,912,114	34,052,052
Shares redeemed . . . . .	(9,355,500)	(110,236,865)	(32,795,396)	(375,870,211)
Net increase (decrease) . . . . .	365,319	\$ 4,810,296	(5,546,781)	\$ (54,440,965)
<b>Advisor Class Shares:</b>				
Shares sold . . . . .	17,139,285	\$ 202,389,835	43,563,548	\$ 508,968,123
Shares issued in reinvestment of distributions . . . . .	1,913,012	22,467,047	3,034,481	35,442,273
Shares redeemed . . . . .	(16,224,345)	(192,785,020)	(26,199,493)	(302,648,696)
Net increase (decrease) . . . . .	2,827,952	\$ 32,071,862	20,398,536	\$ 241,761,700

### 3. TRANSACTIONS WITH AFFILIATES

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and trustees of the Fund are also officers and/or directors of the following subsidiaries:

Subsidiary	Affiliation
Franklin Advisers, Inc. (Advisers)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager
Franklin Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

#### a. Management Fees

The Fund pays an investment management fee to Advisers based on the month-end net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
0.625%	Up to and including \$100 million
0.500%	Over \$100 million, up to and including \$250 million
0.450%	Over \$250 million, up to and including \$7.5 billion
0.440%	Over \$7.5 billion, up to and including \$10 billion
0.430%	Over \$10 billion, up to and including \$12.5 billion
0.420%	Over \$12.5 billion, up to and including \$15 billion
0.400%	Over \$15 billion, up to and including \$17.5 billion
0.380%	Over \$17.5 billion, up to and including \$20 billion
0.360%	In excess of \$20 billion

# Franklin Federal Tax-Free Income Fund

## Notes to Financial Statements (unaudited) *(continued)*

### 3. TRANSACTIONS WITH AFFILIATES *(continued)*

#### b. Administrative Fees

Under an agreement with Advisers, FT Services provides administrative services to the Fund. The fee is paid by Advisers based on average daily net assets, and is not an additional expense of the Fund.

#### c. Distribution Fees

The Fund's Board of Trustees has adopted distribution plans for each share class, with the exception of Advisor Class shares, pursuant to Rule 12b-1 under the 1940 Act. Under the Fund's Class A reimbursement distribution plan, the Fund reimburses Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate. Under the Class A reimbursement distribution plan, costs exceeding the maximum for the current plan year cannot be reimbursed in subsequent periods.

In addition, under the Fund's Class B and C compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate for each class.

The maximum annual plan rates, based on the average daily net assets, for each class, are as follows:

Class A	0.10%
Class B	0.65%
Class C	0.65%

#### d. Sales Charges/Underwriting Agreements

Front-end sales charges and contingent deferred sales charges (CDSC) do not represent expenses of the Fund. These charges are deducted from the proceeds of sales of Fund shares prior to investment or from redemption proceeds prior to remittance, as applicable. Distributors has advised the Fund of the following commission transactions related to the sales and redemptions of the Fund's shares for the period:

Sales charges retained net of commissions paid to unaffiliated broker/dealers	\$917,575
CDSC retained	\$102,310

#### e. Transfer Agent Fees

For the period ended October 31, 2011, the Fund paid transfer agent fees of \$2,596,639, of which \$1,150,843 was retained by Investor Services.

# Franklin Federal Tax-Free Income Fund

## Notes to Financial Statements (unaudited) *(continued)*

### 4. INCOME TAXES

For tax purposes, capital losses may be carried over to offset future capital gains, if any. At April 30, 2011, the capital loss carryforwards were as follows:

Capital loss carryforwards expiring in:	
2012 .....	\$11,276,986
2014 .....	1,937,789
2017 .....	19,058,829
2018 .....	3,803,336
2019 .....	<u>17,435,155</u>
	<u>\$53,512,095</u>

Under the Regulated Investment Company Modernization Act of 2010, the Fund will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. Post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than being considered short-term as under previous law. Any post-enactment capital losses generated will be required to be utilized prior to the losses incurred in pre-enactment tax years.

For tax purposes, realized capital losses occurring subsequent to October 31 may be deferred and treated as occurring on the first day of the following fiscal year. At April 30, 2011, the Fund deferred realized capital losses of \$8,896,004.

At October 31, 2011, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments .....	<u>\$9,999,492,215</u>
Unrealized appreciation .....	\$ 518,772,518
Unrealized depreciation .....	(74,211,756)
Net unrealized appreciation (depreciation) .....	<u>\$ 444,560,762</u>

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of bond discounts, non-deductible expenses, regulatory settlements and wash sales.

### 5. INVESTMENT TRANSACTIONS

Purchases and sales of investments (excluding short term securities) for the period ended October 31, 2011, aggregated \$273,538,240 and \$448,161,191, respectively.

### 6. CREDIT FACILITY

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton Investments, are borrowers in a joint syndicated senior unsecured credit facility totaling \$750 million (Global Credit Facility) which matures on

# Franklin Federal Tax-Free Income Fund

## Notes to Financial Statements (unaudited) *(continued)*

### 6. CREDIT FACILITY *(continued)*

January 20, 2012. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.08% based upon the unused portion of the Global Credit Facility, which is reflected in other expenses on the Statement of Operations. During the period ended October 31, 2011, the Fund did not use the Global Credit Facility.

### 7. FAIR VALUE MEASUREMENTS

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's investments and are summarized in the following fair value hierarchy:

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speed, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfers as of the date of the underlying event which caused the movement.

At October 31, 2011, all of the Fund's investments in securities carried at fair value were valued using Level 2 inputs.

### 8. NEW ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in the ASU will improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP (Generally Accepted

# Franklin Federal Tax-Free Income Fund

## Notes to Financial Statements (unaudited) *(continued)*

### 8. NEW ACCOUNTING PRONOUNCEMENTS *(continued)*

Accounting Principles) and IFRS (International Financial Reporting Standards) and include new guidance for certain fair value measurement principles and disclosure requirements. The ASU is effective for interim and annual periods beginning after December 15, 2011. The Fund is currently reviewing the requirements and believes the adoption of this ASU will not have a material impact on the financial statements.

### 9. SUBSEQUENT EVENTS

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure.

---

### ABBREVIATIONS

#### Selected Portfolio

<b>ACA</b>	- American Capital Access Holdings Inc.	<b>IDA</b>	- Industrial Development Authority/Agency
<b>AGMC</b>	- Assured Guaranty Municipal Corp.	<b>IDAR</b>	- Industrial Development Authority Revenue
<b>AMBAC</b>	- American Municipal Bond Assurance Corp.	<b>IDB</b>	- Industrial Development Bond/Board
<b>BHAC</b>	- Berkshire Hathaway Assurance Corp.	<b>IDC</b>	- Industrial Development Corp.
<b>CDA</b>	- Community Development Authority/Agency	<b>IDR</b>	- Industrial Development Revenue
<b>CIFG</b>	- CDC IXIS Financial Guaranty	<b>ISD</b>	- Independent School District
<b>COP</b>	- Certificate of Participation	<b>MFHR</b>	- Multi-Family Housing Revenue
<b>EDA</b>	- Economic Development Authority	<b>MFR</b>	- Multi-Family Revenue
<b>EDC</b>	- Economic Development Corp.	<b>MTA</b>	- Metropolitan Transit Authority
<b>EDR</b>	- Economic Development Revenue	<b>NATL</b>	- National Public Financial Guarantee Corp.
<b>ETM</b>	- Escrow to Maturity	<b>NATL RE</b>	- National Public Financial Guarantee Corp. Reinsured
<b>FGIC</b>	- Financial Guaranty Insurance Co.	<b>PBA</b>	- Public Building Authority
<b>FHA</b>	- Federal Housing Authority/Agency	<b>PCC</b>	- Pollution Control Corp.
<b>FICO</b>	- Financing Corp.	<b>PCR</b>	- Pollution Control Revenue
<b>FNMA</b>	- Federal National Mortgage Association	<b>PFAR</b>	- Public Financing Authority Revenue
<b>GNMA</b>	- Government National Mortgage Association	<b>PSF</b>	- Permanent School Fund
<b>GO</b>	- General Obligation	<b>PUD</b>	- Public Utility District
<b>HDA</b>	- Housing Development Authority/Agency	<b>RDAR</b>	- Redevelopment Agency Revenue
<b>HFA</b>	- Housing Finance Authority/Agency	<b>SFM</b>	- Single Family Mortgage
<b>HFAR</b>	- Housing Finance Authority Revenue	<b>SFMR</b>	- Single Family Mortgage Revenue
<b>HFC</b>	- Housing Finance Corp.	<b>UHSD</b>	- Unified/Union High School District
		<b>USD</b>	- Unified/Union School District
		<b>XLCA</b>	- XL Capital Assurance

# Franklin Federal Tax-Free Income Fund

## Shareholder Information

### Proxy Voting Policies and Procedures

The Fund's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Fund uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Fund's complete Policies online at [franklintempleton.com](http://franklintempleton.com). Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Fund's proxy voting records are also made available online at [franklintempleton.com](http://franklintempleton.com) and posted on the U.S. Securities and Exchange Commission's website at [sec.gov](http://sec.gov) and reflect the most recent 12-month period ended June 30.

### Quarterly Statement of Investments

The Fund files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at [sec.gov](http://sec.gov). The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

# 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](http://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. To ensure the highest quality of service, we may monitor, record and access telephone calls to or from our service departments. These calls can be identified by the presence of a regular beeping tone.

## VALUE

Franklin All Cap Value Fund  
Franklin Balance Sheet Investment Fund  
Franklin Large Cap Value Fund  
Franklin MicroCap Value Fund<sup>1</sup>  
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 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  
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

## HYBRID

Franklin Balanced Fund  
Franklin Convertible Securities Fund  
Franklin Equity Income Fund  
Franklin Income Fund  
Templeton Emerging Markets Balanced Fund  
Templeton Global Balanced Fund<sup>3</sup>

## ASSET ALLOCATION

Franklin Templeton Corefolio® Allocation Fund  
Franklin Templeton Founding Funds Allocation Fund  
Franklin Templeton Conservative Allocation Fund  
Franklin Templeton Growth Allocation Fund  
Franklin Templeton Moderate Allocation Fund  
Franklin Templeton 2015 Retirement Target Fund  
Franklin Templeton 2025 Retirement Target Fund  
Franklin Templeton 2035 Retirement Target Fund  
Franklin Templeton 2045 Retirement Target Fund  
Franklin Templeton Global Allocation Fund

## FIXED INCOME

Franklin Adjustable U.S. Government Securities Fund<sup>4</sup>  
Franklin Floating Rate Daily Access Fund  
Franklin High Income Fund

Franklin Limited Maturity U.S. Government Securities Fund<sup>4</sup>  
Franklin Low Duration Total Return Fund  
Franklin Real Return Fund  
Franklin Strategic Income Fund  
Franklin Strategic Mortgage Portfolio  
Franklin Templeton Hard Currency Fund  
Franklin Total Return Fund  
Franklin U.S. Government Securities Fund<sup>4</sup>  
Templeton Global Bond Fund  
Templeton Global Total Return Fund  
Templeton International Bond Fund

## TAX-FREE INCOME<sup>5</sup>

### National

Double Tax-Free Income Fund  
Federal Tax-Free Income Fund  
High Yield Tax-Free Income Fund  
Insured Tax-Free Income Fund<sup>6</sup>

### Limited-/Intermediate-Term

California Intermediate-Term Tax-Free Income Fund  
Federal Intermediate-Term Tax-Free Income Fund  
Federal Limited-Term Tax-Free Income Fund  
New York Intermediate-Term Tax-Free Income Fund

### State-Specific

Alabama	Minnesota
Arizona	Missouri
California (4 funds)	New Jersey
Colorado	New York (2 funds)
Connecticut	North Carolina
Florida	Ohio
Georgia	Oregon
Kentucky	Pennsylvania
Louisiana	Tennessee
Maryland	Virginia
Massachusetts	
Michigan	

## INSURANCE FUNDS

Franklin Templeton Variable Insurance Products Trust<sup>7</sup>

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 7/1/11, Templeton Income Fund changed its name to Templeton Global Balanced Fund. Additionally, the fund changed its goal and pricing structure. Under normal circumstances, the fund will invest: at least 25% of its assets in fixed income senior securities

and at least 25% of its assets in equity securities; at least 40% of its assets in non-U.S. investments; and in issuers located in at least three different countries (including the U.S.).

4. An investment in the fund is neither insured nor guaranteed by the U.S. government or by any other entity or institution.

5. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.

6. The fund invests primarily in insured municipal securities.

7. The funds of the Franklin Templeton Variable Insurance Products Trust are generally available only through insurance company variable contracts.

VALUE | BLEND | GROWTH | SECTOR | GLOBAL | INTERNATIONAL | HYBRID | ASSET ALLOCATION | FIXED INCOME | TAX-FREE INCOME



FRANKLIN TEMPLETON  
INVESTMENTS

< GAIN FROM OUR PERSPECTIVE® >

Semiannual Report and Shareholder Letter  
**FRANKLIN FEDERAL TAX-FREE  
INCOME FUND**

**Investment Manager**  
Franklin Advisers, Inc.

**Distributor**  
Franklin Templeton Distributors, Inc.  
(800) DIAL BEN®/342-5236  
franklintempleton.com

**Shareholder Services**  
(800) 632-2301

Authorized for distribution only when accompanied or preceded by a summary prospectus and/or prospectus. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. A prospectus contains this and other information; please read it carefully before investing.

To ensure the highest quality of service, telephone calls to or from our service departments may be monitored, recorded and accessed. These calls can be identified by the presence of a regular beeping tone.