

MFS CALIFORNIA MUNICIPAL FUND

Form N-CSR

January 28, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF
REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-09537

MFS CALIFORNIA MUNICIPAL FUND

(Exact name of registrant as specified in charter)

111 Huntington Avenue, Boston, Massachusetts 02199

(Address of principal executive offices) (Zip code)

Susan S. Newton

Massachusetts Financial Services Company

111 Huntington Avenue

Boston, Massachusetts 02199

(Name and address of agents for service)

Registrant's telephone number, including area code: (617) 954-5000

Date of fiscal year end: November 30

Date of reporting period: November 30, 2013

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ITEM 1. REPORTS TO STOCKHOLDERS.

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ANNUAL REPORT

November 30, 2013

**MFS® CALIFORNIA
MUNICIPAL FUND**

CCA-ANN

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MFS® CALIFORNIA MUNICIPAL FUND

NYSE MKT Symbol: CCA

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NOT FDIC INSURED MAY LOSE VALUE NO BANK GUARANTEE

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LETTER FROM THE CHAIRMAN AND CEO

Dear Shareholders:

The global economy continues to grow at a modest pace. U.S. job growth has picked up in recent months, and gross domestic product growth has accelerated each quarter.

The U.K. and eurozone economies are expanding again. China's economy has regained traction, while Japan's government and central bank have revived a once-struggling economy.

However, challenges still exist. The eurozone recovery remains uneven, with France at risk of sliding back into recession, and unemployment rates among the region's northern countries differ substantially with rates in the south. China faces risks in its pursuit of greater domestic consumption. Japan is bracing itself for the national sales tax increase in April. The U.S. Federal Reserve remains a key focus for investors. As the nation's

economy improves, there are rising expectations that the Fed may start to shift away from its accommodative monetary policy.

Managing risk in the face of uncertainty is always a top priority for investors. At MFS®, our collaborative process employs integrated, global research and active risk management. Our team of investment professionals shares ideas and evaluates opportunities that span continents, investment disciplines and asset classes. Our goal is to build better insights, and ultimately better results, for our clients.

We understand and appreciate the economic challenges investors face, and we believe in the value of maintaining a long-term view and employing time-tested principles, such as asset allocation and diversification. We are confident that our unique approach can serve investors well as they work with their financial advisors to identify and pursue the most suitable opportunities.

Respectfully,

Robert J. Manning

Chairman and Chief Executive Officer

MFS Investment Management®

January 15, 2014

The opinions expressed in this letter are subject to change, may not be relied upon for investment advice, and no forecasts can be guaranteed.

Table of Contents**PORTFOLIO COMPOSITION****Portfolio structure (i)(j)****Top five industries (i)**

General Obligations Schools	27.5%
Healthcare Revenue Hospitals	25.6%
State & Local Agencies	18.7%
Water & Sewer Utility Revenue	17.6%
Tax Assessment	13.1%

Composition including fixed income credit quality (a)(i)

AA	58.5%
A	71.0%
BBB	27.3%
BB	3.2%
B	4.1%
Not Rated (j)	2.2%
Cash & Other	(66.3)%

Portfolio facts (i)

Average Duration (d)	16.5
Average Effective Maturity (m)	16.7 yrs.

- (a) For all securities other than those specifically described below, ratings are assigned to underlying securities utilizing ratings from Moody's, Fitch, and Standard & Poor's rating agencies and applying the following hierarchy: If all three agencies provide a rating, the middle rating (after dropping the highest and lowest ratings) is assigned; if two of the three agencies rate a security, the lower of the two is assigned. Ratings are shown in the S&P and Fitch scale (e.g., AAA). Securities rated BBB or higher are considered investment grade. All ratings are subject to change. Not Rated includes fixed income securities, including fixed income futures contracts, which have not been rated by any rating agency. Cash & Other includes cash, other assets less liabilities, offsets to derivative positions, and short-term securities. The fund may not hold all of these instruments. The fund is not rated by these agencies.
- (d) Duration is a measure of how much a bond's price is likely to fluctuate with general changes in interest rates, e.g., if rates rise 1.00%, a bond with a 5-year duration is likely to lose about 5.00% of its value due to the interest rate move.

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Portfolio Composition continued

- (i) For purposes of this presentation, the components include the market value of securities, and reflect the impact of the equivalent exposure of derivative positions, if any. These amounts may be negative from time to time. Equivalent exposure is a calculated amount that translates the derivative position into a reasonable approximation of the amount of the underlying asset that the portfolio would have to hold at a given point in time to have the same price sensitivity that results from the portfolio's ownership of the derivative contract. When dealing with derivatives, equivalent exposure is a more representative measure of the potential impact of a position on portfolio performance than market value. The bond component will include any accrued interest amounts.
 - (j) For the purpose of managing the fund's duration, the fund holds short treasury futures with a bond equivalent exposure of (9.6)%, which reduce the fund's interest rate exposure but not its credit exposure.
 - (m) In determining an instrument's effective maturity for purposes of calculating the fund's dollar-weighted average effective maturity, MFS uses the instrument's stated maturity or, if applicable, an earlier date on which MFS believes it is probable that a maturity-shortening device (such as a put, pre-refunding or prepayment) will cause the instrument to be repaid. Such an earlier date can be substantially shorter than the instrument's stated maturity.
- From time to time Cash & Other Net Assets may be negative due to the aggregate liquidation value of variable rate municipal term preferred shares, timing of cash receipts, and/or equivalent exposure from any derivative holdings.

Where the fund holds convertible bonds, these are treated as part of the equity portion of the portfolio.

Percentages are based on net assets as of 11/30/13.

The portfolio is actively managed and current holdings may be different.

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MANAGEMENT REVIEW

Summary of Results

MFS California Municipal Fund (fund) is a closed-end fund. The fund's investment objective is to seek high current income exempt from federal income tax and California personal income tax, but may also consider capital appreciation. The fund invests, under normal market conditions, at least 80% of its net assets, including assets attributable to preferred shares and borrowings for investment purposes, in debt securities the interest on which in the opinion of issuer counsel (or other reputable authority) is exempt from federal regular income tax and California personal income tax.

For the twelve months ended November 30, 2013, shares of the MFS California Municipal Fund provided a total return of 8.09%, at net asset value and a total return of 18.83%, at market value. This compares with a return of 3.51% for the fund's benchmark, the Barclays Municipal Bond Index.

The performance commentary below is based on the net asset value performance of the fund which reflects the performance of the underlying pool of assets held by the fund. The total return at market value represents the return earned by owners of the shares of the fund which are traded publicly on the exchange.

Market Environment

At the beginning of the period, year-end fiscal cliff negotiations between the Republicans in the US Congress and President Obama were a particular source of market attention, where uncertainty surrounding the fiscal negotiations continued right up to the end-of-year deadline. A last minute political agreement averted the worst-case scenario and markets gravitated towards risk assets again, though the implementation of the US budget sequester, combined with concerns surrounding the Italian election results, was a source of uncertainty which lingered throughout the first half of the period.

The more dominant features of the first few months of 2013 included a marked improvement in market sentiment as global macroeconomic indicators improved, monetary easing by the Bank of Japan accelerated and fears of fiscal austerity in the US waned. In the middle of the period, concerns that the US Federal Reserve (Fed) would begin tapering its quantitative easing (QE) program caused sovereign bond yields to spike, credit spreads to widen, and equity valuations to fall. Equities subsequently outperformed fixed income in response to the improved economic fundamentals.

Toward the end of the period, the Fed's decision to postpone QE tapering surprised markets. Favorable market reactions were tempered, however, by tense negotiations over US fiscal policy which resulted in a 16-day partial shutdown of the federal government and a short-term extension in the debt ceiling. The volatility was short-lived, however, as an extension of budget and debt ceiling deadlines allowed the government to re-open, and subsequent economic data reflected moderate but resilient US growth. Also well-received was the decision by the European Central Bank to cut its policy rate as inflation pressures waned in the region. In addition, equity investors appeared to have concluded that there would be no major change in US monetary policy as a result of the nomination of Janet Yellen as the new Fed Chair for a term beginning in early 2014.

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Management Review continued

Over the twelve months ended November 30, 2013, municipal bond yields generally increased as fixed income market activity was led by the Fed's signal this past June that it would begin to reduce monthly purchases of US Treasury and Mortgage Backed Securities as early as 3Q13. Subsequently, 10-year US Treasury yields increased dramatically from 1.60% in May to a peak of 3% in early September. Municipal bond prices fell accordingly during this time frame when the Fed announced it might taper asset purchases. The rise in municipal bond yields was more pronounced in the long end of the yield curve relative to intermediate-term bonds as municipal bond mutual fund redemptions, as well as reduced liquidity, lessened the demand for longer maturity bonds. Further, more flames were fanned by credit concerns, first by Detroit's Chapter 9 filing in July, and then by increased scrutiny of Puerto Rico's weakened fiscal position in late August. Municipal bond issuance declined with many refunding deals postponed or cancelled with the prolonged increase in borrowing rates. Municipal market supply/demand dynamics improved during the last few months of the period, enough to experience a small rally as retail investors and hedge funds emerged as the market's primary source of demand.

Detractors from Performance

Relative to the Barclays Municipal Bond Index, weak bond selection in the *general obligation* and *health care* sectors hindered relative results. The fund's longer duration^(d) stance relative to the benchmark also weighed on relative returns as interest rates on municipal bonds increased during the period.

The fund employs leverage which has been created through the issuance of variable rate municipal term preferred shares. To the extent that investments are purchased through the use of leverage, the fund's net asset value will increase or decrease at a greater rate than a comparable unleveraged fund. During the reporting period, the fund's leverage negatively impacted performance.

Contributors to Performance

Strong security selection in BBB rated bonds was a contributor to relative performance. The combination of a greater relative exposure and positive bond selection in the *credit enhanced* sector (which typically includes bonds where payments are assured by a secondary source) also benefited relative results.

Respectfully,

Michael Dawson
Portfolio Manager

Geoffrey Schechter
Portfolio Manager

(d) Duration is a measure of how much a bond's price is likely to fluctuate with general changes in interest rates, e.g., if rates rise 1.00%, a bond with a 5-year duration is likely to lose about 5.00% of its value.

(r) Bonds rated BBB, Baa, or higher are considered investment grade; bonds rated BB, Ba, or below are considered non-investment grade. The source for bond quality ratings is Moody's Investors Service, Standard & Poor's and Fitch, Inc. and are applied using the following hierarchy: If all three agencies provide a rating, the middle rating (after dropping the highest and lowest ratings) is assigned; if two of the three agencies rate a security, the lower of the two is assigned. Ratings are shown in the S&P and Fitch scale (e.g., AAA). For securities which are not rated by any of the three agencies, the security is considered Not Rated.

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Management Review continued

The views expressed in this report are those of the portfolio managers only through the end of the period of the report as stated on the cover and do not necessarily reflect the views of MFS or any other person in the MFS organization. These views are subject to change at any time based on market or other conditions, and MFS disclaims any responsibility to update such views. These views may not be relied upon as investment advice or an indication of trading intent on behalf of any MFS portfolio. References to specific securities are not recommendations of such securities, and may not be representative of any MFS portfolio's current or future investments.

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The following chart represents the fund's historical performance in comparison to its benchmark(s). Investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than their original cost; current performance may be lower or higher than quoted. The performance shown does not reflect the deduction of taxes, if any, that a shareholder would pay on fund distributions or the sale of fund shares. Performance data shown represents past performance and is no guarantee of future results.

Price Summary for MFS California Municipal Fund

Year Ended 11/30/13

	Date	Price
Net Asset Value	11/30/13	\$11.33
	11/30/12	\$13.03
NYSE MKT Price	11/30/13	\$9.76
	12/03/12 (high) (t)	\$12.70
	8/19/13 (low) (t)	\$9.65
	11/30/12	\$12.71

Total Returns vs Benchmark

Year Ended 11/30/13

MFS California Municipal Fund at	
NYSE MKT Price (r)	(18.83)%
Net Asset Value (r)	(8.09)%
Barclays Municipal Bond Index (f)	(3.51)%

(f) Source: FactSet Research Systems Inc.

(r) Includes reinvestment of dividends and capital gain distributions.

(t) For the period December 1, 2012 through November 30, 2013.

Benchmark Definition

Barclays Municipal Bond Index a market capitalization-weighted index that measures the performance of the tax-exempt bond market.

It is not possible to invest directly in an index.

Notes to Performance Summary

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The fund's shares may trade at a discount or premium to net asset value. When fund shares trade at a premium, buyers pay more than the net asset value underlying fund shares, and shares purchased at a premium would receive less than the amount paid for them in the event of the fund's liquidation.

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Performance Summary continued

The fund's monthly distributions may include a return of capital to shareholders to the extent that distributions are in excess of the fund's net investment income and net capital gains, determined in accordance with federal income tax regulations. Distributions that are treated for federal income tax purposes as a return of capital will reduce each shareholder's basis in his or her shares and, to the extent the return of capital exceeds such basis, will be treated as gain to the shareholder from a sale of shares. Returns of shareholder capital have the effect of reducing the fund's assets and increasing the fund's expense ratio.

Net asset values and performance results based on net asset value per share do not include adjustments made for financial reporting purposes in accordance with U.S. generally accepted accounting principles and may differ from amounts reported in the Statement of Assets and Liabilities or the Financial Highlights.

From time to time the fund may receive proceeds from litigation settlements, without which performance would be lower.

In accordance with Section 23(c) of the Investment Company Act of 1940, the fund hereby gives notice that it may from time to time repurchase common and/or preferred shares of the fund in the open market at the option of the Board of Trustees and on such terms as the Trustees shall determine.

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PORTFOLIO MANAGERS PROFILES

Portfolio Manager	Primary Role	Since	Title and Five Year History
Michael Dawson	Portfolio Manager	2007	Investment Officer of MFS; employed in the investment management area of MFS since 1998.
Geoffrey Schechter	Portfolio Manager	2007	Investment Officer of MFS; employed in the investment management area of MFS since 1993.

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DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

The fund offers a Dividend Reinvestment and Cash Purchase Plan (the Plan) that allows common shareholders to reinvest either all of the distributions paid by the fund or only the long-term capital gains. Generally, purchases are made at the market price unless that price exceeds the net asset value (the shares are trading at a premium). If the shares are trading at a premium, purchases will be made at a price of either the net asset value or 95% of the market price, whichever is greater. You can also buy shares on a quarterly basis in any amount \$100 and over. The Plan Agent will purchase shares under the Cash Purchase Plan on the 15th of January, April, July, and October or shortly thereafter.

If shares are registered in your own name, new shareholders will automatically participate in the Plan, unless you have indicated that you do not wish to participate. If your shares are in the name of a brokerage firm, bank, or other nominee, you can ask the firm or nominee to participate in the Plan on your behalf. If the nominee does not offer the Plan, you may wish to request that your shares be re-registered in your own name so that you can participate. There is no service charge to reinvest distributions, nor are there brokerage charges for shares issued directly by the fund. However, when shares are bought on the NYSE MKT or otherwise on the open market, each participant pays a pro rata share of the transaction expenses, including commissions. Dividends and capital gains distributions are taxable whether received in cash or reinvested in additional shares the automatic reinvestment of distributions does not relieve you of any income tax that may be payable (or required to be withheld) on the distributions.

You may withdraw from the Plan at any time by going to the Plan Agent's website at www.computershare.com, by calling 1-800-637-2304 any business day from 9 a.m. to 5 p.m. Eastern time or by writing to the Plan Agent at P.O. Box 43078, Providence, RI 02940 - 3078. Please have available the name of the fund and your account number. For certain types of registrations, such as corporate accounts, instructions must be submitted in writing. Please call for additional details. When you withdraw from the Plan, you can receive the value of the reinvested shares in one of three ways: your full shares will be held in your account, the Plan Agent will sell your shares and send the proceeds to you, or you may transfer your full shares to your investment professional who can hold or sell them. Additionally, the Plan Agent will sell your fractional shares and send the proceeds to you.

If you have any questions or for further information or a copy of the Plan, contact the Plan Agent Computershare Trust Company, N.A. (the Transfer Agent for the fund) at 1-800-637-2304, at the Plan Agent's website at www.computershare.com, or by writing to the Plan Agent at P.O. Box 43078, Providence, RI 02940 - 3078.

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11/30/13

The Portfolio of Investments is a complete list of all securities owned by your fund. It is categorized by broad-based asset classes.

Municipal Bonds - 173.5%

Issuer	Shares/Par	Value (\$)
Airport Revenue - 7.7%		
Los Angeles, CA, Department of Airports Rev. (Los Angeles International), C, BHAC, 5.25%, 2038	\$ 750,000	\$ 784,711
Orange County, CA, Airport Rev., A, 5%, 2031	190,000	196,525
San Diego County, CA, Regional Airport Authority Rev., A, 5%, 2021	500,000	564,350
San Francisco, CA, City & County Airports Commission, International Airport Rev., A, 5%, 2030	285,000	291,467
San Francisco, CA, City & County Airports Commission, International Airport Rev., A, 5%, 2031	150,000	152,256
San Jose, CA, Airport Rev., A-2, 5.25%, 2034	440,000	453,860
		\$ 2,443,169
General Obligations - General Purpose - 10.6%		
State of California, AMBAC, 6%, 2017	\$ 1,000,000	\$ 1,164,570
State of California, 5%, 2021	515,000	598,033
State of California, 5.25%, 2035	455,000	480,712
State of California, 5.5%, 2040	630,000	679,537
State of California, 5.25%, 2040	415,000	431,538
		\$ 3,354,390
General Obligations - Schools - 27.1%		
Alhambra, CA, Unified School District, B, ASSD GTY, 5.25%, 2028	\$ 500,000	\$ 538,420
Banning, CA, Unified School District (Election of 2006), B, ASSD GTY, 5.25%, 2033	500,000	523,915
Beaumont, CA, Unified School District (Election of 2008), Capital Appreciation, C, AGM, 0%, 2040	955,000	210,711
Chabot-Las Positas, CA, Community College (Election of 2004), B, AMBAC, 5%, 2016 (c)	60,000	66,530
El Camino, CA, Community College District (Election of 2002), C, 4%, 2037	550,000	495,781
Huntington Beach, CA, Union High School District (Orange County), 5%, 2021	235,000	280,040
Lake Tahoe, CA, Unified School District (Election of 2008), Capital Appreciation, AGM, 0%, 2045	515,000	187,949
Montebello, CA, Unified School District (Election of 2004), A-1, ASSD GTY, 5.25%, 2034	355,000	373,943
Napa Valley, CA, Unified School District, 5%, 2020	225,000	263,664
Peralta, CA, Community College District, AGM, 5%, 2016	500,000	559,200
Pittsburg, CA, Unified School District, B, AGM, 5.5%, 2034	500,000	533,090
Pomona, CA, Unified School District, A, NATL, 6.55%, 2029	1,000,000	1,194,420

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Issuer	Shares/Par	Value (\$)
Municipal Bonds - continued		
General Obligations - Schools - continued		
San Diego, CA, Community College (Election of 2002), 5.25%, 2033	\$ 125,000	\$ 136,941
San Joaquin, CA, Delta Community College District (Election of 2004), B, Capital Appreciation, AGM, 0%, 2018	400,000	362,408
Santee, CA, School District (Election of 2006), Capital Appreciation, D, ASSD GTY, 0%, 2043	765,000	133,646
Vallejo City, CA, Unified School District, A, NATL, 5.9%, 2025	500,000	525,730
Victor, CA, Elementary School District (Election of 2008), A, ASSD GTY, 5.125%, 2034	500,000	524,590
Washington, CA, Yolo County Unified School District (New High School Project), 5%, 2021	450,000	481,109
West Contra Costa, CA, Unified School District, A, NATL, 5.7%, 2023	500,000	600,730
West Covina, CA, Unified School District, A, NATL, 5.8%, 2021	500,000	564,305
		\$ 8,557,122
Healthcare Revenue - Hospitals - 25.3%		
ABAG Finance Authority for Non-Profit Corps., CA, Rev. (Sharp Healthcare), 6.25%, 2039	\$ 505,000	\$ 566,610
ABAG Finance Authority for Non-Profit Corps., CA, Rev. (Sharp Healthcare), A, 5%, 2026	110,000	117,036
California Health Facilities Financing Authority Rev. (Cedars-Sinai Medical Center), 5%, 2034	250,000	251,465
California Health Facilities Financing Authority Rev. (Memorial Health Services), A, 5%, 2033	295,000	302,599
California Health Facilities Financing Authority Rev. (Scripps Health), A, 5%, 2032	525,000	543,785
California Health Facilities Financing Authority Rev. (Scripps Health), A, 5%, 2040	255,000	256,321
California Health Facilities Financing Authority Rev. (Sutter Health), B, 5.875%, 2031	500,000	559,555
California Municipal Finance Authority, COP (Community Hospitals of Central California), 5.25%, 2027	250,000	252,660
California Statewide Communities Development Authority Rev. (Adventist), ASSD GTY, 5%, 2037	500,000	501,180
California Statewide Communities Development Authority Rev. (Catholic Healthcare West), K, ASSD GTY, 5.5%, 2041	1,000,000	1,041,690
California Statewide Communities Development Authority Rev. (Enloe Medical Center), A, CALHF, 5.5%, 2023	500,000	556,915
California Statewide Communities Development Authority Rev. (Huntington Memorial Hospital), 5%, 2035	535,000	533,577
California Statewide Communities Development Authority Rev. (Kaiser Permanente), A, 5%, 2042	455,000	452,238
California Statewide Communities Development Authority Rev. (Santa Ynez Valley Cottage Hospital), 5.25%, 2030	260,000	270,517

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Portfolio of Investments continued

Issuer	Shares/Par	Value (\$)
Municipal Bonds - continued		
Healthcare Revenue - Hospitals - continued		
California Statewide Communities Development Authority Rev. (Sutter Health), A, 5%, 2032	\$ 610,000	\$ 628,611
California Statewide Communities Development Authority Rev. (Trinity Health Corp.), 5%, 2041	450,000	451,175
Santa Clara County, CA, Financing Authority Rev. (El Camino Hospital), AMBAC, 5.125%, 2041	400,000	401,760
Upland, CA, COP (San Antonio Community Hospital), 6.375%, 2032	250,000	279,568
		\$ 7,967,262
Healthcare Revenue - Long Term Care - 2.1%		
ABAG Finance Authority for Non-Profit Corps., CA, Rev. (Episcopal Senior Communities), 6.125%, 2041	\$ 150,000	\$ 154,055
ABAG Finance Authority for Non-Profit Corps., CA, Rev. (Eskaton Properties, Inc.), 5%, 2035	230,000	209,438
California Statewide Communities Development Authority Rev. (Episcopal Communities & Services for Seniors Obligated Group), 5%, 2047	315,000	283,938
		\$ 647,431
Miscellaneous Revenue - Other - 3.1%		
ABAG Finance Authority for Non-Profit Corps., CA, Rev. (Jackson Lab), 5.75%, 2015 (c)	\$ 385,000	\$ 425,802
ABAG Finance Authority for Non-Profit Corps., CA, Rev. (Jackson Lab), 5%, 2037	400,000	392,384
California Infrastructure & Economic Development Bank Rev. (Walt Disney Family Museum), 5.25%, 2033	160,000	163,824
		\$ 982,010
Port Revenue - 6.7%		
Alameda Corridor Transportation Authority, California Rev., A, AGM, 5%, 2028	\$ 305,000	\$ 325,981
Long Beach, CA, Harbor Rev., A, FGIC, 6%, 2017	675,000	790,081
Port of Oakland, CA, Rev., P, 5%, 2033	1,000,000	1,000,630
		\$ 2,116,692
Sales & Excise Tax Revenue - 1.9%		
California Economic Recovery, A, 5%, 2020	\$ 250,000	\$ 291,530
Los Angeles County, CA, Metropolitan Transportation Authority Sales Tax Rev., A, 5%, 2020	250,000	298,538
		\$ 590,068
Single Family Housing Revenue - Local - 0.0%		
California Rural Home Mortgage Finance Authority Rev., Mortgage Backed Securities Program, A, GNMA, 6.35%, 2029	\$ 5,000	\$ 5,106

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Portfolio of Investments continued

Issuer	Shares/Par	Value (\$)
Municipal Bonds - continued		
Single Family Housing - Other - 1.2%		
California Department of Veterans Affairs, Home Purchase Rev., A, 4.5%, 2028	\$ 385,000	\$ 385,728
Single Family Housing - State - 3.5%		
California Housing Finance Agency Rev. (Home Mortgage), E, 4.75%, 2030	\$ 305,000	\$ 289,085
California Housing Finance Agency Rev. (Home Mortgage), K, 5.3%, 2023	190,000	192,396
California Housing Finance Agency Rev. (Home Mortgage), L, 5.45%, 2033	555,000	546,409
California Housing Finance Agency Rev. (Home Mortgage), L, FNMA, 5.5%, 2038	80,000	78,095
		\$ 1,105,985
Solid Waste Revenue - 1.6%		
Salinas Valley, CA, Solid Waste Authority Rev., AMBAC, 5.125%, 2022	\$ 500,000	\$ 501,390
State & Agency - Other - 1.5%		
Sacramento County, CA, Public Facilities Project, COP, AMBAC, 4.75%, 2027	\$ 500,000	\$ 474,195
State & Local Agencies - 18.5%		
California Public Works Board Lease Rev. (Judicial Council Projects), A, 5%, 2028	\$ 380,000	\$ 403,062
Compton, CA, Public Finance Authority, AMBAC, 5%, 2032	500,000	343,645
Golden State, CA, Tobacco Securitization Corp., Tobacco Settlement Rev., FGIC, 5%, 2035	255,000	255,434
Golden State, CA, Tobacco Securitization Corp., Tobacco Settlement Rev., BHAC, 5%, 2038	1,000,000	1,000,850
Golden State, CA, Tobacco Securitization Corp., Tobacco Settlement Rev., Enhanced, A, FGIC, 5%, 2038	1,000,000	964,420
Los Angeles County, CA, Schools Regionalized Business Service Corp., Pooled Financing, Capital Appreciation, A, AMBAC, 0%, 2018	2,020,000	1,699,749
Los Angeles County, CA, Schools Regionalized Business Service Corp., Pooled Financing, Capital Appreciation, A, AMBAC, 0%, 2023	1,220,000	747,274
Los Angeles, CA, Municipal Improvement Corp. Lease Rev., B, ASSD GTY, 5.5%, 2030	390,000	424,609
		\$ 5,839,043
Tax Assessment - 12.9%		
Dana Point, CA, Community Facilities District, Special Tax, 2006-1, 4.625%, 2043	\$ 145,000	\$ 129,033
Fontana, CA, Public Finance Authority, Tax Allocation Rev. (Sub Lien North Fontana Redevelopment), A, AMBAC, 5%, 2029	1,000,000	1,008,260

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Portfolio of Investments continued

Issuer	Shares/Par	Value (\$)
Municipal Bonds - continued		
Tax Assessment - continued		
Fullerton, CA, Community Facilities District, Special Tax (Amerige Heights), 5%, 2032	\$ 155,000	\$ 156,299
Huntington Park, CA, Public Financing Authority Rev., A, AGM, 5.25%, 2019	500,000	522,545
Irvine, CA, Limited Obligation Improvement (Reassessment District #12-1), 4%, 2022	115,000	118,420
Irvine, CA, Limited Obligation Improvement (Reassessment District #12-1), 5%, 2023	60,000	65,825
North Natomas, CA, Community Facilities District Special Tax, 4-E, 5.25%, 2033	160,000	157,667
San Diego, CA, Redevelopment Agency, Tax Allocation (Centre City), A, AMBAC, 5.25%, 2025	500,000	513,560
San Dieguito, CA, Public Facilities Authority, A, AMBAC, 5%, 2032	500,000	486,950
San Francisco, CA, City & County Redevelopment Successor Agency, Community Facilities District No. 6 (Mission Bay South Public Improvements), A, 5%, 2033	130,000	128,072
San Jose, CA, Redevelopment Agency, Tax Allocation (Merged Area Redevelopment Project), C, NATL, 4.25%, 2030	900,000	781,803
		\$ 4,068,434
Tobacco - 3.9%		
Golden State, CA, Tobacco Securitization Corp., Tobacco Settlement Rev., A-1, 5.125%, 2047	\$ 1,000,000	\$ 690,440
Golden State, CA, Tobacco Securitization Corp., Tobacco Settlement Rev., A-1, 5.75%, 2047	715,000	544,937
		\$ 1,235,377
Toll Roads - 1.8%		
Foothill/Eastern Corridor Agency, CA, Toll Road Rev., NATL, 5.125%, 2019	\$ 250,000	\$ 250,258
Riverside County, CA, Transportation Commission, Toll Rev., A, 5.75%, 2044	320,000	320,230
		\$ 570,488
Transportation - Special Tax - 3.4%		
Commonwealth of Puerto Rico Highway & Transportation Authority, Highway Rev., Y, AGM, 5.5%, 2016 (c)	\$ 450,000	\$ 508,734
San Francisco, CA, Bay Area Rapid Transit District, Sales Tax Rev., A, 5%, 2036	220,000	232,718
San Francisco, CA, Municipal Transportation Agency Rev., B, 5%, 2037	335,000	343,157
		\$ 1,084,609

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Portfolio of Investments continued

Issuer	Shares/Par	Value (\$)
Municipal Bonds - continued		
Universities - Colleges - 7.5%		
California Educational Facilities Authority Rev. (Dominican University of California), 5%, 2025	\$ 120,000	\$ 121,795
California Educational Facilities Authority Rev. (University of San Francisco), 6.125%, 2030	285,000	329,890
California Public Works Board Lease Rev. (The Regents of the University of California), 5%, 2028	375,000	450,653
California State University Rev., A, 5%, 2024	370,000	418,685
California Statewide Communities Development Authority Rev. (Lancer Plaza Project), 5.875%, 2043	230,000	204,799
University Enterprises, Inc. (Auxiliary Organization), A, FGIC, 4.375%, 2030	500,000	450,610
University of California Regents Medical Center Pooled Rev. J, 5%, 2019	325,000	379,096
		\$ 2,355,528
Universities - Secondary Schools - 1.5%		
California Statewide Communities Development Authority, School Facility Rev. (Alliance for College-Ready Public Schools), A, 6.1%, 2032	\$ 150,000	\$ 147,539
California Statewide Communities Development Authority, School Facility Rev. (Alliance for College-Ready Public Schools), A, 6.375%, 2047	315,000	308,788
		\$ 456,327
Utilities - Cogeneration - 1.3%		
California Pollution Control Financing Authority, Water Furnishing Rev. (Poseidon Resources Desalination Project), 5%, 2045	\$ 505,000	\$ 407,530
Utilities - Municipal Owned - 10.3%		
California Department of Water Resources, Power Supply Rev., L, 5%, 2019	\$ 805,000	\$ 954,505
California Department of Water Resources, Power Supply Rev., N, 5%, 2020	205,000	244,670
Northern California Power Agency, Capital Facilities Rev., A, 5.25%, 2024	390,000	417,456
Sacramento, CA, Municipal Utility District Rev., U, AGM, 5%, 2019	750,000	859,800
Sacramento, CA, Municipal Utility District Rev., X, 5%, 2025	370,000	409,779
Vernon, CA, Electric System Rev., A, 5.5%, 2041	370,000	374,544
		\$ 3,260,754
Utilities - Other - 2.8%		
California M-S-R Energy Authority Gas Rev., A, 6.5%, 2039	\$ 245,000	\$ 289,644
Southern California Public Power Authority (Natural Gas Project No. 1), A, 5%, 2033	585,000	577,711
		\$ 867,355

Table of Contents*Portfolio of Investments continued*

Issuer	Shares/Par	Value (\$)
Municipal Bonds - continued		
Water & Sewer Utility Revenue - 17.3%		
Atwater, CA, Public Financing Authority Wastewater Rev., ASSD GTY, 5%, 2034	\$ 500,000	\$ 479,000
Bay Area, CA, Water Supply & Conservation Agency, A, 5%, 2034	225,000	237,159
California Department of Water Resources Rev. (Central Valley Project Water System), AE, 5%, 2028	500,000	554,590
California Department of Water Resources Rev. (Central Valley Project Water System), AM, 5%, 2024	500,000	590,215
Chino Basin, CA, Regional Financing Authority Rev. (Inland Empire Utilities Agency), A, AMBAC, 5%, 2038	1,000,000	1,046,130
Escondido CA, Joint Powers Financing Authority Rev. (Water System Financing), 5%, 2041	460,000	466,794
Los Angeles, CA, Department of Water & Power Waterworks Rev., C, NATL, 5%, 2014 (c)	500,000	513,845
Madera, CA, Irrigation Financing Authority Rev., 6.5%, 2040	440,000	470,391
Norco, CA, Financing Authority Enterprise Rev., AGM, 5.625%, 2039	215,000	219,309
Ontario, CA, Public Financing Authority Water Rev., 4%, 2018	250,000	280,833
Sonoma County, CA, Water Agency Rev., A, AGM, 5%, 2036	600,000	609,678
		\$ 5,467,944
Total Municipal Bonds (Identified Cost, \$54,257,473)		\$ 54,743,937
Money Market Funds - 1.2%		
MFS Institutional Money Market Portfolio, 0.09%, at Cost and Net Asset Value (v)	384,294	\$ 384,294
Total Investments (Identified Cost, \$54,641,767)		\$ 55,128,231
Other Assets, Less Liabilities - 2.7%		850,277
VMTPS, at liquidation value (issued by the fund) - (77.4)%		(24,425,000)
Net Assets applicable to common shares - 100.0%		\$ 31,553,508

(c) Refunded bond.

(v) Underlying affiliated fund that is available only to investment companies managed by MFS. The rate quoted for the MFS Institutional Money Market Portfolio is the annualized seven-day yield of the fund at period end.

The following abbreviations are used in this report and are defined:

COP Certificate of Participation
VMTPS Variable Rate Municipal Term Preferred Shares

Table of Contents*Portfolio of Investments continued***Insurers**

AGM	Assured Guaranty Municipal
AMBAC	AMBAC Indemnity Corp.
ASSD GTY	Assured Guaranty Insurance Co.
BHAC	Berkshire Hathaway Assurance Corp.
CALHF	California Housing Finance Agency
FGIC	Financial Guaranty Insurance Co.
FNMA	Federal National Mortgage Assn.
GNMA	Government National Mortgage Assn.
NATL	National Public Finance Guarantee Corp.

Derivative Contracts at 11/30/13**Futures Contracts Outstanding at 11/30/13**

Description	Currency	Contracts	Value	Expiration Date	Unrealized Appreciation (Depreciation)
Asset Derivatives					
<i>Interest Rate Futures</i>					
U.S. Treasury Note 10 yr (Short)	USD	20	\$2,507,500	March - 2014	\$7,558
Liability Derivatives					
<i>Interest Rate Futures</i>					
U.S. Treasury Bond 30 yr (Short)	USD	4	\$523,000	March - 2014	\$(452)

At November 30, 2013, the fund had cash collateral of \$39,500 to cover any commitments for certain derivative contracts. Cash collateral is comprised of Deposits with brokers on the Statement of Assets and Liabilities.

See Notes to Financial Statements

Table of Contents*Financial Statements***STATEMENT OF ASSETS AND LIABILITIES**

At 11/30/13

This statement represents your fund's balance sheet, which details the assets and liabilities comprising the total value of the fund.

Assets	
Investments-	
Non-affiliated issuers, at value (identified cost, \$54,257,473)	\$54,743,937
Underlying affiliated funds, at cost and value	384,294
Total investments, at value (identified cost, \$54,641,767)	\$55,128,231
Deposits with brokers	39,500
Receivables for	
Daily variation margin on open futures contracts	2,188
Investments sold	115,000
Interest	756,870
Deferred VMTPS offering costs	47,045
Other assets	1,213
Total assets	\$56,090,047
Liabilities	
Payables for	
Distributions on common shares	\$417
Interest expense	26,369
Payable to affiliates	
Investment adviser	5,800
Transfer agent and dividend disbursing costs	24
Payable for independent Trustees' compensation	4
Accrued expenses and other liabilities	78,925
VMTPS, at liquidation value	24,425,000
Total liabilities	\$24,536,539
Net assets applicable to common shares	\$31,553,508
Net assets consist of	
Paid-in capital - common shares	\$40,351,445
Unrealized appreciation (depreciation) on investments	493,570
Accumulated net realized gain (loss) on investments	(9,360,469)
Undistributed net investment income	68,962
Net assets applicable to common shares	\$31,553,508
VMTPS, at liquidation value (977 shares of Series 2016/9 issued and outstanding at \$25,000 per share)	24,425,000
Net assets including VMTPS	\$55,978,508
Common shares of beneficial interest issued and outstanding	2,786,238
Net asset value per common share (net assets of \$31,553,508 / 2,786,238 shares of beneficial interest outstanding)	\$11.32

See Notes to Financial Statements

Table of Contents*Financial Statements***STATEMENT OF OPERATIONS**

Year ended 11/30/13

This statement describes how much your fund earned in investment income and accrued in expenses. It also describes any gains and/or losses generated by fund operations.

Net investment income	
Income	
Interest	\$2,648,228
Dividends from underlying affiliated funds	1,006
Total investment income	\$2,649,234
Expenses	
Management fee	\$377,221
Transfer agent and dividend disbursing costs	5,275
Administrative services fee	18,488
Independent Trustees' compensation	10,581
Stock exchange fee	14,999
Custodian fee	10,648
Shareholder communications	17,538
Audit and tax fees	72,033
Legal fees	1,872
Amortization of VMTPS offering costs	16,588
Interest expense	329,465
Miscellaneous	32,511
Total expenses	\$907,219
Fees paid indirectly	(6)
Reduction of expenses by investment adviser	(94,958)
Net expenses	\$812,255
Net investment income	\$1,836,979
Realized and unrealized gain (loss) on investments	
Realized gain (loss) (identified cost basis)	
Investments	\$(213,160)
Futures contracts	117,417
Net realized gain (loss) on investments	\$(95,743)
Change in unrealized appreciation (depreciation)	
Investments	\$(4,796,222)
Futures contracts	12,536
Net unrealized gain (loss) on investments	\$(4,783,686)
Net realized and unrealized gain (loss) on investments	\$(4,879,429)
Change in net assets from operations	\$(3,042,450)

See Notes to Financial Statements

Table of Contents*Financial Statements***STATEMENTS OF CHANGES IN NET ASSETS**

These statements describe the increases and/or decreases in net assets resulting from operations, any distributions, and any shareholder transactions.

	Years ended 11/30	
	2013	2012
Change in net assets		
From operations		
Net investment income	\$1,836,979	\$1,946,901
Net realized gain (loss) on investments	(95,743)	322,804
Net unrealized gain (loss) on investments	(4,783,686)	5,011,105
Distributions declared to shareholders of ARPS		(47,375)
Change in net assets from operations	\$(3,042,450)	\$7,233,435
Distributions declared to shareholders		
From net investment income	\$(1,713,536)	\$(1,997,500)
Share transactions applicable to common and preferred shares		
Net asset value of shares issued to common shareholders in reinvestment of distributions	\$	\$7,219
Net increase resulting from the tender and repurchase of ARPS		1,221,250
Change in net assets from fund share transactions	\$	\$1,228,469
Total change in net assets	\$(4,755,986)	\$6,464,404
Net assets applicable to common shares		
At beginning of period	36,309,494	29,845,090
At end of period (including undistributed net investment income of \$68,962 and \$25,502, respectively)	\$31,553,508	\$36,309,494
See Notes to Financial Statements		

Table of Contents*Financial Statements***STATEMENT OF CASH FLOWS**

Year ended 11/30/13

This statement provides a summary of cash flows from investment activity for the fund.

Cash flows from operating activities:	
Change in net assets from operations	\$(3,042,450)
Adjustments to reconcile change in net assets from operations to net cash provided by operating activities:	
Purchase of investment securities	(8,097,376)
Proceeds from disposition of investment securities	7,346,650
Proceeds from futures contracts	117,417
Proceeds from disposition of short-term investments, net	617,438
Realized gain/loss on investments	213,160
Realized gain/loss on futures contracts	(117,417)
Unrealized appreciation/depreciation on investments	4,796,222
Net amortization/accretion of income	(66,351)
Amortization of VMTPS offering costs	16,588
Increase in interest and dividends receivable	(16,277)
Increase in accrued expenses and other liabilities	1,916
Increase in receivable for daily variation margin on open futures contracts	(2,188)
Decrease in receivable from investment adviser	7,463
Decrease in payable for daily variation margin on open futures contracts	(2,813)
Increase in deposits with brokers	(39,500)
Decrease in other assets	939
Decrease in payable for interest expense	(2,570)
Net cash provided by operating activities	\$1,730,851
Cash flows from financing activities:	
Payment of VMTPS offering costs	(8,744)
Cash distributions paid on common shares	(1,713,740)
Payment of ARPS tender and repurchase costs	(8,367)
Net cash used by financing activities	\$(1,730,851)
Cash:	
Beginning of period	\$
End of period	\$
Supplemental disclosure of cash flow information:	

Cash paid during the year ended November 30, 2013 for interest was \$332,035.

See Notes to Financial Statements

Table of Contents*Financial Statements***FINANCIAL HIGHLIGHTS**

The financial highlights table is intended to help you understand the fund's financial performance for the past 5 years. Certain information reflects financial results for a single fund share. The total returns in the table represent the rate by which an investor would have earned (or lost) on an investment in the fund share class (assuming reinvestment of all distributions) held for the entire period.

Common Shares	Years ended 11/30				
	2013	2012	2011	2010	2009
Net asset value, beginning of period	\$13.03	\$10.71	\$10.48	\$10.66	\$9.35
Income (loss) from investment operations					
Net investment income (d)	\$0.66	\$0.70	\$0.79	\$0.86	\$0.86
Net realized and unrealized gain (loss) on investments	(1.75)	1.92	0.26	(0.18)	1.26
Distributions declared to shareholders of ARPS		(0.02)	(0.03)	(0.04)	(0.06)
Total from investment operations	\$(1.09)	\$2.60	\$1.02	\$0.64	\$2.06
Less distributions declared to shareholders					
From net investment income	\$(0.62)	\$(0.72)	\$(0.79)	\$(0.82)	\$(0.75)
Net increase resulting from tender and repurchase of ARPS	\$	\$0.44	\$	\$	\$
Net asset value, end of period (x)	\$11.32	\$13.03	\$10.71	\$10.48	\$10.66
Market value, end of period	\$9.76	\$12.71	\$10.99	\$10.75	\$10.72
Total return at market value (%) (p)	(18.83)	22.84	10.44	7.87	37.90
Total return at net asset value (%) (j)(r)(s)(x)	(8.17)	29.22(y)	10.40	5.75	23.05
Ratios (%) (to average net assets applicable to common shares) and Supplemental data:					
Expenses before expense reductions (f)(p)	2.70	2.40	2.01	1.86	2.25
Expenses after expense reductions (f)(p)					