

# SECURITIES AND EXCHANGE COMMISSION

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### FILER

#### FRANKLIN MUNICIPAL SECURITIES TRUST

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July 20, 1995

Fellow Shareholder:

We're pleased to bring you the annual report of the Franklin Municipal Securities Trust for the period ended May 31, 1995.

Calendar year 1994 was one of the worst years for fixed-income securities. In fact, the 20-year U.S. Treasury bond recorded its poorest performance since 1967.(1) Following this disappointing year, 1995 to date has been a welcome change. Stock and bond markets both enjoyed strong performance through the first five months of the year. In February, the Dow Jones Industrial Average broke the 4000 mark for the first time, and finished the period above 4300.

(1.) Source: Ibbotson Associates. Based on one-year total returns of long-term government bonds from January 1926 to December 1994.

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MUTUAL FUNDS, ANNUITIES, AND OTHER INVESTMENT PRODUCTS:  
- - ARE NOT FDIC INSURED;  
- - ARE NOT DEPOSITS OR OBLIGATIONS OF, OR GUARANTEED BY, ANY FINANCIAL INSTITUTION;  
- - ARE SUBJECT TO INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.  
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Of more importance to shareholders of the Franklin Municipal Securities Trust is the recent strength of the municipal bond market. Although the rally was sidetracked in early December by the municipal bankruptcy filing of Orange County, California, the municipal market has recovered nicely. Through May 31, 1995, municipal bond prices, as measured by the Bond Buyer 40 Index, had risen 5.17% to \$101.13 from \$96.16 on January 31, 1995. Of course, there's no guarantee that these markets will continue to rise as they have recently. In fact, current debate regarding a national flat tax has caused the municipal market to pause in recent months.

There has been a tremendous amount of press discussing various tax reform issues, including a flat tax proposal, consumption tax, a national sales tax, and a "Super IRA." Each of these proposals carry a variety of underlying questions -- Will there be any allowed deductions? Will I lose the benefit of

investing in tax-free municipal bonds? As you can imagine, a number of details need to be fully considered. Such news coverage has understandably caused some concern among investors; however, it is probably too early to draw clear-cut conclusions on how any of the proposed tax reform plans could impact the municipal bond market. We will continue to monitor this situation and keep our shareholders apprised of changes that may affect their investments.

As you know, markets experience both ups and downs, which is a normal part of investing. That's why we've always encouraged our shareholders to focus on their long-term investment goals. History has shown that, over the long term, stocks and bonds have delivered impressive results.(2) By concentrating on long-term investment goals, you need not be unduly concerned with short-term market fluctuations.

Furthermore, many financial experts agree that a technique known as "dollar cost averaging" may be one of the best ways to take advantage of market downturns and rallies. With dollar cost averaging, you invest a fixed dollar amount at regular intervals, regardless of the market's direction. Using this method, you automatically purchase more shares when prices are low, and

(2). Past performance cannot guarantee future results.

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fewer shares when prices are high, which can significantly reduce your average cost per share. Of course, no investment technique can assure a profit or protect against loss. But dollar cost averaging can provide you with a simple investment strategy that can minimize the effects of market volatility and help you make the most of your investment dollars.(3) For more information on dollar cost averaging, please see your investment advisor. Or, call Franklin Templeton Fund Information, toll free, at 1-800/DIAL BEN.

You can also help minimize the effects of market fluctuations by diversifying your investments. Mutual funds offer a level of diversification that would be almost impossible for individual investors to achieve on their own. For example, the five funds in the Franklin Municipal Securities Trust have their assets spread over 190 issues in their various portfolios.

Mutual funds also provide full-time, professional management, and Franklin's Municipal Bond Research Department is one of the largest in the industry.(4) Our analysts frequently make site visits to obtain invaluable first-hand information about issuers and specific municipal projects.

The benefits of mutual fund investing -- diversification and professional management -- became even more apparent during the crisis in Orange County, California.(5) This event triggered declines throughout the municipal market not only because bonds issued by Orange County were affected, but bonds issued by municipalities that invested in the Orange County investment pool were also affected. The problems in Orange County created ripples that were felt throughout the municipal bond market.

As always, we welcome your questions, appreciate your trust and support, and look forward to serving you in the years to come.

Sincerely,

Charles B. Johnson  
Chairman  
Municipal Securities Trust

(3). When using this strategy, you should consider your financial ability to continue purchases through periods of low price levels or changing economic conditions.

(4). Source: Research and Ratings Review, Vol. II. Issue 8, November 14, 1994. Franklin's municipal research team ranks second out of 1,000 investment advisory firms, in terms of municipal bond analysts, in a survey by TMS Holdings, Inc.

(5). The Orange County and related bankruptcy proceedings are ongoing, and the funds' managers continue to monitor proceedings.

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Fiscal year ending May 31, 1995, of the Franklin Municipal Securities Trust was one of contrasts. During the first half of the year, bond prices fell dramatically in the face of rapidly rising interest rates. By December of '94, however, economic growth had slowed considerably, inflation remained subdued, and the municipal bond market headed into a much welcomed rally. The recovery was marred by the bankruptcy of Orange County, California in early December, but this crisis was short-lived. Municipal bond prices continued their recovery nicely and by May 31, 1995, had risen 7.98% since December 31, 1994. (1)

In managing our tax-free funds, we seek to provide our shareholders with a high level of current income exempt from federal income taxes and, in most cases, state and personal income taxes as well. (2) To achieve this goal, we generally purchase current coupon bonds at a slight discount. We also practice a "buy and hold" strategy, electing to retain higher coupon bonds (even when they trade at a premium) for the higher income they provide. This helps us live up to our funds' objectives -- to provide a high level of current, tax-free income. This strategy also has a number of beneficial side effects, including fairly low portfolio turnover rates, resulting in lower expenses which tend to result in higher yields for investors. It also tends to help protect the funds from extreme price volatility. Since bonds that trade at a premium are generally slower to react to market fluctuations, the large percentage of such bonds in our funds helped to dampen the effects of 1994's uncertain bond market.

In short, we believe our investment approach provides portfolios that pay a high level of tax-free income while enjoying comparatively stable share prices.

The coming months should be strong ones for the municipal bond market as bond issuance has fallen dramatically in the face of higher interest rates and voter reluctance to approve new projects. As a result, we expect the new supply of municipal

- (1). Source: Lehman Brothers Municipal Bond Index
- (2). For investors subject to federal or state alternative minimum tax, all or a portion of these dividends may be subject to such tax, depending on the fund. Distributions of capital gains and of ordinary income from accrued market discount, if any, are generally taxable.

bonds to be roughly \$130 to \$140 billion in 1995 -- slightly less than last year, and significantly less than 1993, when municipal bond issuance hit an all-time high. At the same time, there will be a record number of bonds that will be redeemed or called in 1995 (approximately \$185 billion) which will return cash to investors that will need to be reinvested. This should help increase demand for municipal bonds. While we expected 1994's reduced supply to bode well for the municipal bond market, dramatic increases in interest rates overshadowed any positive effects of a lower supply. Fortunately, long-term interest rates have, to date, declined in 1995, and the slowing economy suggests that the Fed's aggressive campaign to restrict the money supply is near its end. In fact, given the significant drop in growth of the Gross Domestic Product (GDP) in the first quarter of 1995 (GDP was 2.1% compared to 5.1% for the last quarter of 1995), the Fed reduced short-term interest rates by .25% on July 6, 1995.

Furthermore, yields from municipal securities are currently very attractive relative to yields available from U.S. Treasuries and other high-quality, taxable fixed-income securities. For instance, municipal bonds, represented by the Bond Buyer 40 (an index of 40 municipal bonds) offered 6.10% on May 31, 1995. For investors in the maximum federal income tax bracket of 39.6%, this tax-free yield equals a taxable equivalent yield of 9.93%. Given their relative value and the reduced supply available, we expect municipal bonds to perform well in the coming year.

Sincerely,

Thomas J. Kenny  
Senior Vice President -- Director,  
Franklin Municipal Bond Department

## FRANKLIN ARKANSAS MUNICIPAL BOND FUND

## FUND OBJECTIVE

Managed to provide shareholders with a high level of current income exempt from regular federal and Arkansas state personal income taxes while seeking preservation of capital by investing primarily in a portfolio of Arkansas municipal securities.\*

Higher interest rates gave us the opportunity to purchase higher-yielding current coupon bonds for the fund's portfolio. The fund's higher earnings and its dividend increase to 4.8 cents from 4.6 cents per share in December 1994 reflected our research and investment into higher coupon issues.

Since its inception in May 1994, the Franklin Arkansas Municipal Bond Fund has endured an unusually volatile municipal bond market. Thus far, 1995 has been a promising year for your fund. Recent economic data show signs of a slowing economy, and inflation appears relatively subdued. The municipal market has reacted strongly, gaining back most of the losses it experienced in 1994. Although the market price of many bonds in the portfolio are currently trading at a premium, we have elected to hold onto these securities for the high level of tax-free income they earn for the fund.

We remain conservative in our management of the fund. The chart above illustrates that, at the end of the fiscal year, over 50% of the fund's securities were rated AAA -- the highest rating possible -- from Standard & Poor's, or were judged to be of comparable credit quality by the fund's managers at the time of purchase. We evaluate each issue on an individual basis, favoring highly-rated "essential service" bonds. These securities tend to have a more reliable income stream as they are backed by dependable revenue generated from projects such as utilities, transportation and water, power and sewer works, to name a few. As a result, these bonds tend to be less affected by budgetary and political changes, and are believed to be very attractive in a municipal cost-cutting

GRAPHIC MATERIAL 3 OMITTED SEE APPENDIX AT END OF DOCUMENT

\*The fund may invest as much as 100% of its assets in bonds that pay interest subject to the federal alternative minimum tax. All or a significant portion of the income on these obligations may be subject to such tax. Distributions of capital gains and of ordinary income from accrued market discount, if any, are generally taxable. The risks of investing in a non-diversified fund, such as increased susceptibility to adverse economic or regulatory developments, are described in the prospectus.

environment. Like all mutual funds, however, the principal value of the fund's holdings as well as the price of its shares will vary with market conditions.

We also seek to reduce the fund's risk by spreading its assets among a broad range of cities and counties throughout Arkansas. Additionally, we purchase securities from a variety of municipal sectors, as the table to the right indicates.

Our outlook for the fund is positive. As stated previously, recent economic reports indicate that U.S. economic growth has stabilized at a healthy and sustainable level, while inflation has remained subdued. Signs of a slowing economy should eventually result in a gradual decline in interest rates, which could positively affect bond prices and, thus, the fund's price per share.

Arkansas' employment growth was one of the strongest in the nation in 1994 and is expected to continue, though at a lower rate, in 1995. The state's growth ranks twelfth in the nation at 3.2% versus a national rate of 2.6%. Most of this job growth was led by manufacturing, which employs 26.4% of the state's population.

Resource-related industries dominate the Arkansas economy, with the largest industries being food products (Tyson Industries), lumber, and paper goods. Northwest Arkansas is experiencing a great deal of employment growth due to

Wal-Mart's headquarters and many other businesses that have located there to service Wal-Mart's needs. Employment diversification has lessened the cyclical nature of Arkansas' economy, especially during recessionary periods. Going forward, employment growth in the construction and services sectors should continue, helping to further balance the state's economy. The growth of its food-processing industry, its position as a low-cost manufacturing state, an ample supply of natural resources, and its location in the South should help Arkansas' economic base to grow and remain stable, possibly outpacing national growth.

FRANKLIN ARKANSAS MUNICIPAL BOND FUND

Portfolio Breakdown on May 31, 1995 As a percentage of total net assets

<TABLE>

<CAPTION>

SECTOR	% OF TOTAL NET ASSETS
Utilities	24.9%
Housing	22.8%
General Obligations	13.4%
Hospitals	13.0%
Education	12.6%
Industrial	6.9%
Transportation	6.4%

</TABLE>

FOR A COMPLETE LIST OF PORTFOLIO HOLDINGS, PLEASE SEE PAGE 27 OF THIS REPORT.

PERFORMANCE SUMMARY

The Franklin Arkansas Municipal Bond Fund's share price, as measured by net asset value, increased to \$10.32 on May 31, 1995, from \$10.06 on May 31, 1994.

Your fund began paying monthly dividends in September 1994. Through the end of the reporting period, shareholders received 42.6 cents (\$0.426) per share in dividend income.+ Due to increased income earned by the fund, we were able to increase the monthly dividend to 4.8 cents (\$0.048) per share from 4.6 cents (\$0.046) per share, effective with the December 1994 distribution. Dividends will vary based on the earnings of the fund's portfolio, and past distributions are not necessarily predictive of future results.

At the end of the reporting period, your fund's distribution rate was 5.34%, based on an annualization of the current monthly dividend of 4.8 cents per share and the maximum offering price of \$10.78 on May 31, 1995. This double tax-free rate is generally higher than the after-tax return on a comparable taxable investment. For example, if you are in the maximum combined federal and Arkansas state personal income tax bracket of 43.8%, you would have to earn 9.50% from a taxable investment to match your fund's tax-free distribution rate.

The Franklin Arkansas Municipal Bond Fund provided a total return of +7.27% for the one-year period ended May 31, 1995. Total return measures the change in value of an investment during the period indicated, assuming reinvestment of dividends and capital gains, if any. This calculation does not include the initial sales charge, and past performance is not predictive of future results.

The chart on the following page compares the fund's performance with that of the Lehman Brothers Municipal Bond Index and the Consumer Price Index (CPI). The Lehman Brothers Index has some inherent performance differentials over any fund as it holds no cash in its portfolio and

GRAPHIC MATERIAL 1 OMITTED SEE APPENDIX AT END OF DOCUMENT

+Assumes shares were purchased and held for the entire accrual period. Since dividends accrue daily, your actual distributions will vary, depending on the date you purchased your shares and any account activity during the month. Income

distributions and total return calculations include all income earned by the fund during the reporting period.

involves no sales charges or management expenses. In addition, the index includes municipal securities from across the country while your fund is composed primarily of Arkansas municipal bonds. Please remember that an index is simply a measure of performance and cannot be invested in directly.

Your fund's managers maintain a long-term investment perspective and we encourage our shareholders to do the same. While the fund may experience volatility from time to time, we believe that its performance will be rewarding over the long term.

GRAPHIC MATERIAL 2 OMITTED SEE APPENDIX AT END OF DOCUMENT

\*This performance graph assumes an initial \$10,000 investment and includes the maximum 4.25% sales charge, all fund expenses and account fees. It also assumes that your dividends and capital gains were reinvested at net asset value. The Lehman Brothers Municipal Bond Index includes price appreciation or depreciation and distributions as a percentage of the original investment. Past performance cannot guarantee future results.

FRANKLIN ARKANSAS MUNICIPAL BOND FUND  
Period ended May 31, 1995

<TABLE>  
<CAPTION>

	1-YEAR	SINCE INCEPTION (05/09/94)
<S>	<C>	<C>
Cumulative Total Return(1)	7.27%	7.76%
Average Annual Total Return(2)	2.68%	3.02%
Distribution Rate(3)		5.34%
Taxable Equivalent Distribution Rate(4)		9.50%
30-Day Standardized Yield(5)		5.52%
Taxable Equivalent Yield(4)		9.82%

</TABLE>

(1). Cumulative total return measures the change in value of an investment over the periods indicated and does not include the maximum 4.25% initial sales charge stated in the prospectus. See note below.

(2). Average annual total return represents the average annual change in value of an investment over the specified periods and includes the maximum 4.25% initial sales charge. See note below.

(3). Based on an annualization of the fund's current 4.8 cent per share monthly dividend and the maximum offering price of \$10.78 on May 31, 1995.

(4). Taxable equivalent distribution rate and yield assume the 1995 maximum combined federal and Arkansas state income tax bracket of 43.8%, based on the 39.6% federal income tax rate.

(5). Yield, calculated as required by the SEC, is based on the earnings of the fund's portfolio for the 30 days ended 5/31/95.

Note: All total return calculations assume reinvestment of dividends and capital gains at net asset value. Investment return and principal value will fluctuate with market conditions, and you may have a gain or loss when you sell your shares. Past performance is not predictive of future results.

The fund's manager has agreed in advance to waive a portion of the management fees, which reduces operating expenses and increases distribution rate, yield

and total return to shareholders. Without this waiver, the fund's distribution rate and total return would have been lower, and yield for the period would have been 3.58%. The fee waiver may be discontinued at any time upon notification to the fund's Board of Trustees.

FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND

FUND OBJECTIVE

Managed to provide shareholders with high current income exempt from regular federal and California state personal income taxes while seeking preservation of capital by investing primarily in a portfolio of high yielding, medium-, lower- and non-rated California municipal securities.\*

The investment strategy we employ in the management of your fund has proven very effective for its shareholders over the past year. By staying invested in current to slightly discounted bonds, the California High Yield Municipal Fund didn't experience the volatility that other funds did. Additionally, Franklin's investment philosophy of achieving the highest income possible and not trading for total return has enabled your fund to move ahead of other funds that try to guess the market. The fund continues to grow quite rapidly and is positioned to perform well as the market stabilizes in the year ahead. The fund does not use derivatives. The weak supply of municipal issues coming to market, which may be less than \$140 billion, should assist in strengthening the market and, subsequently, the fund's overall performance.

GRAPHIC MATERIAL 6 OMITTED SEE APPENDIX AT END OF DOCUMENT

Issuance of high yield bonds in California was quite slow through the first six months of the fund's fiscal year, which led to very tight yield spreads between high yield and investment grade bonds; as a result, we increased the fund's exposure to higher quality issues, since their yields were in close range to lower-rated bonds.

\*The fund may invest as much as 100% of its assets in bonds that pay interest subject to the federal alternative minimum tax. All or a significant portion of the income on these obligations may be subject to such tax. Distributions of capital gains and of ordinary income from accrued market discount, if any, are generally taxable. The risks of investing in a non-diversified fund, such as increased susceptibility to adverse economic or regulatory developments, are described in the prospectus.

+ In general, an investor is paid a higher yield to assume a greater degree of risk.

Careful analysis of credit quality is particularly important in a fund that seeks higher current income through investments in medium-, lower- and non-rated bonds. National ratings services such as Standard & Poor's, Moody's, and our own in-house rating system, provide the fund's analysts with an evaluation of each bond issuer's credit quality.

While our primary focus remains on higher-yielding lower-rated securities, the fund's exposure to higher quality bonds increased over the reporting period, with 7.5% of the fund invested in AAA and AA rated bonds in May 1995, up from 0% in May 1994. The portion of A-rated securities in the portfolio has also increased to 35.0%, up from 18.3% in May 1994. These ratings, while not signifying approval of the shares by national ratings agencies, reflect the quality of the bonds in the fund's portfolio and are subject to change.

FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND  
Portfolio Breakdown on May 31, 1995  
As a percentage of total net assets



<TABLE>  
<CAPTION>

SECTOR	% OF TOTAL NET ASSETS
Mello-Roos Bonds	23.9%
Certificates of Participation	16.1%
Special Assessment Bonds (1915 Act)	14.0%
Housing	8.5%
Tax Allocation Bonds	8.4%
Hospitals	7.4%
Utilities	6.3%
Marks-Roos Bonds	5.3%
Health Care	3.9%
Education	3.1%
Industrial Revenue Bonds	2.1%
Transportation	0.8%
Other Revenue	0.2%

</TABLE>

FOR A COMPLETE LIST OF PORTFOLIO HOLDINGS, PLEASE SEE PAGE 29 OF THIS REPORT.

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We have studied the events in Orange County closely and believe that the fund has not been adversely affected. Of course, bankruptcy proceedings are ongoing, and we will continue to monitor the situation. On May 31, 1995, the Franklin California High Yield Fund held no direct, unenhanced obligations of Orange County.

The past four years have challenged California's resiliency as cyclical and structural problems have been addressed. The national recession severely affected the state and its effects linger. As cold-war tensions subsided, the state's enormous military industry lost 700,000 jobs -- though it is estimated that 240,000 of these jobs have been restored. Likewise, military base closures in Northern and Southern California have impacted both state and local economies.

California's social welfare and entitlement programs have strained finances as caseload growth has exceeded both population and resource availability. In addition, the state has been affected by numerous natural catastrophes, including earthquakes, fire, drought and floods, further straining state resources.

In response to economic pressures, California increased personal and corporate income tax rates in 1991, implemented property tax transfers away from local governments to fund education, increased student fees for higher education, and realigned welfare and social programs from the state to the county levels. It is hoped that these actions will work to stabilize the state's economy.

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PERFORMANCE SUMMARY

The Franklin California High Yield Municipal Fund's share price, as measured by

net asset value, increased to \$9.93 on May 31, 1995, from \$9.73 on May 31, 1994.

The fund continued to meet its investment objective of providing high current income to its shareholders. For the one-year period ended May 31, 1995, your fund paid monthly income distributions totaling 63.6 cents (\$0.636) per share. (++) Dividends will vary based on the earnings of the fund's portfolio, and past distributions are not necessarily predictive of future results.

At the end of the reporting period, your fund's distribution rate was 6.13%, based on an annualization of the current monthly dividend of 5.3 cents per share and the maximum offering price of \$10.37 on May 31, 1995. This double tax-free rate is generally higher than the after-tax return on a comparable taxable investment. For example, if you are in the maximum combined federal and California state personal income tax bracket of 46.2%, you would have to earn 11.39% from a taxable investment to match your fund's tax-free distribution rate.

The Franklin California High Yield Municipal Fund provided a total return of +9.08% for the one-year period ended May 31, 1995. Total return measures the change in value of an investment during the period indicated, assuming reinvestment of dividends and capital gains, if any. This calculation does not include the initial sales charge, and past performance is not predictive of future results.

GRAPHIC MATERIAL 4 OMITTED SEE APPENDIX AT END OF DOCUMENT

Since 1993, the Franklin California High Yield Municipal Fund has exceeded the Consumer Price Index (CPI), keeping your purchasing power well ahead of inflation -- a primary goal of any investment. The fund, however, has slightly underperformed the unmanaged Lehman Brothers Municipal Bond Index, as illustrated by the chart on the following page. The index has some inherent performance differentials over any fund as it holds

++Assumes shares were purchased and held for the entire accrual period. Since dividends accrue daily, your actual distribution will vary, depending on the date you purchased your shares and any account activity during the month. Income distributions and total return calculations include all accrued income earned by the fund during the reporting period.

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GRAPHIC MATERIAL 5 OMITTED SEE APPENDIX AT END OF DOCUMENT

no cash in its portfolio and involves no sales charges or management expenses. In addition, the index includes municipal securities from across the country while your fund is composed primarily of California municipal bonds. Please remember that an index is simply a measure of performance and cannot be invested in directly.

Your fund's managers maintain a long-term investment perspective and we encourage our shareholders to do the same. While the fund may experience volatility from time to time, we believe that its performance will be rewarding over the long term.

\*This performance graph assumes an initial \$10,000 investment and includes the maximum 4.25% sales charge, all fund expenses and account fees. It also assumes that your dividends and capital gains were reinvested at net asset value. The Lehman Brothers Municipal Bond Index includes price appreciation or depreciation and distributions as a percentage of the original investment. Past performance cannot guarantee future results.

FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND  
Period ended May 31, 1995

<TABLE>  
<CAPTION>

	1-YEAR	SINCE INCEPTION (05/03/93)
<S>	<C>	<C>
Cumulative Total Return(1)	9.08%	12.09%
Average Annual Total Return(2)	4.45%	3.48%

Distribution Rate(3)	6.13%
Taxable Equivalent Distribution Rate(4)	11.39%
30-Day Standardized Yield(5)	6.50%
Taxable Equivalent Yield(4)	12.08%
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</TABLE>

(1). Cumulative total return measures the change in value of an investment over the periods indicated and does not include the maximum 4.25% initial sales charge stated in the prospectus. See note below.

(2). Average annual total return represents the average annual change in value of an investment over the specified periods. The figures have been restated to reflect the maximum 4.25% initial sales charge. See note below.

(3). Based on an annualization of the fund's current 5.3 cent per share monthly dividend and the maximum offering price of \$10.37 on May 31, 1995.

(4). Taxable equivalent distribution rate and yield assume the 1995 maximum combined federal and California state income tax bracket of 46.2%, based on the 39.6% federal income tax rate.

(5). Yield, calculated as required by the SEC, is based on the earnings of the fund's portfolio for the 30 days ended 5/31/95.

Note: Prior to July 1, 1994, fund shares were offered at a higher initial sales charge. Thus, actual total returns for purchasers of shares during that period would have been somewhat different than noted above. All total return calculations assume reinvestment of dividends and capital gains at net asset value. Investment return and principal value will fluctuate with market conditions, and you may have a gain or loss when you sell your shares. Past performance is not predictive of future results.

The fund's manager has agreed in advance to waive a portion of the management fees, which reduces operating expenses and increases distribution rate, yield and total return to shareholders. Without this waiver, the fund's distribution rate and total return would have been lower, and yield for the period would have been 5.77%. The fee waiver may be discontinued at any time upon advance notice to the fund's Board of Trustees.

FRANKLIN HAWAII MUNICIPAL BOND FUND  
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FUND OBJECTIVE

Managed to provide shareholders with a high level of current income exempt from regular federal and Hawaii state personal income taxes while seeking preservation of capital by investing primarily in a portfolio of Hawaii municipal securities. (\*)

As bond yields increased, we took the opportunity to sell some of the fund's lower coupon bonds, and bought current coupon bonds, a strategy that enabled us to slightly increase the fund's income. In response, the fund's average coupon rose to 6.28% on May 31, 1995, from 6.10% on May 31, 1994. While our investment strategy focuses on income rather than total return, the fund reported a total return of +9.26% for the one year period -- better than the average total return of other Hawaii municipal bond funds. According to Lipper Analytical Services, Inc., the average total return of Hawaii municipal bond funds was +7.29% for the period ended May 31, 1995. (\*\*)

We remain conservative in our management of the fund. The chart below illustrates that, at the end of the fiscal year, over 50% of the fund's securities were rated AAA at the time of purchase -- the highest rating possible -- from Standard & Poor's, or were judged to be of comparable credit quality by the fund's managers. We evaluate each issue on an individual basis, favoring highly rated "essential service" bonds. These securities tend to have a more reliable income stream as they are backed by dependable revenue generated from projects such as utilities, transportation and water, power and sewer works, to name a few. As a result, these bonds tend to be less affected by budgetary and political changes, and are believed

\*The fund may invest as much as 100% of its assets in bonds that pay interest subject to the federal alternative minimum tax. All or a significant portion of the income on these obligations may be subject to such tax. Distributions of capital gains and of ordinary income from accrued market discount, if any, are generally taxable. The risks of investing in a non-diversified fund, such as increased susceptibility to adverse economic or regulatory developments, are described in the prospectus.

\*\*The fund was ranked #1 out of 8 Hawaii municipal bond funds in total return for the one-year period and #1 out of 5 funds for the three-year period ended May 31, 1995, as measured by Lipper Analytical Services, Inc., a nationally recognized mutual fund rating organization. Lipper rankings do not include sales charges; past and present expense reductions by the fund's manager increased the fund's total returns. Rankings may have been different if these factors had been considered. Past performance cannot guarantee future results.

to be very attractive in a municipal cost-cutting environment. Like all mutual funds, however, the principal value of the fund's holdings as well as the price of its shares will vary with market conditions.

During the past year, new issuance of municipal bonds emanating from the islands was limited. We purchased bonds when we felt the issues represented good value. We sold older issues with lower coupons and bought higher coupon bonds, thus enhancing the fund's cash flow.

We also seek to reduce the fund's risk by spreading its assets among a broad range of cities and counties throughout Hawaii. Additionally, we purchase securities from a variety of municipal sectors, as the table to the right illustrates.

Our outlook for the fund is positive. Recent economic reports indicate that U.S. economic growth has stabilized at a healthy and sustainable level, while inflation has remained subdued. Signs of a slowing economy should eventually result in a gradual decline in interest rates, which could positively affect bond prices and, thus, the fund's price per share.

Tourism continues to dominate the Hawaiian economy. As the mainland has enjoyed generally strong economic performance and the job base has broadened in the continental U.S., travel to the Islands has increased. Additionally, the state's economy has been helped by the reassessment of military base commitments throughout south-east Asia. From an economic standpoint, Hawaii has increasingly benefited as the United States' western-most, and reliable, military outpost.

Government construction throughout the state should continue to contribute to its stable economy. Given Hawaii's strong commitment to the tourism industry, construction in the hotel and resort areas should hold at current levels, and increase marginally in the near term. New building projects aimed at enhancing tourism should also result in higher municipal bond issuance in the state.

FRANKLIN HAWAII MUNICIPAL BOND FUND  
 Portfolio Breakdown on May 31, 1995  
 As a percentage of total net assets

<TABLE>  
 <CAPTION>

SECTOR	% OF TOTAL NET ASSETS
Transportation	21.3%
Utilities	21.3%
Hospitals	17.4%
General Obligations	17.0%
Housing	15.5%
Industrial	4.0%
Pre-Refunded	2.5%

&lt;/TABLE&gt;

FOR A COMPLETE LIST OF PORTFOLIO HOLDINGS, PLEASE SEE PAGE 31 OF THIS REPORT.

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## PERFORMANCE SUMMARY

The Franklin Hawaii Municipal Bond Fund's share price, as measured by net asset value, increased to \$10.67 on May 31, 1995, from \$10.36 on May 31, 1994. The fund continued to meet its investment objective of providing high current income to its shareholders. For the one-year period ended May 31, 1995, your fund paid monthly income distributions totaling 60 cents (\$0.60) per share. (+) Dividends will vary based on the earnings of the fund's portfolio, and past distributions are not necessarily predictive of future results.

At the end of the reporting period, your fund's distribution rate was 5.39%, based on an annualization of the current monthly dividend of 5.0 cents per share and the maximum offering price of \$11.14 on May 31, 1995. This double tax-free rate is generally higher than the after-tax return on a comparable taxable investment. For example, if you are in the maximum combined federal and Hawaii state personal income tax bracket of 45.6%, you would have to earn 9.91% from a taxable investment to match your fund's tax-free distribution rate.

The Franklin Hawaii Municipal Bond Fund provided a total return of +9.26% for the one-year period ended May 31, 1995. Total return measures the change in value of an investment during the period indicated, assuming reinvestment of dividends and capital gains, if any. This calculation does not include the initial sales charge, and past performance is not predictive of future results.

GRAPHIC MATERIAL 7 OMITTED SEE APPENDIX AT END OF DOCUMENT

Since 1992, the Franklin Hawaii Municipal Bond Fund has exceeded the Consumer Price Index (CPI), keeping your purchasing power well ahead of inflation -- a primary goal of any investment. The fund, however, has slightly underperformed the unmanaged Lehman Brothers Municipal Bond Index, as illustrated by the chart on the following page. The index has some inherent performance differentials over any fund as it holds no cash in its portfolio and involves no sales charges or

(+) Assumes shares were purchased and held for the entire accrual period. Since dividends accrue daily, your actual distributions will vary, depending on the date you purchased your shares and any account activity during the month. Income distributions and total return calculations include all income earned by the fund during the reporting period.

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GRAPHIC MATERIAL 8 OMITTED SEE APPENDIX AT END OF DOCUMENT

management expenses. In addition, the index includes municipal securities from across the country while your fund is composed primarily of Hawaii municipal bonds. Please remember that an index is simply a measure of performance and cannot be invested in directly.

Your fund's managers maintain a long-term investment perspective and we encourage our shareholders to do the same. While the fund may experience volatility from time to time, we believe that its performance will be rewarding over the long term.

\*This performance graph assumes an initial \$10,000 investment and includes the maximum 4.25% sales charge, all fund expenses and account fees. It also assumes that your dividends and capital gains were reinvested at net asset value. The Lehman Brothers Municipal Bond Index includes price appreciation or depreciation and distributions as a percentage of the original investment. Past performance cannot guarantee future results.

FRANKLIN HAWAII MUNICIPAL BOND FUND

<TABLE>  
<CAPTION>

	1-YEAR	3-YEAR	SINCE INCEPTION (02/26/92)
<S>	<C>	<C>	<C>
Cumulative Total Return(1)	9.26%	24.87%	27.80%
Average Annual Total Return(2)	4.61%	6.14%	6.39%
Distribution Rate(3)			5.39%
Taxable Equivalent Distribution Rate(4)			9.91%
30-Day Standardized Yield(5)			5.46%
Taxable Equivalent Yield(4)			10.04%

</TABLE>

(1). Cumulative total return measures the change in value of an investment over the periods indicated and does not include the maximum 4.25% initial sales charge stated in the prospectus. See note below.

(2). Average annual total return represents the average annual change in value of an investment over the specified periods. The figures have been restated to reflect the maximum 4.25% initial sales charge. See note below.

(3). Based on an annualization of the fund's current 5.0 cent per share monthly dividend and the maximum offering price of \$11.14 on May 31, 1995.

(4). Taxable equivalent distribution rate and yield assume the 1995 maximum combined federal and Hawaii state income tax bracket of 45.6%, based on the 39.6% federal income tax rate.

(5). Yield, calculated as required by the SEC, is based on the earnings of the fund's portfolio for the 30 days ended 5/31/95.

Note: Prior to July 1, 1994, fund shares were offered at a higher initial sales charge. Thus, actual total returns for purchasers of shares during that period would have been somewhat different than noted above. All total return calculations assume reinvestment of dividends and capital gains at net asset value. Investment return and principal value will fluctuate with market conditions, and you may have a gain or loss when you sell your shares. Past performance is not predictive of future results.

The fund's manager has agreed in advance to waive a portion of the management fees, which reduces operating expenses and increases distribution rate, yield and total return to shareholders. Without this waiver, the fund's distribution rate and total return would have been lower, and yield for the period would have been 4.62%. The fee waiver may be discontinued at any time upon advance notice to the fund's Board of Trustees.

FRANKLIN TENNESSEE MUNICIPAL BOND FUND

FUND OBJECTIVE

Managed to provide shareholders with a high level of current income exempt from regular federal and Tennessee state personal income taxes while seeking preservation of capital by investing primarily in a portfolio of Tennessee municipal securities.\*

Higher interest rates gave us the opportunity to purchase higher-yielding current coupon bonds for the fund's portfolio. The fund's higher earnings and its dividend increase to 4.9 cents from 4.8 cents per share in December 1994 reflected our research and investment into higher coupon issues.

Since its inception in May 1994, the Franklin Tennessee Municipal Bond Fund has endured an unusually volatile municipal bond market. Thus far, 1995 has been a promising year for your fund. Recent economic data show signs of a slowing economy, and inflation appears relatively subdued. The municipal market has reacted strongly, gaining back most of the losses it experienced in 1994. Although the market price of many bonds in the portfolio are currently trading

at a premium, we have elected to hold onto these securities for the high level of tax-free income they earn for the fund.

We remain conservative in our management of the fund. The chart above illustrates that, at the end of the fiscal year, over 30% of the fund's securities were rated AAA at the time of purchase -- the highest rating possible -- from Standard & Poor's, or were judged to be of comparable credit quality by the fund's managers. We evaluate each issue on an individual basis, favoring highly rated "essential service" bonds. These securities tend to have a more reliable income stream as they are backed by dependable revenue generated from projects such as utilities, transportation and

GRAPHIC MATERIAL 12 OMITTED SEE APPENDIX AT END OF DOCUMENT

\*The fund may invest as much as 100% of its assets in bonds that pay interest subject to the federal alternative minimum tax. All or a significant portion of the income on these obligations may be subject to such tax. Distributions of capital gains and of ordinary income from accrued market discount, if any, are generally taxable. The risks of investing in a non-diversified fund, such as increased susceptibility to adverse economic or regulatory developments, are described in the prospectus.

water, power and sewer works, to name a few. As a result, these bonds tend to be less affected by budgetary and political changes, and are believed to be very attractive in a municipal cost-cutting environment. Like all mutual funds, however, the principal value of the fund's holdings as well as the price of its shares will vary with market conditions.

We also seek to reduce the fund's risk by spreading its assets among a broad range of cities and counties throughout Tennessee. Additionally, we purchase securities from a variety of municipal sectors, as the table to the right indicates.

Our outlook for the fund is positive. As stated previously, recent economic reports indicate that U.S. economic growth has stabilized at a healthy and sustainable level, while inflation has remained subdued. Signs of a slowing economy should eventually result in a gradual decline in interest rates, which could positively affect bond prices and, thus, the fund's price per share.

Tennessee's economy has become more diversified, experiencing growth in its services sector -- especially health care services and distribution. The service sector currently makes up 24% of employment, with manufacturing and trade employing 23% of the state's populace.

FRANKLIN TENNESSEE MUNICIPAL BOND FUND  
Portfolio breakdown on May 31, 1995  
As a percentage of total net assets

<TABLE>  
<CAPTION>

SECTOR	% OF TOTAL NET ASSETS
<S>	<C>
Industrial	23.0%
Utilities	22.5%
Housing	13.0%
General Obligations	12.2%
Hospitals	11.1%
Education	9.1%
Certificates of Participation	3.8%
Transportation	3.6%
Other Revenue	1.7%

</TABLE>

The auto industry has been a major economic boost to the Tennessee economy. The expansion of Saturn and Nissan automobile manufacturing facilities and other automobile-related businesses have encouraged growth in this sector. In addition, the state has been focusing much of its attention on its education and transportation infrastructures. The work in these areas has encouraged and supported business development throughout Tennessee.

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PERFORMANCE SUMMARY

The Franklin Tennessee Municipal Bond Fund's share price, as measured by net asset value, increased to \$10.53 on May 31, 1995, from \$10.12 on May 31, 1994.

Your fund began paying monthly dividends in September 1994. Through the end of the reporting period, shareholders received 43.8 cents (\$0.438) per share in dividend income (+). Due to increased income earned by the fund, we were able to increase the monthly dividend to 4.9 cents (\$0.049) per share from 4.8 cents (\$0.048) per share, effective with the December 1994 distribution. Dividends will vary based on the earnings of the fund's portfolio, and past distributions are not necessarily predictive of future results.

At the end of the reporting period, your fund's distribution rate was 5.35%, based on an annualization of the current monthly dividend of 4.9 cents per share and the maximum offering price of \$11.00 on May 31, 1995. This double tax-free rate is generally higher than the after-tax return on a comparable taxable investment. For example, if you are in the maximum combined federal and Tennessee state personal income tax bracket of 43.2%, you would have to earn 9.42% from a taxable investment to match your fund's tax-free distribution rate.

GRAPHIC MATERIAL 10 OMITTED SEE APPENDIX AT END OF DOCUMENT

The Franklin Tennessee Municipal Bond Fund provided a total return of +8.97% for the one-year period ended May 31, 1995. Total return measures the change in value of an investment during the period indicated, assuming reinvestment of dividends and capital gains, if any. This calculation does not include the initial sales charge. Past performance is not predictive of future results.

The chart on the following page compares the fund's performance with that of the Lehman Brothers Municipal Bond Index and the Consumer Price Index (CPI). The Lehman Brothers Index has some inherent performance differentials over any fund as it holds no cash in its portfolio and

(+) Assumes shares were purchased and held for the entire accrual period. Since dividends accrue daily, your actual distributions will vary, depending on the date you purchased your shares and any account activity during the month. Income distributions and total return calculations include all income earned by the fund during the reporting period.

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GRAPHIC MATERIAL 11 OMITTED SEE APPENDIX AT END OF DOCUMENT

involves no sales charges or management expenses. In addition, the index includes municipal securities from across the country while your fund is composed primarily of Tennessee municipal bonds. Please remember that an index is simply a measure of performance and cannot be invested in directly.

Your fund's managers maintain a long-term investment perspective and we encourage our shareholders to do the same. While the fund may experience volatility from time to time, we believe that its performance will be rewarding over the long term.

FRANKLIN TENNESSEE MUNICIPAL BOND FUND  
Period ended May 31, 1995



<TABLE>  
<CAPTION>

	1-YEAR	SINCE INCEPTION (05/09/94)
<S>	<C>	<C>
Cumulative Total Return(1)	8.97%	10.01%
Average Annual Total Return(2)	4.35%	5.05%
Distribution Rate(3)		5.35%
Taxable Equivalent Distribution Rate(4)		9.42%
30-Day Standardized Yield(5)		5.78%
Taxable Equivalent Yield(4)		10.18%

</TABLE>

(1). Cumulative total return measures the change in value of an investment over the periods indicated and does not include the maximum 4.25% initial sales charge stated in the prospectus. See note below.

(2). Average annual total return represents the average annual change in value of an investment over the specified periods and includes the maximum 4.25% initial sales charge. See note below.

(3). Based on an annualization of the fund's current 4.9 cent per share monthly dividend and the maximum offering price of \$11.00 on May 31, 1995.

(4). Taxable equivalent distribution rate and yield assume the 1995 maximum combined federal and Tennessee state income tax bracket of 43.2%, based on the 39.6% federal income tax rate.

(5). Yield, calculated as required by the SEC, is based on the earnings of the fund's portfolio for the 30 days ended 5/31/95.

Note: All total return calculations assume reinvestment of dividends and capital gains at net asset value. Investment return and principal value will fluctuate with market conditions, and you may have a gain or loss when you sell your shares. Past performance is not predictive of future results.

The fund's manager has agreed in advance to waive a portion of the management fees, which reduces operating expenses and increases distribution rate, yield and total return to shareholders. Without this waiver, the fund's distribution rate and total return would have been lower, and yield for the period would have been 4.00%. The fee waiver may be discontinued at any time upon advance notice to the fund's Board of Trustees.

\*This performance graph assumes an initial \$10,000 investment and includes the maximum 4.25% sales charge, all fund expenses and account fees. It also assumes that your dividends and capital gains were reinvested at net asset value. The Lehman Brothers Municipal Bond Index includes price appreciation or depreciation and distributions as a percentage of the original investment. Past performance cannot guarantee future results.

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FRANKLIN WASHINGTON MUNICIPAL BOND FUND  
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FUND OBJECTIVE

Managed to provide shareholders with a high level of current income exempt from regular federal income tax while seeking preservation of capital by investing primarily in a portfolio of Washington municipal securities.\*

As bond yields increased, we took the opportunity to sell some of the fund's lower coupon bonds, and bought current coupon bonds, a strategy which enabled us to slightly increase the fund's income. In response, the fund's average coupon rose to 6.10% on May 31, 1995, from 5.92% on May 31, 1994.

While our investment strategy focuses on income rather than total return, the fund reported a total return of +10.10% for the one-year period -- better than the average total return of other Washington municipal bond funds. According to

Lipper Analytical Services, Inc., the average total return of Washington municipal bond funds was 9.22% for the year ended May 31, 1995.\*\*

We remain conservative in our management of the fund. The chart below illustrates that, at the end of the fiscal year, over 40% of the fund's securities were rated AAA at the time of purchase -- the highest rating possible -- from Standard & Poor's, or were judged to be of comparable credit quality by the fund's managers. We evaluate each issue on an individual basis, favoring highly rated "essential service" bonds. These securities tend to have a more reliable income stream as they are backed by dependable revenue generated from projects such as utilities, transportation and water,

GRAPHIC MATERIAL 15 OMITTED SEE APPENDIX AT END OF DOCUMENT

\*The fund may invest as much as 100% of its assets in bonds that pay interest subject to the federal alternative minimum tax. All or a significant portion of the income on these obligations may be subject to such tax. Distributions of capital gains and of ordinary income from accrued market discount, if any, are generally taxable. The risks of investing in a non-diversified fund, such as increased susceptibility to adverse economic or regulatory developments, are described in the prospectus.

\*\*The fund was ranked #2 out of 8 Washington municipal bond funds in total return for the one-year period ended May 31, 1995, as measured by Lipper Analytical Services, Inc., a nationally recognized mutual fund rating organization. Lipper rankings do not include sales charges; past and present expense reductions by the fund's manager increased the fund's total returns. Rankings may have been different if these factors had been considered. Past performance cannot guarantee future results.

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FRANKLIN WASHINGTON MUNICIPAL BOND FUND

power and sewer works, to name a few. As a result, these bonds tend to be less affected by budgetary and political changes, and are believed to be very attractive in a municipal cost-cutting environment. Like all mutual funds, however, the principal value of the fund's holdings as well as the price of its shares will vary with market conditions.

We also seek to reduce the fund's risk by spreading its assets among a broad range of cities and counties throughout Washington. Additionally, we purchase securities from a variety of municipal sectors, as shown in the table to the right.

Our outlook for the fund is positive. Recent economic reports indicate that U.S. economic growth has stabilized at a healthy and sustainable level, while inflation has remained subdued. Signs of a slowing economy should eventually result in a gradual decline in interest rates, which could positively affect bond prices and, thus, the fund's price per share.

Washington continues to enjoy a broadly diversified economic base. Tourism, computers, military and agriculture compose a healthy portion of the state's economy. However, the state still faces new fiscal and economic challenges. Boeing, whose 100,000 employees represent roughly 5% of employment in the state, is expected to reduce its workforce by 29,000 employees by the end of 1995. Additionally, Initiative 601, which imposes spending limits, earned voter approval in November 1993 and should significantly constrain fiscal flexibility.

However, Washington's bountiful resources and favorable tax circumstances should continue to support its growth. Sound debt policies and government support of employment growth should help Washington expand and build upon its reputation as one of the nation's favored living locations.

Portfolio Breakdown on May 31,1995
As a percentage of total net assets

<TABLE>
<CAPTION>

SECTOR % of TOTAL NET ASSETS
-----

<S>	<C>
Utilities	25.9%
-----	-----
General Obligations	24.7%
-----	-----
Industrial	13.0%
-----	-----
Education	12.6%
-----	-----
Hospitals	10.3%
-----	-----
Housing	8.4%
-----	-----
Transportation	8.4%
-----	-----
Certificates of Participation	1.7%
-----	-----

FOR A COMPLETE LIST OF PORTFOLIO HOLDINGS, PLEASE SEE PAGE 38 OF THIS REPORT.

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PERFORMANCE SUMMARY

The Franklin Washington Municipal Bond Fund's share price, as measured by net asset value, increased to \$9.90 on May 31, 1995, from \$9.55 on May 31, 1994.

The fund continued to meet its investment objective of providing high current income to its shareholders. For the one-year period ended May 31, 1995, your(+) fund paid monthly income distributions totaling 56.4 cents (\$0.564) per share. Due to increased income earned by the fund, we were able to adjust your monthly dividend to 4.7 cents (\$0.047) per share from 4.6 cents (\$0.046) per share, effective with the September 1994 distribution. The monthly dividend was further adjusted to 4.8 cents (\$0.048) per share with the March 1995 distribution. Dividends will vary based on the earnings of the fund's portfolio, and past distributions are not necessarily predictive of future results.

At the end of the reporting period, your fund's distribution rate was 5.57%, based on an annualization of the current monthly dividend of 4.8 cents per share and the maximum offering price of \$10.34 on May 31, 1995. This tax-free rate is generally higher than the after-tax return on a comparable taxable investment. For example, if you are in the maximum federal income tax bracket of 39.6%, you would have to earn 9.22% from a taxable investment to match your fund's tax-free distribution rate.

The Franklin Washington Municipal Bond Fund provided a total return of +10.10% for the one-year period ended May 31, 1995. Total return measures the change in value of an investment during the period indicated, assuming reinvestment of dividends and capital gains, if any. This calculation does not include the initial sales charge, and past performance is not predictive of future results.

GRAPHIC MATERIAL 13 OMITTED SEE APPENDIX AT END OF DOCUMENT

Since 1993, the Franklin Washington Municipal Bond Fund has exceeded the Consumer Price Index (CPI), keeping your purchasing power well ahead of inflation -- a primary goal of any investment. The fund, however, has slightly underperformed the unmanaged Lehman Brothers Municipal Bond Index, as illustrated by the chart on the following page. The index has some inherent

+Assumes shares were purchased and held for the entire accrual period. Since dividends accrue daily, your actual distributions will vary, depending on the date you purchased your shares and any account activity during the month. Income distributions and total return calculations include all income earned by the fund during the reporting period.

performance differentials over any fund as it holds no cash in its portfolio and involves no sales charges or management expenses. In addition, the index includes municipal securities from across the country while your fund is composed primarily of Washington municipal bonds. Please remember that an index is simply a measure of performance and cannot be invested in directly.

Your fund's managers maintain a long-term investment perspective and we encourage our shareholders to do the same. While the fund may experience volatility from time to time, we believe that its performance will be rewarding over the long term.

FRANKLIN WASHINGTON MUNICIPAL BOND FUND  
 Period ended May 31, 1995

<TABLE>  
 <CAPTION>

	1-YEAR	SINCE INCEPTION (05/03/93)
<S>	<C>	<C>
Cumulative Total Return(1)	10.10%	10.16%
Average Annual Total Return(2)	5.46%	2.62%
Distribution Rate(3)	5.57%	
Taxable Equivalent Distribution Rate(4)	9.22%	
30-Day Standardized Yield(5)	5.80%	
Taxable Equivalent Yield(4)	9.60%	

</TABLE>

(1). Cumulative total return measures the change in value of an investment over the periods indicated and does not include the maximum 4.25% initial sales charge stated in the prospectus. See note below.

(2). Average annual total return represents the average annual change in value of an investment over the specified periods. The figures have been restated to reflect the maximum 4.25% initial sales charge. See note below.

(3). Based on an annualization of the fund's current 4.8 cent per share monthly dividend and the maximum offering price of \$10.34 on May 31, 1995.

(4). Taxable equivalent distribution rate and yield assume the 1995 maximum federal income tax bracket of 39.6%.

(5). Yield, calculated as required by the SEC, is based on the earnings of the fund's portfolio for the 30 days ended 5/31/95.

Note: Prior to July 1, 1994, fund shares were offered at a higher initial sales charge. Thus, total returns for purchasers of shares during that period would have been somewhat different than noted above. All total return calculations assume reinvestment of dividends and capital gains at net asset value. Investment return and principal value will fluctuate with market conditions, and you may have a gain or loss when you sell your shares. Past performance is not predictive of future results.

The fund's manager has agreed in advance to waive a portion of the management fees, which reduces operating expenses and increases distribution rate, yield and total return to shareholders. Without this waiver, the fund's distribution rate and total return would have been lower, and yield for the period would have been 4.22%. The fee waiver may be discontinued at any time upon advance notice to the fund's Board of Trustees.

\*This performance graph assumes an initial \$10,000 investment and includes the maximum 4.25% sales charge, all fund expenses and account fees. It also assumes that your dividends and capital gains were reinvested at net asset value. The Lehman Brothers Municipal Bond Index includes price appreciation or depreciation and distributions as a percentage of the original investment. Past performance cannot guarantee future results.

## FRANKLIN MUNICIPAL SECURITIES TRUST

## STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, MAY 31, 1995

<TABLE> <CAPTION> FACE AMOUNT		FRANKLIN ARKANSAS MUNICIPAL BOND FUND	VALUE (NOTE 1)
<S>	<C>		<C>
	BONDS 93.1%		
\$ 130,000	Arkansas Development Financing Authority, SFMR, MBS Program, Series D, 6.85%, 01/01/27.....		\$ 136,196
175,000	Water Revenue, Revolving Loan Fund, Series A, MBIA Insured, 5.75%, 06/01/18.....		176,843
130,000	Arkansas GO, Refunding, Waste Disposal and Pollution, Series B, 6.25%, 07/01/20.....		135,099
100,000	Blytheville Solid Waste Recycling and Sewage Treatment Revenue, Nucor Corp. Project, 6.375%, 01/01/23.....		102,987
250,000	Camden Environmental Improvement Revenue, International Paper Co. Project, Series A, 7.625%, 11/01/18.....		280,173
130,000	Fort Smith Water and Sewer Revenue, Refunding and Construction, MBIA Insured, 6.00%, 10/01/12.....		135,450
130,000	Fouke School District No. 15, Refunding and Construction, MBIA Insured, 6.60%, 04/01/19 .....		137,636
115,000	Greenland School District No. 95, Washington County, Refunding and Construction, MBIA Insured, 6.50%, 05/01/13.....		120,123
125,000	Guam Airport Authority Revenue, Series B, 6.60%, 10/01/10.....		128,084
400,000	Jefferson County PCR, Refunding, Arkansas Power & Light Co., 6.30%, 06/01/18.....		411,488
140,000	Little Rock Capital Improvement, Refunding, 6.30%, 02/01/09.....		144,991
130,000	Little Rock Municipal Airport Revenue, Refunding, MBIA Insured, 6.00%, 11/01/14 .....		133,026
120,000	Little Rock School District, Refunding, 6.25%, 12/01/07.....		121,129
250,000	Puerto Rico Commonwealth GO, 6.50%, 07/01/23 .....		263,088
175,000	Puerto Rico Electric Power Authority Revenue, Series R, 6.25%, 07/01/17.....		178,997
175,000	Puerto Rico SFMR, Bank and Financial Agency, Affordable Housing Mortgage, Portfolio I, 6.25%, 04/01/29.....		176,580
125,000	Pulaski County Health Facilities Board Revenue, Refunding, Nazareth Sisters of Charity, St. Vincent's Infirmary, MBIA Insured, 6.05%, 11/01/09.....		133,960
600,000	Pulaski County Public Facilities Board, MFR, Refunding, South Oaks Apartments, Series A, 6.50%, 10/20/29.....		611,526
195,000	Saline County, Retirement Housing and Healthcare Facilities, Board Revenue, Refunding, AMBAC Insured, 5.80%, 06/01/11.....		194,184
125,000	University of Southern Arkansas, Student Fees, MBIA Insured, 6.00%, 10/01/13.....		127,951
	TOTAL BONDS (COST \$3,711,477).....		3,849,511
	(a) SHORT TERM INVESTMENTS 2.4%		
100,000	Arkansas Hospital Equipment Finance Authority Revenue, Jefferson Hospital Association Project, Weekly VRDN and Put, 3.75%, 12/01/99 (COST \$100,000).....		100,000
	TOTAL INVESTMENTS (COST \$3,811,477) 95.5%.....		3,949,511
	OTHER ASSETS AND LIABILITIES, NET 4.5% .....		184,230
	NET ASSETS 100.0% .....		\$4,133,741

&lt;/TABLE&gt;

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

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## FRANKLIN MUNICIPAL SECURITIES TRUST

## STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, MAY 31, 1995 (CONT.)

<TABLE> <CAPTION> FRANKLIN ARKANSAS MUNICIPAL BOND FUND		VALUE (NOTE 1)
<S>	<C>	
	At May 31, 1995, the net unrealized appreciation based on the cost of investments for income tax purposes of \$3,811,477 was as follows:	
	Aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost.....	\$ 138,034
	Aggregate gross unrealized depreciation for all investments in which there was an excess of tax cost over value.....	--
	Net unrealized appreciation.....	\$ 138,034

&lt;/TABLE&gt;

PORTFOLIO ABBREVIATIONS:  
 AMBAC - American Municipal Bond Assurance Corp.  
 GO - General Obligation  
 MBIA - Municipal Bond Investors Assurance Corp.  
 MBS - Mortgage-Backed Securities  
 MFR - Multi-Family Revenue  
 PCR - Pollution Control Revenue  
 SFMR - Single Family Mortgage Revenue

(a) Variable rate demand notes (VRDN's) 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 upon short notice prior to specified dates. The interest rate may change on specified dates in relationship with changes in a designated rate (such as the prime interest rate or U.S. Treasury bills rate).

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

FRANKLIN MUNICIPAL SECURITIES TRUST

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, MAY 31, 1995

<TABLE>  
 <CAPTION>

FACE AMOUNT	FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND	VALUE (NOTE 1)
<S>	<C>	<C>
	BONDS 95.3%	
\$ 1,160,000	Adelanto Improvement Agency, Tax Allocation, Refunding & Improvement Project, Series C, 7.75%, 12/01/29.....	\$ 1,004,850
495,000	Antioch Improvement Board, 1915 Act, AD No. 27, Series D, 7.30%, 09/02/13 .....	509,929
1,510,000	Belmont RDA, Tax Allocation, Los Costanos Community Development, Series A, 6.80%, 08/01/24.....	1,577,044
575,000	Benicia, 1915 Act, Refunding, Fleetside Industrial Park Assessment, 7.00%, 09/02/14 .....	592,198
1,800,000	California Health Facilities Financing Authority Revenue, Cedarknoll Insured, Series B, 7.50%, 08/01/20.....	1,922,958
1,235,000	California Health Facilities Financing Authority Revenue, Clinicas Del Camino, Insured, Series A, 6.55%, 05/01/25 .....	1,249,141
	California HFAR, Home Mortgage, Series B, 7.125%, 02/01/26.....	1,218,563
1,800,000	Series F-1, 7.00%, 08/01/26.....	1,853,244
1,000,000	California PCFA, Solid Waste Disposal Revenue, Browning-Ferris Industry, 6.75%, 09/01/19.....	1,045,670
85,000	California Special District Association Finance Corp., COP, Series V, 7.50%, 05/01/13 .....	87,417
1,800,000	California Statewide Communities Development Authority Revenue, COP, 7.25%, 12/01/22.....	1,944,360
1,000,000	Capistrano USD, CFD, Special Tax No. 92-1, 7.00%, 09/01/18.....	952,590
2,600,000	Hesperia Public Financing Authority, Improvement Revenue, Series B, 7.375%, 10/01/23.....	2,628,340
	Irvine Ranch Water District Joint Powers Agency, Local Pool Revenue, Issue I, 7.875%, 02/15/23.....	1,045,280
2,000,000	Issue II, 8.25%, 08/15/23.....	2,127,380
1,500,000	John C. Fremont Hospital District Revenue, California Health Facilities Insured, 6.75%, 06/01/13.....	1,563,765
1,265,000	Lake Elsinore, 1915 Act, AD No. 93-1, Series A, 7.90%, 09/02/24 .....	1,307,846
140,000	Long Beach Special Tax, CFD No. 2, Long Beach, 7.50%, 09/01/11.....	144,515
1,150,000	Los Angeles MFR, Refunding, Series J-2, 8.50%, 01/01/24.....	1,110,532
1,480,000	Millbrae Elementary School District, COP, Financing Project, 6.90%, 03/01/22 .....	1,536,610
1,630,000	Orinda 1915 Act, AD No. 94-1, Oak Springs, 8.25%, 09/02/19.....	1,678,704
10,000,000	Palmdale Special Tax, CFD, No. 93-1, Ritter Ranch Project, Series A, 8.50%, 09/01/17 .....	10,200,500
500,000	Perris Public Financing Authority, Local Agency Revenue, Series B, 7.25%, 08/15/23 .....	506,030
1,125,000	Richmond Joint Powers Financing Authority, 1915 ACT, ID Nos. 851 and 853, Series B, 8.50%, 09/02/19.....	1,160,078
100,000	Sacramento County, 1915 ACT, Refunding, Sunrise/U.S. Corridor Assessment, 7.00%, 09/02/09 .....	99,628
1,750,000	San Buenaventura COP, Capital Improvement Projects, 6.85%, 08/01/16 .....	1,781,325
800,000	San Francisco City and County Revenue, Irwin Memorial Blood Centers, Series A 6.80%, 12/01/21 ..	825,432
400,000	San Joaquin Hills, Transportation Corridor Agency, Toll Road Revenue, Senior Lien, 7.00%, 01/01/30 .....	410,620
1,500,000	San Ramon Public Financing Authority, Refunding, Tax Allocation, 6.90%, 02/01/24.....	1,539,705

</TABLE>

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

FRANKLIN MUNICIPAL SECURITIES TRUST

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, MAY 31, 1995 (CONT.)

<TABLE> <CAPTION> FACE AMOUNT		FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND	VALUE (NOTE 1)
<S>	<C>		<C>
	BONDS (CONT.)		
\$ 1,500,000	Santa Rosa, 1915 Act, Fountain/Grove Parkway Extension Assessment, 7.625%, 09/02/19.....		\$ 1,545,015
1,200,000	Tracy COP, I-205 Corridor Improvement Project, 7.00%, 10/01/27.....		1,232,496
2,250,000	West Covina COP, Refunding, Civic Center, 6.875%, 09/01/14.....		2,303,819
	TOTAL BONDS (COST \$47,341,065).....		48,705,584
	(b) ZERO COUPON/STEP-UP BONDS 1.3%		
1,000,000	San Gabriel USD, COP, Convertible Facility Development Program B, FSA Insured, zero coupon to 09/01/02, (original accretion rate 6.60%), 6.60% thereafter, 09/01/15 (COST \$619,910).....		653,240
	TOTAL LONG TERM INVESTMENTS (COST \$47,960,975).....		49,358,824
	(a) SHORT TERM INVESTMENTS 0.8%		
200,000	Irvine, 1915 ACT, AD No. 89-10, Daily VRDN and Put, 4.25%, 09/02/15.....		200,000
200,000	Orange County, 1915 Act, Irvine Coast, AD No. 88-1, Daily VRDN and Put, 4.50%, 09/02/18 .....		200,000
	TOTAL SHORT TERM INVESTMENTS (COST \$400,000).....		400,000
	Total Investments (Cost \$48,360,975) 97.4%.....		49,758,824
	Other Assets and Liabilities, Net 2.6%.....		1,342,718
	NET ASSETS 100.0% .....		\$51,101,542 =====
	At May 31, 1995, the net unrealized appreciation based on the cost of investments for income tax purposes of \$48,360,975 was as follows:		
	Aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost.....		\$ 1,615,315
	Aggregate gross unrealized depreciation for all investments in which there was an excess of tax cost over value.....		(217,466)
	Net unrealized appreciation.....		\$ 1,397,849 =====

</TABLE>

PORTFOLIO ABBREVIATIONS

1915 ACT - Improvement Bond Act of 1915  
AD - Assessment District  
CFD - Community Facilities District  
COP - Certificate of Participation  
FSA - Financial Security Assistance  
HFAR - Housing Finance Agency Revenue  
ID - Improvement District  
MFR - Multi Family Revenue  
PCFA - Pollution Control Financing Authority  
RDA - Redevelopment Agency  
USD - Unified School District

(a) Variable rate demand notes (VRDN's) 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 upon short notice prior to specified dates. The interest rate may change on specified dates in relationship with changes in a designated rate (such as the prime interest rate or U.S. Treasury bills rate).

(b) Zero coupon/step-up bonds. The current effective yield may vary. The original accretion rate will remain constant.

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

FRANKLIN MUNICIPAL SECURITIES TRUST

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, MAY 31, 1995

<TABLE> <CAPTION> FACE AMOUNT		FRANKLIN HAWAII MUNICIPAL BOND FUND	VALUE (NOTE 1)
<S>	<C>		<C>

BONDS 83.9%		
	Guam Airport Authority Revenue,	
\$ 200,000	Series B, 6.60%, 10/01/10 .....	\$ 204,934
1,000,000	Series B, 6.70%, 10/01/23 .....	1,016,990
280,000	Guam Government Limited Obligation Highway, Refunding, Series A, CGIC Insured,	
	6.30%, 05/01/12 .....	294,571
300,000	Guam Power Authority Revenue, Series A, 6.30%, 10/01/22 .....	300,594
	Hawaii County GO, Refunding & Improvement,	
250,000	Series A, FGIC Insured, 5.60%, 05/01/12.....	251,615
500,000	Series A, FGIC Insured, 5.60%, 05/01/13.....	500,530
	Hawaii State Airport System Revenue,	
300,000	Refunding, Third Series 1994, AMBAC Insured, 5.75%, 07/01/09 .....	303,414
60,000	Second Series 1990, FGIC Insured, 7.50%, 07/01/20 .....	66,687
1,520,000	Second Series 1991, 7.00%, 07/01/18 .....	1,614,985
200,000	Second Series 1991, MBIA Insured, 6.75%, 07/01/21 .....	211,300
400,000	Second Series 1992, MBIA Insured, 6.90%, 07/01/12 .....	451,448
	Hawaii State Department Budget and Finance, Special Purpose Mortgage Revenue,	
100,000	Hawaii Electric Co., Series A, FGIC Insured, 7.20%, 12/01/14 .....	106,540
1,100,000	Hawaii Electric Co., Series A, MBIA Insured, 6.60%, 01/01/25 .....	1,163,393
3,200,000	Hawaii Electric Light Co. and Subsidiaries, MBIA Insured, 6.55%, 12/01/22 .....	3,358,848
600,000	Hawaii Electric Light Co. and Subsidiaries, MBIA Insured, 5.45%, 11/01/23 .....	562,188
105,000	Pali Momi Medical Center Project, Pre-Refunded, 7.65%, 07/01/19 .....	123,374
500,000	Queens Medical Center Project, FGIC Insured, 6.20%, 07/01/22 .....	511,800
25,000	Refunding, Hawaii Electric Co., 6.875%, 04/01/12 .....	25,857
100,000	Refunding, Kaiser Permanente, Series A, 6.25%, 03/01/21 .....	101,086
600,000	Refunding, Kapiolani Health Care System, 6.40%, 07/01/13 .....	620,652
1,075,000	Refunding, Kapiolani Health Care System, 6.00%, 07/01/19 .....	1,079,773
725,000	Refunding, Queens Medical Center Project, FGIC Insured, 6.50%, 07/01/12 .....	749,085
1,100,000	Refunding, Wahiawa General Hospital Project, 7.50%, 07/01/12.....	1,165,120
1,100,000	St. Francis Medical Centers, CGIC Insured, 6.50%, 07/01/22 .....	1,144,990
875,000	Hawaii State Department Transport, Special Facilities Revenue, Refunding,	
	Matson Terminals, Inc., 5.75%, 03/01/13 .....	856,826
	Hawaii State GO,	
100,000	Series BT, Pre-Refunded, 6.125%, 02/01/11 .....	107,503
100,000	Series BW, 6.375%, 03/01/11 .....	109,234
100,000	Series CA, 6.00%, 01/01/09 .....	105,319
500,000	Series CJ, 6.25%, 01/01/13 .....	521,910
	Hawaii State Harbor Capital Improvement Revenue,	
1,000,000	Refunding, Series 1994, FGIC Insured, 6.25%, 07/01/15 .....	1,031,370
500,000	Refunding, Series 1994, FGIC Insured, 6.375%, 07/01/24 .....	518,660
70,000	Series 1990, MBIA Insured, 7.25%, 07/01/10 .....	77,034

</TABLE>

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

FRANKLIN MUNICIPAL SECURITIES TRUST

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, MAY 31, 1995 (CONT.)

<TABLE>		
<CAPTION>		
FACE	FRANKLIN HAWAII MUNICIPAL BOND FUND	VALUE
AMOUNT		(NOTE 1)
<S>	<C>	<C>
	BONDS (CONT.)	
	Hawaii State Harbor Capital Improvement Revenue, (cont.)	
\$ 80,000	Series 1990, MBIA Insured, 7.00%, 07/01/17 .....	\$ 86,788
200,000	Series 1992, FGIC Insured, 6.50%, 07/01/19 .....	208,892
200,000	Hawaii State Highway Revenue, 5.00%, 07/01/12.....	184,022
1,000,000	Hawaii State Housing Finance and Development Corp., Rental Housing System	
	Revenue, Refunding, Series A, 5.60%, 07/01/12.....	947,370
	Hawaii State Housing Finance and Development Corp., SFM Purchase Revenue,	
465,000	Series A, 7.10%, 07/01/24.....	481,680
2,000,000	Series B, 5.85%, 07/01/17.....	1,970,660
	Honolulu, Hawaii, City and County,	
150,000	Refunding, Series 1992, 6.00%, 12/01/14 .....	156,332
85,000	Series A, 6.30%, 03/01/08 .....	90,323
100,000	Series A, 6.30%, 03/01/11 .....	105,195
75,000	Series A, Pre-Refunded, 6.70%, 08/01/07 .....	83,915
100,000	Series A, Pre-Refunded, 6.70%, 08/01/11 .....	111,886
1,000,000	Series B, 6.125%, 06/01/14.....	1,043,450
	Honolulu, Hawaii, City and County, MFHR,	
150,000	Hale Pauahi Project, Series A, FHA Mortgage Insured, MBIA Insured,	
	8.70%, 12/01/28.....	157,023
1,205,000	Waipahu Towers Project, Series A, 6.90%, 06/20/35 .....	1,230,642
220,000	Kauai County, GO, Refunding, Series C, AMBAC Insured, 5.95%, 08/01/10 .....	232,626
100,000	Maui County Board, Water Supply Revenue, Series A, FGIC Insured, Pre-Refunded,	
	6.70%, 12/01/11.....	112,401
	Maui County, GO, Refunding,	



50,000	Series 1992, 6.05%, 09/01/07 .....	52,209
300,000	Series 1992, 6.10%, 09/01/08 .....	312,537
385,000	Series A, FGIC Insured, 5.75%, 01/01/11 .....	391,110
25,000	Series B, C, D & E, FGIC Insured, 5.00%, 09/01/08 .....	23,970
350,000	Series B, C, D & E, FGIC Insured, 5.25%, 09/01/06 .....	351,621
145,000	Puerto Rico Commonwealth, Aqueduct and Sewer Authority Revenue, Series A, 7.00%, 07/01/19.....	152,920
	Puerto Rico Commonwealth, Electric Power Authority Revenue, Refunding, Water Resources, Series O, Pre-Refunded, 7.125%, 07/01/14 .....	61,432
55,000	Series O, Pre-Refunded, 7.125%, 07/01/14 .....	65,142
60,000	Series O, Pre-Refunded, 7.125%, 07/01/14 .....	65,142
500,000	Series U, 6.00%, 07/01/14 .....	503,185
1,000,000	Puerto Rico Commonwealth, GO, Series A, MBIA Insured, 5.75%, 07/01/24 .....	997,140
315,000	Puerto Rico Commonwealth, Highway and Transportation Authority Revenue, Series T, 6.625%, 07/01/18 .....	331,518
350,000	Puerto Rico Industrial Medical and Environmental Facilities Revenue PCFA, PepsiCo., Inc. Project, 6.25%, 11/15/13 .....	372,623

</TABLE>

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

FRANKLIN MUNICIPAL SECURITIES TRUST

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, MAY 31, 1995 (CONT.)

<CAPTION>		VALUE
FACE	FRANKLIN HAWAII MUNICIPAL BOND FUND	(NOTE 1)
AMOUNT		
<S>	<C>	<C>
	BONDS (CONT.)	
\$ 215,000	Puerto Rico PBA, Guaranteed, Public Education and Health Facilities, Series L, Pre-Refunded, 6.875%, 07/01/21.....	\$ 247,961
230,000	Puerto Rico Telephone Authority Revenue, Refunding, Series L, 6.125%, 01/01/22 ...	233,582
325,000	University of Hawaii System Revenue, Series G, AMBAC Insured, 5.70%, 10/01/17 ....	322,536
	TOTAL BONDS (Cost \$30,092,257).....	30,880,321
	(a) SHORT TERM INVESTMENTS .3%	
100,000	Hawaii State Housing Finance and Development Corp., Revenue, Rental Housing Systems, Series A, Weekly VRDN and Put, 3.85%, 07/01/24 (COST \$100,000).....	100,000
	TOTAL INVESTMENTS (COST \$30,192,257) 84.2%.....	30,980,321
	OTHER ASSETS AND LIABILITIES, NET 15.8%.....	5,847,047
	NET ASSETS 100.0%.....	\$36,827,368
	At May 31, 1995, the net unrealized appreciation based on the cost of investments for income tax purposes of \$30,192,257 was as follows:	
	Aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost.....	\$ 934,653
	Aggregate gross unrealized depreciation for all investments in which there was an excess of tax cost over value.....	(146,589)
	Net unrealized appreciation.....	\$ 788,064

</TABLE>

PORTFOLIO ABBREVIATIONS:

- AMBAC - American Municipal Bond Assurance Corp.
- CGIC - Capital Guaranty Insurance Co.
- FGIC - Financial Guaranty Insurance Corp.
- FHA - Federal Housing Agency/Authority
- GO - General Obligation
- MBIA - Municipal Bond Investors Assurance Corp.
- MFHR - Multi-Family Housing Revenue
- PBA - Public Building Authority
- PCFA - Pollution Control Financing Authority
- SFM - Single Family Mortgage

(a) Variable rate demand notes (VRDN's) 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 upon short notice prior to specified dates. The interest rate may change on specified dates in relationship with changes in a designated rate (such as the prime interest rate or U.S. Treasury bills rate).

FRANKLIN MUNICIPAL SECURITIES TRUST

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, MAY 31, 1995

<TABLE>

<CAPTION>

FACE AMOUNT	FRANKLIN TENNESSEE MUNICIPAL BOND FUND	VALUE (NOTE 1)
<S>	<C>	<C>
	BONDS 99.7%	
\$ 100,000	Bristol Health and Educational Facilities Board Revenue, Refunding, Bristol Memorial Hospital, FGIC Insured, 5.125%, 09/01/13 .....	\$ 93,631
500,000	Carroll County, IDB, IDR, Refunding, Henry I, Siegel Co., Inc. Project, 7.20%, 04/01/05..	506,170
600,000	Humphreys County IDB, Solid Waste Disposal Revenue, Du Pont (E.I.) De Nemours & Co. Project, 6.70%, 05/01/24 .....	636,156
100,000	Johnson City Public Improvement, GO, Series B, AMBAC Insured, 6.70%, 05/01/20.....	107,356
100,000	Johnson City Solid Waste, AMBAC Insured, 5.80%, 05/01/09.....	102,593
100,000	Knox-Chapman Utility District, Knox County Water and Sewer Revenue, Refunding, MBIA Insured, 6.10%, 01/01/19.....	102,419
145,000	Knox County Public Improvement, 6.875%, 04/01/14.....	156,251
225,000	Loudon County, IDB, Solid Waste Disposal Revenue, Kimberly-Clark Corp. Project, 6.20%, 02/01/23 .....	227,417
150,000	Macon County GO, FGIC Insured, 5.90%, 09/01/13 .....	151,827
220,000	Maury County IDB, PCR, Multi-Modal, Refunding, Saturn Corp. Project, 6.50%, 09/01/24.....	225,078
150,000	Memphis Health Educational and Housing Facilities Board Mortgage Revenue, Refunding, Edgewater Territory, FHA/GNMA Insured, 7.375%, 01/20/27.....	159,372
100,000	MF, River Trace II, Series A, 6.45%, 04/01/26.....	101,593
100,000	Memphis-Shelby County Airport Authority, Special Facilities and Project Revenues, Refunding, Federal Express Corp., 6.75%, 09/01/12.....	104,238
100,000	Metropolitan Government of Nashville and Davidson County, 6.125%, 05/15/19.....	102,869
200,000	Metropolitan Government of Nashville and Davidson County, Electric Revenue, Refunding, Series A, 6.00%, 05/15/17.....	204,288
205,000	Metropolitan Nashville Airport Authority Revenue, Series C, FGIC Insured, 6.60%, 07/01/15.....	217,058
	Metropolitan Nashville and Davidson County, Health and Educational Facilities Board Revenue,	
200,000	(c)Adventist Health Systems, MBIA Insured, 5.75%, 11/15/25 .....	194,640
150,000	Meharry Medical College Project, AMBAC Insured, 6.875%, 12/01/24.....	163,608
180,000	Milan Special School District, AMBAC Insured, 6.625%, 04/01/11 .....	192,386
100,000	Pigeon Forge Public Improvement, MBIA Insured, 5.90%, 06/01/09.....	103,206
185,000	Puerto Rico Commonwealth, Aqueduct and Sewer Authority Revenue, Series A, 7.00%, 07/01/19.....	195,105
100,000	Puerto Rico Commonwealth, Electric Power Authority Revenue, Water Resources, Series R, 6.25%, 07/01/17.....	102,284
100,000	Puerto Rico Commonwealth, GO, 6.50%, 07/01/23.....	105,235
200,000	Puerto Rico Industrial Tourist Educational Medical and Environmental Control, Facilities Financing Authority Hospital Revenue, Auxilio Mutuo Obligation Group, Series A, MBIA Insured, 6.25%, 07/01/24.....	209,386
100,000	Sevier County IDB, IDR, Refunding, Kmart Corp. Project, 7.00%, 10/01/06.....	101,181
100,000	Shelby County GO, Series A, 5.90%, 03/01/15.....	101,900

</TABLE>

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

FRANKLIN MUNICIPAL SECURITIES TRUST

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, MAY 31, 1995 (CONT.)

<TABLE>

<CAPTION>

FACE AMOUNT	FRANKLIN TENNESSEE MUNICIPAL BOND FUND	VALUE (NOTE 1)
<S>	<C>	<C>
	BONDS (CONT.)	
\$200,000	Tennessee HDA, Mortgage Finance, Series A, 6.90%, 07/01/25.....	\$ 207,508
300,000	Series B, 6.60%, 07/01/25.....	304,212
100,000	Tennessee State Local Development Authority Revenue, Community Provider Pooled Loan Program, 6.55%, 10/01/23.....	103,380
100,000	Tennessee State School Board Authority, Higher Education Facilities, Series A,	

150,000	6.25%, 05/01/22.....	103,042
200,000	(c)Trenton Special School District, Series 1995, AMBAC Insured, 5.75%, 11/01/20.....	148,019
200,000	Tullahoma IDBR, Refunding, First Mortgage, 6.875%, 06/15/06 .....	207,541
220,000	Wilson County COP, Educational Facilities, 6.125%, 06/30/10.....	225,948
	TOTAL BONDS (COST \$5,712,333).....	5,966,897
	(a)SHORT TERM INVESTMENTS 1.7%	
100,000	Bradley County IDBR, Refunding, Olin Corp. Project, Series C, Daily VRDN and Put, 4.20%, 11/01/17 (COST \$100,000).....	100,000
	TOTAL INVESTMENTS (COST \$5,812,333) 101.4%.....	6,066,897
	LIABILITIES IN EXCESS OF OTHER ASSETS, NET (1.4)% .....	(80,919)
	NET ASSETS 100.0%.....	\$5,985,978

At May 31, 1995, the net unrealized appreciation based on the cost of investments for income tax purposes of \$5,812,333 was as follows:

Aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost.....	\$ 254,564
Aggregate gross unrealized depreciation for all investments in which there was an excess of tax cost over value.....	--
Net unrealized appreciation.....	\$ 254,564

</TABLE>

PORTFOLIO ABBREVIATIONS:

- AMBAC - American Municipal Bond Assurance Corp.
- COP - Certificate of Participation
- FGIC - Financial Guaranty Insurance Co.
- FHA - Federal Housing Authority/Agency
- GNMA - Government National Mortgage Association
- GO - General Obligation
- HDA - Housing Development Authority/Agency
- IDB - Industrial Development Board
- IDBR - Industrial Development Board Revenue
- IDR - Industrial Development Revenue
- MBIA - Municipal Bond Investors Assurance Corp.
- PCR - Pollution Control Revenue

(a) Variable rate demand notes (VRDN's) 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 upon short notice prior to specified dates. The interest rate may change on specified dates in relationship with changes in a designated rate (such as the prime interest rate or U.S. Treasury bills rate).

(c) See Note 1(e) regarding securities purchased on a when-issued basis.

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

FRANKLIN MUNICIPAL SECURITIES TRUST

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, MAY 31, 1995

<TABLE>  
<CAPTION>

FACE AMOUNT	FRANKLIN WASHINGTON MUNICIPAL BOND FUND	VALUE (NOTE 1)
<S>	<C>	<C>
	BONDS 102.2%	
\$ 100,000	Aberdeen GO, Series A, MBIA Insured, 5.80%, 12/01/12 .....	\$ 100,264
100,000	Bellevue Water and Sewer Revenue, Refunding, 5.875%, 07/01/10.....	101,929
200,000	Bellingham Housing Authority Revenue, Cascade Meadows Project, 7.10%, 11/01/23 .....	208,610
400,000	Conservation and Renewable Energy System Revenue, Washington Conservation Project, 6.50%, 10/01/14.....	418,892
100,000	Douglas County PUD No. 1, Electric District Systems Revenue, MBIA Insured, 6.00%, 01/01/15 .....	101,747
100,000	Federal Way Washington GO, Refunding, 5.85%, 12/01/21 .....	98,281
175,000	(c)King County Housing Authority Revenue, Woodridge Park Project, 6.25%, 05/01/15.....	174,591
100,000	King County School District No. 412, Shoreline, 6.10%, 06/01/13.....	101,491
150,000	Kirkland GO, 5.70%, 12/01/14.....	146,891
125,000	Kitsap County School District No. 400, North Kitsap, FGIC Insured, 5.50%, 06/01/13.....	120,710

175,000	Pierce County EDC Revenue, Solid Waste, Occidental Petroleum Corp., 5.80%, 09/01/29.....	157,365
650,000	Pilchuck Development Public Corp., Special Facilities Revenue, Airport Tramco, Inc. Project, 6.00%, 08/01/23.....	603,460
200,000	Port Chelan County GO, MBIA Insured, 6.25%, 12/01/15.....	203,846
200,000	Port of Seattle Revenue, Series B, 6.00%, 11/01/17 .....	200,104
100,000	Richland Water and Sewer Improvement Revenue, MBIA Insured, 5.625%, 04/01/12 .....	98,760
450,000	Seatac GO, MBIA Insured, 6.50%, 12/01/13.....	477,383
100,000	Seattle Municipal Light and Power Revenue, Series A, 5.75%, 08/01/17 .....	98,880
	Seattle Municipality Metropolitan Sewer Revenue, Refunding, Series V, 6.20%, 01/01/32.....	100,720
100,000	Series Y, FGIC Insured, 5.70%, 01/01/15.....	98,719
100,000	Snohomish County GO, MBIA Insured, 5.90%, 12/01/15.....	100,792
100,000	Spokane County Water District No. 3 Revenue, Refunding, 5.90%, 01/01/14 .....	100,738
300,000	Stevens County Public Corp., PCR, Refunding, Water Power Co. Project, 6.00%, 12/01/23....	287,766
100,000	Sunnyside GO, MBIA Insured, 6.10%, 12/01/14.....	102,309
100,000	Tacoma Refuse Utility Revenue, AMBAC Insured, 7.00%, 12/01/19.....	109,512
500,000	University of Washington, Aluminum Association, Lease Revenue, Roosevelt University Medical Center CGIC Insured, 6.30%, 08/15/14.....	519,365
100,000	Washington State COP, Office Building Project, Series A, MBIA Insured, 6.00%, 04/01/12...	100,795
100,000	Washington State GO, Series 1993-A, 5.75%, 10/01/17.....	98,630
	Washington State Health Care Facilities Authority Revenue, Harrison Memorial Hospital, AMBAC Insured, 5.40%, 08/15/23.....	93,032
100,000	Multicare Medical Center, FGIC Insured, 5.75%, 08/15/22 .....	96,658
150,000	Refunding, Dominican Health Services, Connie Lee Insured, 5.75%, 06/01/13 .....	147,036
125,000	Refunding, Franciscan Health, St. Joseph Hospital, MBIA Insured, 5.625%, 01/01/13.....	121,000
150,000	Refunding, Northwest Hospital, AMBAC Insured, 5.75%, 11/15/23.....	144,906

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

FRANKLIN MUNICIPAL SECURITIES TRUST

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, MAY 31, 1995 (CONT.)

<TABLE>		
<CAPTION>		
FACE		VALUE
AMOUNT	FRANKLIN WASHINGTON MUNICIPAL BOND FUND	(NOTE 1)
-----		
<S>	<C>	<C>
	BONDS (CONT.)	
\$100,000	Washington State Housing Finance, SFMR, MBS Program, Series A, 7.05%, 07/01/22 .....	\$ 104,383
125,000	Washington State Motor Vehicle Fuel Tax, Series D, 6.00%, 09/01/20 .....	126,414
		-----
	TOTAL INVESTMENTS (COST \$5,833,334) 102.2%.....	5,865,979
	LIABILITIES IN EXCESS OF OTHER ASSETS, NET (2.2)%.....	(125,182)
		-----
	NET ASSETS 100.0%.....	\$5,740,797
		=====

At May 31, 1995, the net unrealized appreciation based on the cost of investments for income tax purposes of \$5,833,334 was as follows:

Aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost.....	\$ 127,113
Aggregate gross unrealized depreciation for all investments in which there was an excess of tax cost over value.....	(94,468)
	-----
	\$ 32,645
	=====

</TABLE>

PORTFOLIO ABBREVIATIONS:

- AMBAC - American Municipal Bond Assurance Corp.
- CGIC - Capital Guaranty Insurance Co.
- COP - Certificate of Participation
- EDC - Economic Development Corp.
- FGIC - Financial Guaranty Insurance Co.
- GO - General Obligation
- MBIA - Municipal Bond Investors Assurance Corp.
- MBS - Mortgage Backed Securities
- PCR - Pollution Control Revenue
- PUD - Public Utility District
- SFMR - Single Family Mortgage Revenue

(c) See Note 1(e) regarding securities purchased on a when-issued basis.

FRANKLIN MUNICIPAL SECURITIES TRUST

FINANCIAL STATEMENTS

STATEMENTS OF ASSETS AND LIABILITIES

MAY 31, 1995

<TABLE>  
<CAPTION>

	FRANKLIN ARKANSAS MUNICIPAL BOND FUND	FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND	FRANKLIN HAWAII MUNICIPAL BOND FUND	FRANKLIN TENNESSEE MUNICIPAL BOND FUND	FRANKLIN WASHINGTON MUNICIPAL BOND FUND
<S>	<C>	<C>	<C>	<C>	<C>
<b>Assets:</b>					
Investments in securities:					
At identified cost.....	\$3,811,477	\$48,360,975	\$30,192,257	\$5,812,333	\$5,833,334
At value.....	3,949,511	49,758,824	30,980,321	6,066,897	5,865,979
Cash.....	46,098	128,817	183,760	150,817	35,687
Receivables:					
Interest.....	59,889	1,001,268	681,907	97,569	108,739
Capital shares sold.....	86,159	315,364	5,038,224	23,942	--
From affiliates.....	--	--	--	--	2,114
Unamortized organization costs (Note 2).....	--	--	2,544	--	--
Total assets.....	4,141,657	51,204,273	36,886,756	6,339,225	6,012,519
<b>Liabilities:</b>					
Payables:					
Investment securities purchased:					
When-issued basis (Note 1).....	--	--	--	342,902	172,753
Distributions payable to shareholders.....	5,809	74,505	40,962	8,351	7,802
Capital shares repurchased.....	--	687	2,074	--	90,680
Distribution fees.....	332	4,263	2,653	477	487
Accrued expenses and other liabilities.....	1,775	23,276	13,699	1,517	--
Total liabilities.....	7,916	102,731	59,388	353,247	271,722
Net assets, at value.....	\$4,133,741	\$51,101,542	\$36,827,368	\$5,985,978	\$5,740,797
<b>Net assets consist of:</b>					
Undistributed net investment income.....	\$ 31,781	\$ 96,559	\$ 115,269	\$ 42,120	\$ 36,472
Unrealized appreciation					
on investments.....	138,034	1,397,849	788,064	254,564	32,645
Accumulated net realized loss.....	(36,658)	(1,769,137)	(722,000)	(4,743)	(84,798)
Capital shares.....	4,000,584	51,376,271	36,646,035	5,694,037	5,756,478
Net assets, at value.....	\$4,133,741	\$51,101,542	\$36,827,368	\$5,985,978	\$5,740,797
Shares outstanding.....	400,569	5,145,872	3,452,783	568,467	579,874
Net asset value per share.....	\$ 10.32	\$ 9.93	\$ 10.67	\$ 10.53	\$ 9.90
<b>Representative computation (Franklin Arkansas Municipal Bond Fund) of net asset value and offering price per share:</b>					
Net asset value per share* (\$4,133,741 divided by 400,569).....	\$ 10.32				
Maximum offering price (100/95.75 of \$10.32).....	\$ 10.78				

</TABLE>

\* Redemption price per share is equal to net asset value less any applicable contingent deferred sales charge.

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

FRANKLIN MUNICIPAL SECURITIES TRUST

## FINANCIAL STATEMENTS (CONT.)

STATEMENTS OF OPERATIONS  
FOR THE YEAR ENDED MAY 31, 1995<TABLE>  
<CAPTION>

	FRANKLIN ARKANSAS MUNICIPAL BOND FUND	FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND	FRANKLIN HAWAII MUNICIPAL BOND FUND	FRANKLIN TENNESSEE MUNICIPAL BOND FUND	FRANKLIN WASHINGTON MUNICIPAL BOND FUND
<S>	<C>	<C>	<C>	<C>	<C>
Investment income:					
Interest (Note 1).....	\$171,186	\$2,906,912	\$1,747,814	\$220,937	\$297,529
Expenses:					
Management fees (Note 6).....	--	--	--	--	--
Distribution fees (Note 6).....	898	35,842	19,175	1,672	2,286
Professional fees.....	1,862	15,900	10,518	1,641	2,069
Reports to shareholders.....	--	17,022	10,077	--	--
Registration and filing fees.....	--	10,093	7,197	--	--
Custodian fees.....	218	3,892	2,663	279	439
Other.....	--	--	5,476	--	--
Total expenses.....	2,978	82,749	55,106	3,592	4,794
Net investment income.....	168,208	2,824,163	1,692,708	217,345	292,735
Realized and unrealized gain (loss) on investments:					
Net realized loss.....	(36,658)	(1,402,544)	(551,385)	(4,742)	(53,725)
Net unrealized appreciation during the year.....	127,376	2,759,666	1,468,052	232,907	282,570
Net realized and unrealized gain on investments.....	90,718	1,357,122	916,667	228,165	228,845
Net increase in net assets resulting from operations...	\$258,926	\$4,181,285	\$2,609,375	\$445,510	\$521,580

&lt;/TABLE&gt;

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

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## FRANKLIN MUNICIPAL SECURITIES TRUST

## FINANCIAL STATEMENTS (CONT.)

STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED MAY 31, 1995 AND 1994  
(EXCEPT AS NOTED)<TABLE>  
<CAPTION>

	FRANKLIN ARKANSAS MUNICIPAL BOND FUND		FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND		FRANKLIN HAWAII MUNICIPAL BOND FUND	
	1995	1994*	1995	1994	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Increase (decrease) in net assets:						
Operations:						
Net investment income.....	\$ 168,208	\$ 2,543	\$ 2,824,163	\$ 1,094,853	\$ 1,692,708	\$ 1,401,468
Net realized loss from security transactions.....	(36,658)	--	(1,402,544)	(339,852)	(551,385)	(159,863)
Net unrealized appreciation (depreciation) on investments.....	127,376	10,658	2,759,666	(1,350,386)	1,468,052	(1,254,988)
Net increase (decrease) in net assets resulting from operations.....	258,926	13,201	4,181,285	(595,385)	2,609,375	(13,383)
Distributions to shareholders from:						
Undistributed net investment income.....	(138,970)	--	(2,727,267)	(1,102,059)	(1,655,958)	(1,334,899)
Net realized capital gains.....	--	--	--	(25,621)	--	--
Increase in net assets from capital share transactions (Note 3).....	1,800,584	2,200,000	17,709,221	31,416,649	8,969,891	9,595,395
Net increase in net assets.....	1,920,540	2,213,201	19,163,239	29,693,584	9,923,308	8,247,113
Net assets:						

Beginning of year.....	2,213,201	--	31,938,303	2,244,719	26,904,060	18,656,947
End of year.....	\$4,133,741	\$2,213,201	\$51,101,542	\$31,938,303	\$36,827,368	\$26,904,060
Undistributed net investment income included in net assets:						
Beginning of year.....	\$ 2,543	\$ --	\$ (337)	\$ 6,869	\$ 78,519	\$ 11,950
End of year.....	\$ 31,781	\$ 2,543	\$ 96,559	\$ (337)	\$ 115,269	\$ 78,519

</TABLE>

\*For the period May 10, 1994 (effective date of registration) to May 31, 1994.

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

FRANKLIN MUNICIPAL SECURITIES TRUST

FINANCIAL STATEMENTS (CONT.)

STATEMENTS OF CHANGES IN NET ASSETS (CONT.) FOR THE YEARS ENDED MAY 31, 1995 AND 1994 (EXCEPT AS NOTED)

<TABLE>  
<CAPTION>

	FRANKLIN TENNESSEE MUNICIPAL BOND FUND		FRANKLIN WASHINGTON MUNICIPAL BOND FUND	
	1995	1994*	1995	1994
Increase (decrease) in net assets:	<C>	<C>	<C>	<C>
Operations:				
Net investment income.....	\$ 217,345	\$ 2,413	\$ 292,735	\$ 202,419
Net realized loss from security transactions.....	(4,742)	(1)	(53,725)	(26,074)
Net unrealized appreciation (depreciation) on investments.....	232,907	21,657	282,570	(241,899)
Net increase (decrease) in net assets resulting from operations.....	445,510	24,069	521,580	(65,554)
Distributions to shareholders from:				
Undistributed net investment income.....	(177,638)	--	(287,372)	(177,395)
Net realized capital gains.....	--	--	--	(4,999)
Increase in net assets from capital share transactions (Note 3).....	3,494,037	2,200,000	1,234,321	2,322,157
Net increase in net assets.....	3,761,909	2,224,069	1,468,529	2,074,209
Net assets:				
Beginning of year.....	2,224,069	--	4,272,268	2,198,059
End of year.....	\$5,985,978	\$2,224,069	\$5,740,797	\$4,272,268
Undistributed net investment income included in net assets:				
Beginning of year.....	\$ 2,413	\$ --	\$ 31,109	\$ 6,085
End of year.....	\$ 42,120	\$ 2,413	\$ 36,472	\$ 31,109

</TABLE>

\*For the period May 10, 1994 (effective date of registration) to May 31, 1994.

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

FRANKLIN MUNICIPAL SECURITIES TRUST

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Franklin Municipal Securities Trust (the Trust) is an open-end management investment company (mutual fund) registered under the Investment Company Act of 1940 as amended. The Trust currently operates five separate non-diversified

funds (the Funds), consisting of the Franklin Arkansas Municipal Bond Fund (the Arkansas Fund), Franklin California High Yield Municipal Fund (the California High Yield Fund), Franklin Hawaii Municipal Bond Fund (the Hawaii Fund), Franklin Tennessee Municipal Bond Fund (the Tennessee Fund), and Franklin Washington Municipal Bond Fund (the Washington Fund). Each of the Funds issues a separate series of the Trust's shares and maintains a totally separate investment portfolio.

The following is a summary of significant accounting policies consistently followed by the Funds in the preparation of their financial statements. The policies are in conformity with generally accepted accounting principles for investment companies.

a. SECURITY VALUATION:

Tax-free bonds generally trade in the over-the-counter market rather than on a national securities exchange. Often there are no transactions in a particular security on any given day. In the absence of a recorded sale or reported bid and ask prices, information with respect to bond and note transactions, quotations from bond dealers, market transactions in comparable securities, and various relationships between securities are used to determine the value of the security. The Trust may also utilize a pricing service, bank or broker/dealer experienced in such matters to perform any of the pricing functions, under procedures approved by the Board of Trustees. Other securities for which market quotations are not available, if any, are valued in accordance with procedures established by the Board of Trustees.

b. INCOME TAXES:

The Trust intends to continue to qualify for the tax treatment applicable to regulated investment companies under the Internal Revenue Code and to make the requisite distributions to its shareholders which will be sufficient to relieve it from income and excise taxes. Therefore, no income tax provision is required.

Each Fund is treated as a separate entity in the determination of compliance with the Internal Revenue Code.

c. SECURITY TRANSACTIONS:

Security transactions are accounted for on the date the securities are purchased or sold (trade date). Realized gains and losses on security transactions are determined on the basis of specific identification for both financial statement and income tax purposes.

d. INVESTMENT INCOME, EXPENSES AND DISTRIBUTIONS:

Distributions to shareholders are recorded on the ex-dividend date. Interest income and estimated expenses are accrued daily. Bond discount and premium, if any, are amortized as required by the Internal Revenue Code. The Fund normally declares dividends from its net investment income daily and distributes monthly. Daily allocations of net investment income will commence on the date of receipt of an investor's funds. Dividends are normally declared each day the New York Stock Exchange is open for business equal to an amount per day set from time to time by the Board of Trustees, and are payable to shareholders of record at the beginning of business on the ex-date. Once each month, dividends are reinvested in additional shares of the Funds, or paid in cash as requested by the shareholders.

e. SECURITIES PURCHASED ON A WHEN-ISSUED BASIS:

The Trust may trade securities on a when-issued or delayed delivery 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 Trust will generally purchase these securities with the intention of acquiring such securities, they may sell such securities before the settlement date. These securities are identified on the accompanying statement of investments in securities and net assets. The Trust has set aside sufficient investment securities as collateral for these purchase commitments.

FRANKLIN MUNICIPAL SECURITIES TRUST

=====

NOTES TO FINANCIAL STATEMENTS (CONT.)

1. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

f. EXPENSE ALLOCATION:

Common expenses incurred by the Trust are allocated among the Funds based on the ratio of net assets of each Fund to the combined net assets. In all other



respects, expenses are charged to each Fund as incurred on a specific identification basis.

## 2. UNAMORTIZED ORGANIZATION COSTS

The organization costs of the Hawaii Fund are amortized on a straight-line basis over a period of five years from February 26, 1992 (the effective date of registration under the Securities Act of 1933). In the event Franklin Resources, Inc. (which was the sole shareholder prior to February 26, 1992) redeems its shares within the five-year period, the pro rata share of the then-unamortized deferred organization costs will be deducted from the redemption price paid to Franklin Resources, Inc. New investors purchasing shares of the Hawaii Fund subsequent to that date bear such costs during the amortization period only as such charges are accrued daily against investment income. Franklin Advisers, Inc. had advanced all of the organization costs of the Hawaii Fund, which approximated \$7,269. In an effort to reduce the Fund's expenses, Franklin Advisers, Inc. agreed in advance to waive the repayment of the amount of the current period's amortization of \$1,454. The remaining unamortized balance of such costs at May 31, 1995 was \$2,544.

## 3. TRUST SHARES

At May 31, 1995, there were an unlimited number of no par value shares of beneficial interest authorized. Transactions in Trust shares were as follows:

	FRANKLIN ARKANSAS MUNICIPAL BOND FUND		FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND		FRANKLIN HAWAII MUNICIPAL BOND FUND	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Year Ended May 31, 1995						
Shares sold.....	146,322	\$1,458,232	1,405,516	\$13,498,165	1,051,753	\$10,928,396
Shares issued in reinvestment of distributions.....	12,161	119,791	105,767	1,008,368	90,526	918,020
Shares redeemed.....	(8,622)	(85,760)	(363,980)	(3,422,710)	(432,587)	(4,337,679)
Changes from exercise of exchange privilege:						
Shares sold.....	31,203	313,265	1,471,739	13,772,479	246,439	2,459,733
Shares redeemed.....	(495)	(4,944)	(756,537)	(7,147,081)	(100,947)	(998,579)
Net increase.....	180,569	\$1,800,584	1,862,505	\$17,709,221	855,184	\$ 8,969,891
Year Ended May 31, 1994+						
Shares sold.....	220,000	\$2,200,000	2,507,494	\$25,732,228	943,538	\$10,385,467
Shares issued in reinvestment of distributions.....	--	--	51,770	523,496	70,151	764,282
Shares redeemed.....	--	--	(181,366)	(1,829,597)	(218,807)	(2,362,214)
Changes from exercise of exchange privilege:						
Shares sold.....	--	--	897,709	9,167,457	127,875	1,386,820
Shares redeemed.....	--	--	(217,294)	(2,176,935)	(53,402)	(578,960)
Net increase.....	220,000	\$2,200,000	3,058,313	\$31,416,649	869,355	\$ 9,595,395

</TABLE>

+ For the Arkansas Fund, period May 10, 1994 (effective date of registration) to May 31, 1994.

## FRANKLIN MUNICIPAL SECURITIES TRUST

### NOTES TO FINANCIAL STATEMENTS (CONT.)

## 3. TRUST SHARES (CONT.)

	FRANKLIN TENNESSEE MUNICIPAL BOND FUND		FRANKLIN WASHINGTON MUNICIPAL BOND FUND	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
Year Ended May 31, 1995				
Shares sold.....	244,843	\$2,472,558	101,086	\$ 943,550

Shares issued in reinvestment of distributions.....	13,285	133,124	23,137	216,457
Shares redeemed.....	(1,364)	(13,923)	(44,411)	(405,642)
Changes from exercise of exchange privilege:				
Shares sold.....	133,558	1,323,485	91,931	844,196
Shares redeemed.....	(41,855)	(421,207)	(39,231)	(364,240)
	-----	-----	-----	-----
Net increase.....	348,467	\$3,494,037	132,512	\$1,234,321
	=====	=====	=====	=====
Year Ended May 31, 1994(+)				
Shares sold.....	220,000	\$2,200,000	183,326	\$1,875,000
Shares issued in reinvestment of distributions.....	--	--	13,870	140,305
Shares redeemed.....	--	--	(1,102)	(10,931)
Changes from exercise of exchange privilege:				
Shares sold.....	--	--	32,417	329,194
Shares redeemed.....	--	--	(1,149)	(11,411)
	-----	-----	-----	-----
Net increase.....	220,000	\$2,200,000	227,362	\$2,322,157
	=====	=====	=====	=====

</TABLE>

+ For the Tennessee Fund, period May 10, 1994 (effective date of registration) to May 31, 1994.

#### 4. DISTRIBUTIONS AND CAPITAL LOSS CARRYOVERS

At May 31, 1995, for tax purposes, the Trust had capital loss carryovers as follows:

<TABLE>

<CAPTION>

	FRANKLIN ARKANSAS MUNICIPAL BOND FUND	FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND	FRANKLIN HAWAII MUNICIPAL BOND FUND	FRANKLIN TENNESSEE MUNICIPAL BOND FUND	FRANKLIN WASHINGTON MUNICIPAL BOND FUND
<S>	<C>	<C>	<C>	<C>	<C>
Capital loss carryovers expiring:					
2001.....	\$ --	\$ --	\$ 10,752	\$ --	\$ --
2002.....	--	--	159,863	1	--
2003.....	36,658	1,769,137	551,385	4,742	84,798
	-----	-----	-----	-----	-----
	\$36,658	\$1,769,137	\$722,000	\$4,743	\$84,798
	=====	=====	=====	=====	=====

</TABLE>

For income tax purposes, the aggregate cost of securities and unrealized appreciation of the Trust are the same as for financial reporting purposes at May 31, 1995.

#### FRANKLIN MUNICIPAL SECURITIES TRUST

#### NOTES TO FINANCIAL STATEMENTS (CONT.)

#### 5. PURCHASES AND SALES OF SECURITIES

Aggregate purchases and sales of securities (excluding purchases and sales of short-term securities) for the year ended May 31, 1995 were as follows:

<TABLE>

<CAPTION>

	FRANKLIN ARKANSAS MUNICIPAL BOND FUND	FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND	FRANKLIN HAWAII MUNICIPAL BOND FUND	FRANKLIN TENNESSEE MUNICIPAL BOND FUND	FRANKLIN WASHINGTON MUNICIPAL BOND FUND
<S>	<C>	<C>	<C>	<C>	<C>
Purchases.....	\$4,706,261	\$39,033,060	\$9,676,640	\$4,908,176	\$2,336,797
	=====	=====	=====	=====	=====
Sales.....	\$2,085,070	\$22,033,307	\$6,265,190	\$ 860,600	\$ 859,608
	=====	=====	=====	=====	=====

</TABLE>

#### 6. TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Franklin Advisers, Inc. ("Manager"), under the terms of a management agreement, provides investment advice, office space and facilities to each Fund, and receives fees computed monthly based on the average daily net assets of each Fund at an annual rate of 5/8 of 1% of the first \$100 million of net assets; 1/2 of 1% of net assets in excess of \$100 million up to and including \$250 million;

and 45/100 of 1% of net assets in excess of \$250 million. The terms of the management agreement provide that annual aggregate expenses of the Funds be limited to the extent necessary to comply with the limitations set forth in the laws, regulations, and administrative interpretations of the states in which the Funds' shares are registered. The Funds' expenses did not exceed these limitations; however, for the year ended May 31, 1995, Franklin Advisers, Inc. agreed in advance to waive the management fees and made payments for other expenses which are not reflected in the Statements of Operations as follows:

<TABLE>

<CAPTION>

	FRANKLIN ARKANSAS MUNICIPAL BOND FUND	FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND	FRANKLIN HAWAII MUNICIPAL BOND FUND	FRANKLIN TENNESSEE MUNICIPAL BOND FUND	FRANKLIN WASHINGTON MUNICIPAL BOND FUND
<S>	<C>	<C>	<C>	<C>	<C>
Management fees.....	\$18,634	\$256,329	\$175,686	\$22,569	\$29,848
Other expenses.....	\$11,402	\$ 21,725	\$ 13,758	\$ 7,048	\$15,522

</TABLE>

In its capacity as underwriter for the shares of the Funds, Franklin/Templeton Distributors, Inc. received commissions on sales of the Trust's shares. Commissions are deducted from the gross proceeds received from the sale of the Trust's shares, and as such are not expenses of the Funds. Franklin/Templeton Distributors, Inc. may also make payments, out of its own resources, to dealers for certain sales of the Trust's shares. Commissions received by Franklin/Templeton Distributors, Inc. and the amounts paid to other dealers for the year ended May 31, 1995 were as follows:

<TABLE>

<CAPTION>

	FRANKLIN ARKANSAS MUNICIPAL BOND FUND	FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND	FRANKLIN HAWAII MUNICIPAL BOND FUND	FRANKLIN TENNESSEE MUNICIPAL BOND FUND	FRANKLIN WASHINGTON MUNICIPAL BOND FUND
<S>	<C>	<C>	<C>	<C>	<C>
Total commissions received.....	\$62,191	\$475,044	\$185,598	\$98,793	\$34,183
Paid to other dealers.....	\$59,655	\$440,761	\$181,125	\$94,151	\$32,011

</TABLE>

Under the terms of a Distribution Agreement pursuant to Rule 12b-1 of the Investment Company Act of 1940, the Hawaii Fund will reimburse Franklin/Templeton Distributors, Inc., in an amount up to 0.10% per annum of its average daily net assets while the Arkansas Fund, California High Yield Fund, Tennessee Fund and Washington Fund will reimburse up to 0.15% per annum of the Funds' average daily net assets for costs incurred in the promotion, offering and marketing of the Funds' shares.

FRANKLIN MUNICIPAL SECURITIES TRUST

NOTES TO FINANCIAL STATEMENTS (CONT.)

6. TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES (CONT.)

Distribution fees incurred by the Arkansas Fund, California High Yield Fund, Hawaii Fund, Tennessee Fund and Washington Fund under the agreements aggregated \$898, \$35,842, \$19,175, \$1,672 and \$2,286, respectively, for the year ended May 31, 1995.

Under the terms of a shareholder services agreement with Franklin/Templeton Investor Services, Inc., the Trust pays costs on a per shareholder account basis. Shareholder servicing costs incurred by the Funds for the year ended May 31, 1995 aggregated \$15,106, all of which were paid by Franklin Advisers, Inc.

Certain officers and trustees of the Trust are also officers and/or directors of Franklin/Templeton Distributors, Inc., Franklin Advisers, Inc., and Franklin/Templeton Investor Services, Inc., all wholly-owned subsidiaries of Franklin Resources, Inc.

At May 31, 1995, Franklin Resources, Inc. owned 57%, 40% and 42% of the Arkansas Fund, Tennessee Fund and Washington Fund, respectively.

7. CREDIT RISKS

Although each of the Funds has a diversified investment portfolio, all of its investments are in the securities of issuers within its respective state, Guam and Puerto Rico. Such concentration may subject the Funds more significantly to economic changes occurring within those states, Guam and Puerto Rico.

#### 8. FINANCIAL HIGHLIGHTS

Selected data for a share of beneficial interest outstanding throughout the periods, by fund, are as follows:

<TABLE>

<CAPTION>

#### PER SHARE OPERATING PERFORMANCE

PERIOD ENDED MAY 31	NET ASSET VALUE AT BEGINNING OF PERIOD	NET INVESTMENT INCOME	NET REALIZED & UNREALIZED GAIN (LOSS) ON SECURITIES	TOTAL FROM INVESTMENT OPERATIONS	DISTRI-BUTIONS FROM NET INVESTMENT INCOME	DISTRI-BUTIONS FROM CAPITAL GAINS	TOTAL DISTRI-BUTIONS	NET ASSET VALUE AT END OF PERIOD	TOTAL RETURN++
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
FRANKLIN ARKANSAS MUNICIPAL BOND FUND									
1994(1)	\$ 10.00	\$ .01	\$ .050	\$ .060	--	--	--	\$ 10.06	.60%
1995	10.06	.51	.191	.701	(.441)	--	(.441)	10.32	7.27
FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND									
1993(2)	10.00	.03	(.060)	(.030)	--	--	--	9.97	(3.60) *
1994	9.97	.53	(.199)	.331	(.558)	(.013)	(.571)	9.73	3.22
1995	9.73	.66	.176	.836	(.636)	--	(.636)	9.93	9.08
FRANKLIN HAWAII MUNICIPAL BOND FUND									
1992(3)	10.00	.09	.158	.248	(.068)	--	(.068)	10.18	8.96*
1993	10.18	.63	.634	1.264	(.644)	--	(.644)	10.80	12.77
1994	10.80	.62	(.459)	.161	(.601)	--	(.601)	10.36	1.35
1995	10.36	.60	.310	.910	(.600)	--	(.600)	10.67	9.26
FRANKLIN TENNESSEE MUNICIPAL BOND FUND									
1994(1)	10.00	.01	.100	.110	--	--	--	10.11	1.10
1995	10.11	.52	.353	.873	(.453)	--	(.453)	10.53	8.97
FRANKLIN WASHINGTON MUNICIPAL BOND FUND									
1993(2)	10.00	.03	(.040)	(.010)	--	--	--	9.99	(1.20) *
1994	9.99	.51	(.464)	.046	(.472)	(.014)	(.486)	9.55	2.88
1995	9.55	.56	.355	.915	(.565)	--	(.565)	9.90	10.10

</TABLE>

<TABLE>

<CAPTION>

#### RATIOS/SUPPLEMENTAL DATA

PERIOD ENDED MAY 31	NET ASSETS AT END OF PERIOD (IN 0000S)	RATIO OF EXPENSES TO NET ASSETS (SEE NOTE 6)**	RATIO OF NET INVESTMENT INCOME TO AVERAGE NET ASSETS	PORTFOLIO TURNOVER RATE
<S>	<C>	<C>	<C>	<C>
FRANKLIN ARKANSAS MUNICIPAL BOND FUND				
1994(1)	\$ 2,213	.03%*	2.00%*	--%
1995	4,134	.10	5.64	77.63
FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND				
1993(2)	2,245	--	3.85*	8.89
1994	31,938	.07	6.14	40.74
1995	51,102	.20	6.89	57.06
FRANKLIN HAWAII MUNICIPAL BOND FUND				
1992(3)	2,978	--	4.55*	--
1993	18,657	--	5.95	48.70
1994	26,904	.05	5.76	31.35
1995	36,827	.20	6.02	22.88
FRANKLIN TENNESSEE MUNICIPAL BOND FUND				
1994(1)	2,224	.03*	1.89*	22.64
1995	5,986	.10	6.02	24.71
FRANKLIN WASHINGTON MUNICIPAL BOND FUND				
1993(2)	2,198	--	3.44*	--
1994	4,272	.05	5.59	39.52
1995	5,741	.10	6.13	18.46

</TABLE>

## FRANKLIN MUNICIPAL SECURITIES TRUST

## NOTES TO FINANCIAL STATEMENTS (CONT.)

## 8. FINANCIAL HIGHLIGHTS (CONT.)

<TABLE>  
<CAPTION>

	RATIO OF EXPENSES TO AVERAGE NET ASSETS -----
<S>	<C>
FRANKLIN ARKANSAS MUNICIPAL BOND FUND	
1994(1) .....	1.20%*
1995 .....	1.11
FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND	
1993(2) .....	1.42*
1994 .....	.87
1995 .....	.88
FRANKLIN HAWAII MUNICIPAL BOND FUND	
1992(3) .....	1.57*
1993 .....	1.06
1994 .....	.92
1995 .....	.87
FRANKLIN TENNESSEE MUNICIPAL BOND FUND	
1994(1) .....	1.05*
1995 .....	.92
FRANKLIN WASHINGTON MUNICIPAL BOND FUND	
1993(2) .....	1.44*
1994 .....	.71
1995 .....	1.05

</TABLE>

\*Annualized

(1) For the period May 10, 1994 (effective date of registration) to May 31, 1994.

(2) For the period May 3, 1993 (effective date of registration) to May 31, 1993.

(3) For the period February 26, 1992 (effective date of registration) to May 31, 1992.

++ Total return measures the change in value of an investment over the period indicated. It does not include the maximum initial sales charge and assumes reinvestment of dividends and capital gains at net asset value.

\*\* During the periods indicated, the investment manager agreed to waive in advance a portion of its management fees and made payments of other expenses incurred by the Funds in the Trust. Had such action not been taken, the ratios of operating expenses to average net assets would have been as follows:

During the fiscal year, the Trust paid distributions from undistributed net investment income in the amounts shown in the Statement of Changes in Net Assets. The total amount of these distributions is hereby designated as exempt-interest dividends under Section 852(b)(5) of the Internal Revenue Code.

## FRANKLIN MUNICIPAL SECURITIES TRUST

## REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Trustees  
of Franklin Municipal Securities Trust:

We have audited the accompanying statements of assets and liabilities of the Funds comprising the Franklin Municipal Securities Trust, including each Fund's statement of investments in securities and net assets, as of May 31, 1995, and the related statements of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for the periods indicated in Note 8. These financial statements and financial highlights are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of May 31, 1995 by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Funds comprising the Franklin Municipal Securities Trust as of May 31, 1995, the results of their operations for the year then ended, the changes in their net assets for each of the two years in the period then ended, and the financial highlights for the periods indicated in Note 8, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

San Francisco, California  
June 30, 1995

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Franklin Municipal Securities Trust

APPENDIX  
DESCRIPTION OF GRAPHIC MATERIAL OMITTED FROM EDGAR FILING  
(PURSUANT TO ITEM 304 (a) of REGULATION S-T)

GRAPHIC MATERIAL (1)

This bar chart shows the comparison between the fund's distribution rate of 5.34% and the taxable equivalent rate of 9.51%.

GRAPHIC MATERIAL (2)

The following line graph hypothetically compares the performance of the Franklin Arkansas Municipal Bond Fund to that of the Lehman Brothers Municipal Bond Index and the Consumer Price Index (CPI), based on a \$10,000 investment from 6/1/94 to 5/31/95.

<TABLE>  
<CAPTION>

Period Ending <S>	Arkansas MBF <C>	LB Muni Index <C>	CPI <C>
6/1/94	9,572	10,000	10,000
6/30/94	9,486	9,939	10,034
7/31/94	9,657	10,121	10,061
8/31/94	9,677	10,156	10,101
9/30/94	9,501	10,007	10,129
10/31/94	9,209	9,829	10,136
11/30/94	8,918	9,651	10,149
12/31/94	9,206	9,863	10,149
1/31/95	9,544	10,145	10,189
2/28/95	9,864	10,441	10,230
3/31/95	9,951	10,561	10,264
4/30/95	9,978	10,573	10,298
5/31/95	10,253	10,911	10,318

</TABLE>

GRAPHIC MATERIAL (3)

This pie chart shows the breakdown of the fund's securities by quality as a percentage of the fund's total assets.

<TABLE>	
<CAPTION>	
Portfolio Breakdown on 5/31/95	
<S>	<C>
AAA	56.4%
AA	9.5%
A	17.8%
BBB	16.3%
</TABLE>	

GRAPHIC MATERIAL (4)

This bar chart shows the comparison between the fund's distribution rate of 6.13% and the taxable equivalent rate of 11.40%.

GRAPHIC MATERIAL (5)

The following line graph hypothetically compares the performance of the Franklin California High Yield Municipal Bond Fund to that of the Lehman Brothers Municipal Bond Index and the Consumer Price Index (CPI), based on a \$10,000 investment from 5/3/93 to 5/31/95.

<TABLE>			
<CAPTION>			
Period Ending	CA HY MBF	LB Muni Index	CPI
<S>	<C>	<C>	<C>
5/3/93	9,579	10,000	10,000
5/31/93	9,550	10,056	10,014
6/30/93	9,713	10,224	10,028
7/31/93	9,703	10,237	10,028
8/31/93	9,909	10,450	10,056
9/30/93	10,059	10,569	10,077
10/31/93	10,092	10,589	10,119
11/30/93	10,039	10,496	10,126
12/31/93	10,223	10,718	10,126
1/31/94	10,346	10,840	10,153
2/28/94	10,183	10,559	10,187
3/31/94	9,726	10,129	10,222
4/30/94	9,759	10,215	10,236
5/31/94	9,843	10,304	10,244
6/30/94	9,744	10,241	10,278
7/31/94	9,931	10,429	10,306
8/31/94	10,006	10,465	10,347
9/30/94	9,906	10,312	10,375
10/31/94	9,763	10,128	10,383
11/30/94	9,538	9,945	10,396
12/31/94	9,604	10,163	10,396
1/31/95	9,892	10,454	10,438
2/28/95	10,181	10,758	10,479
3/31/95	10,397	10,882	10,514
4/30/95	10,453	10,895	10,549
5/31/95	10,736	11,243	10,569
</TABLE>			

GRAPHIC MATERIAL (6)

This pie chart shows the breakdown of the fund's securities by quality as a percentage of the fund's total assets.

<TABLE>	
<CAPTION>	
Portfolio Breakdown on 5/31/95	
<S>	<C>
AAA	1.3%
AA	6.2%
A	35.0%
BBB	22.1%
BB	35.4%
</TABLE>	

GRAPHIC MATERIAL (7)

This bar chart shows the comparison between the fund's distribution rate of 5.39% and the taxable equivalent rate of 9.92%.

GRAPHIC MATERIAL (8)

The following line graph hypothetically compares the performance of the Franklin Hawaii Municipal Bond Fund to that of the Lehman Brothers Municipal Bond Index and the Consumer Price Index (CPI), based on a \$10,000 investment from 3/1/92 to 5/31/95.

<TABLE>

<CAPTION>

Period Ending	Hawaii MBF	LB Muni Index	Consumer
<S>	<C>	<C>	<C>
3/1/92	9,579	10,000	10,000
3/31/92	9,579	10,004	10,051
4/30/92	9,684	10,093	10,065
5/31/92	9,804	10,212	10,079
6/30/92	9,924	10,384	10,115
7/31/92	10,326	10,695	10,137
8/31/92	10,166	10,590	10,165
9/30/92	10,171	10,659	10,194
10/31/92	10,008	10,555	10,229
11/30/92	10,280	10,744	10,244
12/31/92	10,452	10,853	10,236
1/31/93	10,596	10,979	10,287
2/28/93	10,940	11,377	10,323
3/31/93	10,923	11,256	10,359
4/30/93	10,996	11,370	10,388
5/31/93	11,058	11,433	10,402
6/30/93	11,273	11,624	10,417
7/31/93	11,293	11,639	10,417
8/31/93	11,531	11,882	10,446
9/30/93	11,718	12,017	10,468
10/31/93	11,759	12,040	10,511
11/30/93	11,603	11,934	10,518
12/31/93	11,897	12,186	10,518
1/31/94	12,035	12,325	10,547
2/28/94	11,674	12,005	10,582
3/31/94	11,011	11,517	10,618
4/30/94	11,086	11,615	10,633
5/31/94	11,205	11,716	10,641
6/30/94	11,128	11,644	10,677
7/31/94	11,346	11,857	10,706
8/31/94	11,390	11,899	10,749
9/30/94	11,192	11,724	10,778
10/31/94	10,882	11,515	10,785
11/30/94	10,629	11,307	10,799
12/31/94	10,930	11,556	10,799
1/31/95	11,278	11,886	10,842
2/28/95	11,672	12,232	10,886
3/31/95	11,785	12,373	10,922
4/30/95	11,830	12,387	10,958
5/31/95	12,241	12,783	10,979

</TABLE>

GRAPHIC MATERIAL (9)

This pie chart shows the breakdown of the fund's securities by quality as a percentage of the fund's total assets.

<TABLE>

<CAPTION>

Portfolio Breakdown on 5/31/95

<S>	<C>
AAA	51.8%
AA	15.8%
A	23.3%
BBB	9.1%

</TABLE>

GRAPHIC MATERIAL (10)

This bar chart shows the comparison between the fund's distribution rate of 5.35% and the taxable equivalent rate of 9.42%.

GRAPHIC MATERIAL (11)

The following line graph hypothetically compares the performance of the Franklin Tennessee Municipal Bond Fund to that of the Lehman Brothers Municipal Bond Index and the Consumer Price Index (CPI), based on a \$10,000 investment from 6/1/94 to 5/31/95.



<TABLE>  
<CAPTION>

Period Ending <S>	Tennessee MBF <C>	LB Muni Index <C>	CPI <C>
6/1/94	9,574	10,000	10,000
6/30/94	9,461	9,939	10,034
7/31/94	9,678	10,121	10,061
8/31/94	9,697	10,156	10,101
9/30/94	9,525	10,007	10,129
10/31/94	9,265	9,829	10,136
11/30/94	9,035	9,651	10,149
12/31/94	9,332	9,863	10,149
1/31/95	9,679	10,145	10,189
2/28/95	9,979	10,441	10,230
3/31/95	10,075	10,561	10,264
4/30/95	10,093	10,573	10,298
5/31/95	10,408	10,911	10,318

GRAPHIC MATERIAL (12)

This pie chart shows the breakdown of the fund's securities by quality as a percentage of the fund's total assets.

<TABLE>  
<CAPTION>  
Portfolio Breakdown on 5/31/95

<S>	<C>
AAA	34.3%
AA	25.7%
A	20.8%
BBB	19.2%

GRAPHIC MATERIAL (13)

This bar chart shows the comparison between the fund's distribution rate of 5.57% and the taxable equivalent rate of 9.22%

GRAPHIC MATERIAL (14)

The following line graph hypothetically compares the performance of the Washington Municipal Bond Fund to that of the Lehman Brothers Municipal Bond Index and the Consumer Price Index (CPI), based on a \$10,000 investment from 5/3/93 to 5/31/95.

<TABLE>  
<CAPTION>

Period Ending <S>	Washington MBF <C>	LB Muni Index <C>	CPI <C>
5/3/93	9,579	10,000	10,000
5/31/93	9,569	10,056	10,014
6/30/93	9,770	10,224	10,028
7/31/93	9,761	10,237	10,028
8/31/93	9,968	10,450	10,056
9/30/93	10,098	10,569	10,077
10/31/93	10,172	10,589	10,119
11/30/93	9,974	10,496	10,126
12/31/93	10,237	10,718	10,126
1/31/94	10,361	10,840	10,153
2/28/94	10,061	10,559	10,187
3/31/94	9,373	10,129	10,222
4/30/94	9,448	10,215	10,236
5/31/94	9,584	10,304	10,244
6/30/94	9,489	10,241	10,278
7/31/94	9,748	10,429	10,306
8/31/94	9,764	10,465	10,347
9/30/94	9,527	10,312	10,375
10/31/94	9,287	10,128	10,383
11/30/94	9,049	9,945	10,396
12/31/94	9,305	10,163	10,396
1/31/95	9,666	10,454	10,438
2/28/95	10,008	10,758	10,479

3/31/95	10,132	10,882	10,514
4/30/95	10,129	10,895	10,549
5/31/95	10,552	11,243	10,569

GRAPHIC MATERIAL (15)

This pie chart shows the breakdown of the fund's securities by quality as a percentage of the fund's total assets.

<TABLE>

<CAPTION>

Portfolio Breakdown on May 31, 1995

<S>	<C>
AAA	48.4%
AA	26.7%
A	7.0%
BBB	17.9%

</TABLE>