

SECURITIES AND EXCHANGE COMMISSION

FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)

Filing Date: **1995-05-10** | Period of Report: **1995-02-28**
SEC Accession No. **0000915707-95-000022**

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FILER

PUTNAM PENNSYLVANIA TAX EXEMPT INCOME FUND

CIK: **794615** | IRS No.: **043057637** | State of Incorpor.: **MA** | Fiscal Year End: **0228**
Type: **N-30D** | Act: **40** | File No.: **811-05802** | Film No.: **95536169**

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Putnam
 Pennsylvania
 Tax Exempt
 Income Fund

ANNUAL REPORT

February 28, 1995

[LOGO]
 BOSTON * LONDON * TOKYO

PERFORMANCE HIGHLIGHTS

Putnam Pennsylvania Tax Exempt Income Fund's class A shares earned four out of five stars from Morningstar for risk-adjusted performance as of February 28, 1995.*

Performance should always be considered in light of a fund's investment strategy. The fund is designed for investors seeking high current income free from federal income tax and Pennsylvania personal income tax, consistent with capital preservation.

FISCAL 1995 RESULTS AT A GLANCE

<TABLE><CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>
		CLASS A		CLASS B	
TOTAL RETURN		NAV	POP	NAV	CDSC

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(change in value during period plus reinvested distributions)					
12 months ended 2/28/95		1.60%	-3.25%	0.93%	-3.85%

-- --					
Share value		NAV	POP		NAV

-- --					
2/28/94		\$9.39	\$9.86		\$9.38
2/28/95		8.98	9.43		8.97

-- --					
CAPITAL GAINS (1)					
DISTRIBUTIONS:			LONG-	SHORT-	
	NO.	INCOME	TERM	TERM	TOTAL

-- --					
Class A	13	\$0.523660	\$0.002	\$0.011	\$0.536660
Class B	13	\$0.465190	\$0.002	\$0.011	\$0.478190

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CURRENT RETURN:	NAV	POP	NAV
End of period			
Current dividend rate(2)	5.90%	5.62%	5.27%
Taxable equivalent(3)	10.05	9.57	8.98
Current 30-day SEC yield(4)	5.68	5.41	5.03
Taxable equivalent(3)	9.67	9.21	8.57

<FN>
Performance data represent past results and will differ for each share class.

For performance over longer periods, see pages 8 and 9. POP assumes 4.75% maximum sales charge for class A shares. CDSC for class B shares assumes 5% maximum contingent deferred sales charge. (1)Capital gains, if any, are taxable for federal and, in most cases, state tax purposes. For some investors, investment income may also be subject to the federal alternative minimum tax. Investment income may be subject to state and local taxes.

(2)Income portion of most recent distribution, annualized and divided by NAV

or POP at end of period. (3)Assumes maximum 41.29% combined federal and state

tax rate. Results for investors subject to lower tax rates would not be as advantageous. (4)Based only on investment income, calculated using SEC guidelines.

* Morningstar, an independent mutual fund rating agency, rates funds in relation to other funds with similar investment objectives, based on the fund's 3- and 5-year average annual returns and adjusted for risk factors and sales charges. Ratings are updated monthly. The four-star overall rating puts the fund in the top 32.5% among all 632 municipal funds rated. For the 3-year period, the fund received three stars. There were 632 funds in the municipal category. For the 5-year period, there were 458 funds in the municipal category. The fund received four stars for the 5-year period. Past performance is not indicative of future results.

</TABLE>

FROM THE CHAIRMAN

[PHOTO]
(C) KARSH, OTTAWA

DEAR SHAREHOLDER:

FOLLOWING ONE OF THE MOST VOLATILE PERIODS ON RECORD, 1995 MAY PROVE TO BE A

TURNAROUND YEAR FOR THE MUNICIPAL BOND MARKET. BY THE TIME PUTNAM PENNSYLVANIA TAX EXEMPT INCOME FUND REACHED THE END OF ITS CURRENT FISCAL YEAR ON FEBRUARY 28, 1995, FIXED-INCOME INVESTORS HAD BEGUN TO EXHIBIT MORE SIGNS OF CONFIDENCE THAN THEY HAD IN MORE THAN A YEAR AND A HALF.

INVESTORS WERE FINALLY GAINING CONFIDENCE IN THE FEDERAL RESERVE BOARD'S ABILITY TO CONTROL INFLATION. MOREOVER, THEY WERE BEGINNING TO THINK THE ECONOMIC RECOVERY, NOW IN ITS FIFTH YEAR, MIGHT SLOW TO THE POINT WHERE INTEREST RATES WOULD STOP RISING AND, ULTIMATELY, LEAD TO BETTER BOND PERFORMANCE.

FOR THE PAST SEVERAL MONTHS, FUND MANAGER RICHARD WYKE HAS BEEN POSITIONING THE PORTFOLIO NOT ONLY IN RESPONSE TO THE MARKET'S VOLATILITY, BUT ALSO IN ANTICIPATION OF THE BRIGHTER MOOD THAT NOW SEEMS TO BE EMERGING. IN THE REPORT THAT FOLLOWS, RICK DISCUSSES THE FUND'S FISCAL 1995 PERFORMANCE AND WHAT HE SEES IN STORE FOR FISCAL 1996.

RESPECTFULLY YOURS,

GEORGE PUTNAM
CHAIRMAN OF THE TRUSTEES
APRIL 19, 1995

REPORT FROM THE FUND MANAGER
RICHARD P. WYKE

What a difference a few weeks can make. A substantial rise in Putnam Pennsylvania Tax Exempt Income Fund's total return during January and February allowed the fund to close its fiscal year on a much brighter note than its performance at the fiscal year's midpoint might have suggested.

Thanks to a rise of more than 5% in the total returns of both class A and class B shares at net asset value (NAV) during the first two months of 1995, the fund delivered positive results for the 12 months ended February 28, 1995. Total return at NAV was 1.60% for class A shares and 0.93% for class B shares during an annual period that included one of the worst periods for the bond markets in recent history.

Fixed-income markets were turned upside down by the Federal Reserve Board's tighter stance on U.S. monetary policy and by bond investors' fears of inflation -- all in response to accelerating economic growth. Ultimately, the Fed raised short-term interest rates six times during the fiscal period. The most aggressive increase -- three quarters of a percentage point in November 1994 -- helped calm inflation fears considerably. The subsequent increase in February was widely expected and barely caused a ripple in the bond markets.

Taxable equivalent yields are now at double-digit levels and represent excellent values -- particularly for investors in such high-tax states as Pennsylvania. In fact, your fund's 5.90% current dividend rate at NAV for class A shares would translate into a yield of 10.05% for a taxable investment, assuming the maximum combined 41.29% federal and state tax rate.

Most investors in lower brackets would also enjoy tax advantages, though not necessarily to the same extent.

LOW SUPPLY COMPLICATES EFFORTS TO EXTEND AVERAGE MATURITY

Since last fall, we have been searching for opportunities to lengthen the portfolio's average maturity. As we entered fiscal

1995, the average maturity of bonds held in the portfolio was shorter than normal, because some of the shorter-term higher-coupon municipal bonds had been called in during the prior fiscal year -- during a period of historically low interest rates. By calling in higher-yielding bonds in a low-interest-rate environment, bond issuers are able to save money by retiring bonds before maturity and reissuing new debt at the lower prevailing rates. Given the sharp and unexpected rise in interest rates in 1994, our decision to keep the average maturity short helped soften the impact of rising interest rates on the fund's net asset value.

Our search for longer-maturity bonds has been complicated by the tight supply of Pennsylvania tax-exempt securities, primarily because of the lower volume of new issues. On the other hand, the low level of issuance has driven up demand for existing securities. This imbalance has translated into substantial price appreciation for many of the bonds in your fund's portfolio.

THE PUTNAM ADVANTAGE AT WORK

The fund's purchase of noncallable zero-coupon bonds was one way we were able to lengthen average maturity. Zero-coupon bonds, which are issued at a fraction of their par value, increase in value as they approach maturity. The noncallable provision is advantageous to investors because it prohibits the issuers

[LINE CHART]

MUNICIPAL BOND YIELDS IN DECLINE

- --

[PLOT DATA]

Date	Yield
12/30/94	7.28
1/6/95	7.28
1/13/95	7.08
1/20/95	7.02
1/31/95	6.96
2/3/95	6.67
2/10/95	6.62
2/17/95	6.58
2/28/95	6.47

[FN]

Evidence of positive changes in the municipal bond market can be seen in the following yields of existing tax-exempt debt. (Bond yields move in the opposite direction from their prices.) The Bond Buyer Municipal Bond Index is a list of 40 unmanaged individual municipal bonds. It is not intended to represent the fund's performance. Source: Bloomberg; data plotted weekly.

from retiring the bond before maturity. Generally, this call protection comes

at a price. However, Putnam's size and stature offer investors in its funds many advantages, among them the ability of our management team to negotiate at arm's length with issuers of some municipal offerings before they come to market.

Your fund's purchase of Hazelton zero-coupon bonds is a case in point.

Putnam was able to use its purchasing power as a large institutional investor to give input as to how this project would most benefit investors. The bonds, which will finance school improvements, are insured and carry a AAA rating from all the major rating agencies.

PROACTIVE MANAGEMENT MAXIMIZES TOTAL RETURN POTENTIAL

In our day-to-day management of the fund, we continually re-evaluate the fund's holdings and search for municipal bonds that offer the right balance of credit quality, yield, and relative price stability. If the right circumstances present themselves, we may sell one holding while simultaneously buying another to take advantage of differences in such factors as interest rates, maturity, and marketability.

During the latter half of the fiscal year, we sold many of the current-coupon bonds held in the portfolio. Our rationale was that these bonds' coupon rates were close to those being offered on new issues of the same maturity. Furthermore, most current-coupon bond prices were staying close to par. In our opinion, the bonds we sold didn't have much more room for appreciation. They were also in great demand by individual investors.

We were able to reinvest the proceeds from these sales into higher-yielding investment-grade bonds. However, we were unable to find many bonds offering attractive price appreciation potential. We remain vigilant for such bonds, for while they typically exhibit a certain amount of price volatility, we believe they could make a noticeable impact on the fund's overall total return during market rallies.

[BAR CHART]

TOP INDUSTRY SECTORS (R)

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- --

[PLOT DATA]

Hospitals / health care	17.0%
Utilities, Water & Sewer	15.6%
Education	10.9%
Transportation	5.0%
Housing	4.7%

[FN]

*Based on net assets on 2/28/95. Holdings will vary over time.

As the end of a tax year approaches, individual and institutional investors typically employ several strategies to reduce the effect of federal, state, and local taxes. Beginning in October and November, many investors began selling municipal bonds with

the intent of using the capital losses to offset taxable profits in other sectors. This tax-loss selling thwarted a brief rally this past October and led to further pressures on municipal bond prices. As valuations sank to levels not seen for several years, we purchased some of these otherwise attractive bonds at very affordable prices.

A GLANCE FORWARD

While the months ahead are not likely to sustain the healthy pace of the last two months of the fiscal year, we believe there are many positive trends that bode well for your fund's performance. We believe the continuing imbalance in supply, the attractiveness of municipal bonds relative to Treasury bonds, and steady investor demand should continue to act as a strong price support for Pennsylvania tax-exempt securities.

Clearly, investors who sat tight and remained committed to their longer-term goals during the past year's volatility are potentially well positioned, in our opinion, to benefit from an improving bond market.

The views expressed here are exclusively those of Putnam Management. They are not meant as investment advice. Although the described holdings were viewed favorably as of 2/28/95, there is no guarantee the fund will continue to hold these securities in the future.

PERFORMANCE SUMMARY

This section provides, at a glance, information about your fund's performance. Total return shows how the value of the fund's shares changed over time, assuming you held the shares through the entire period and reinvested all distributions back into the fund. We show total return in two ways: on a cumulative long-term basis and on average how the fund might have grown each year over varying periods. For comparative purposes, we show how the fund performed relative to appropriate indexes and benchmarks.

TOTAL RETURN FOR PERIODS ENDED 2/28/95

<TABLE><CAPTION>

	CLASS A		CLASS B		LEHMAN BROS. MUNICIPAL	
	NAV	POP	NAV	CDSC	BOND INDEX	CPI
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1 year	1.60%	-3.25%	0.93%	-3.85%	1.88%	2.86%
5 years	49.12	41.99	--	--	46.95	17.89
Annual average	8.32	7.26	--	--	8.00	3.35
Life of class A	53.02	45.82	--	--	51.27	21.30
Annual average	7.88	6.96	--	--	7.66	3.50
Life of class B	--	--	3.13	-0.65	5.23	4.50
Annual average	--	--	1.91	-0.40	3.18	2.74

</TABLE>

TOTAL RETURN FOR PERIODS ENDED 3/31/95
(most recent calendar quarter)

<TABLE><CAPTION>

	CLASS A		CLASS B	
	NAV	POP	NAV	CDSC
<S>	<C>	<C>	<C>	<C>
1 year	6.40%	1.34%	5.71%	0.71%
5 years	50.12	42.93	--	--
Annual average	8.46	7.40	--	--
Life of class A	54.51	47.24	--	--
Annual average	7.95	7.04	--	--
Life of class B	--	--	4.09	0.28
Annual average	--	--	2.37	0.17

<FN>

Fund performance data do not take into account any adjustment for taxes payable on reinvested distributions or, for class A shares, distribution fees

prior to implementation of the class A distribution plan in 1993. The fund began operations on 7/21/89 offering shares now known as class A. Effective 7/15/93, the fund began offering class B shares. Performance data represent past results and will differ for each share class. Investment returns and net

asset value will fluctuate so an investor's shares, when sold, may be worth more or less than their original cost. POP assumes maximum 4.75% sales charge. Investment returns and net asset value will fluctuate so an investor's shares, when sold, may be worth more or less than their original cost.

</TABLE>

[MOUNTAIN CHART]

GROWTH OF A \$10,000 INVESTMENT

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[PLOT DATA]

Date	POP	Lehman	CPI
7/21/89	\$9,529	\$10,000	\$10,000
2/28/90	\$9,779	\$10,294	\$10,289
2/28/91	\$10,614	\$11,243	\$10,836
2/28/92	\$11,850	\$12,366	\$11,141
2/28/93	\$13,549	\$14,068	\$11,503
2/28/94	\$14,353	\$14,847	\$11,793
2/28/95	\$14,583	\$15,127	\$12,130

Past performance is no assurance of future results. A \$10,000 investment in the fund's class B shares at inception on 7/15/93 would have been valued at \$10,313 on 2/28/95 (\$9,935 with a redemption at the end of the period).

TERMS AND DEFINITIONS

CLASS A SHARES are generally subject to an initial sales charge.

CLASS B SHARES may be subject to a sales charge upon redemption.

NET ASSET VALUE (NAV) is the value of all your fund's assets, minus any liabilities, divided by the number of outstanding shares, not including any initial or contingent deferred sales charge.

PUBLIC OFFERING PRICE (POP) is the price of a mutual fund share plus the maximum sales charge levied at the time of purchase. POP performance figures shown here assume the maximum 4.75% sales charge.

CONTINGENT DEFERRED SALES CHARGE (CDSC) is a charge applied at the time of the redemption of class B shares and assumes redemption at the end of the period. Your fund's CDSC declines from a 5% maximum during the first year to 1% during the sixth year. After the sixth year, the CDSC no longer applies.

COMPARATIVE BENCHMARKS

LEHMAN BROTHERS MUNICIPAL BOND INDEX is an unmanaged list of long-term fixed-rate investment-grade tax-exempt bonds representative of the municipal bond market. The index does not take into account brokerage commissions or other costs, may include bonds different from those in the fund, and may pose different risks than the fund.

CONSUMER PRICE INDEX (CPI) is a commonly used measure of inflation; it does not represent an investment return.

REPORT OF INDEPENDENT ACCOUNTANTS

For the year ended February 28, 1995

To the Trustees and Shareholders of
Putnam Pennsylvania Tax Exempt Income Fund

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments owned (except for bond ratings), and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Putnam Pennsylvania Tax Exempt Income Fund (the "Fund") at February 28, 1995, and the results of its operations, the changes in its net assets, and the financial highlights for the periods indicated, in conformity with generally accepted accounting principles. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted accounting standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of investments owned at February 28, 1995 by correspondence with the custodian and brokers, provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP
 Boston, Massachusetts
 April 17, 1995

PORTFOLIO OF INVESTMENTS OWNED
 February 28, 1995

MUNICIPAL BONDS AND NOTES (98.3%)*

PRINCIPAL AMOUNT		RATINGS**	VALUE
<TABLE><CAPTION>			
<S>	<C>	<C>	<C>
Pennsylvania (84.6%)			
\$1,000,000	Allegheny Cnty. Arpt. Rev. Bonds (Pittsburgh Intl. Arpt.), Ser. C, Municipal Bond Insurance Assoc. (MBIA), 8 1/4s, 1/1/16	AAA	\$1,080,000
1,000,000	Allegheny Cnty., General Obligation (G.O.) Bonds, Ser. 17, MBIA, 9 3/8s, 3/1/12	AAA	1,020,000
2,000,000	Allegheny Cnty., Hosp. Dev. Auth. Rev. Bonds (Southside Hosp. Pittsburgh), Ser. A, 8 3/4s, 6/1/10	BBB	2,095,000
1,000,000	(St. Francis Med. Ctr. Project), American Municipal Bond Assurance Corp. (AMBAC), 8 1/8s, 6/1/13	AAA	1,062,500
1,000,000	Allegheny Cnty. Hosp. Dev. Auth. Variable Rate Demand Note (VRDN) (Presbyterian Hlth. Ctr.), Ser. A, MBIA 4s, 3/1/20	VMIG1	1,000,000
2,000,000	Allegheny Cnty. Indl. Dev. Auth. Med. Ctr. Rev. Bonds (Presbyterian Med. Ctr. of Oakmont) Federal Housing Administration (FHA), 6 3/4s, 2/1/26	AAA	2,030,000
580,000	Allegheny Cnty., Indl. Dev. Auth. Rev. Bonds (Southwestern Arpt. Cargo Fac.), 8 3/4s, 2/15/09	BB/P	609,725
8,000,000	Beaver Cnty., Indl. Dev. Auth. Poll. Control Rev. Bonds (OH Edison Co.-Beaver Valley), Ser. A, 10 1/2s, 10/1/15	Baa	8,500,000
1,500,000	Blair Cnty., Hosp. Auth. Rev. Bonds (Altoona Hosp. Project), AMBAC, 6 1/2s, 7/1/22	AAA	1,537,500
1,100,000	Cambria Cnty., Indl. Dev. Auth. Resource Recvy. Rev. Bonds (Cambria Cogen Project), Ser. F1, 7 3/4s, 9/1/19	A	1,148,125

400,000	7 3/4s, 9/1/19	A	417,500
	Chichester School Dist. Rev. Bonds		
1,180,000	FGIC zero %, 3/1/10	AAA	483,800
1,220,000	Ser B, Financial Guaranty Insurance Co. (FGIC) zero %, 3/1/09	AAA	533,750
920,000	College Township, Incl. Dev. Auth. 1st Mtge. Hlth. Facs. Rev. Bonds (Nittany Valley Rehab. Hosp. Project), 7 5/8s, 11/1/07	BBB/P	933,800
1,000,000	Dauphin Cnty., Incl. Dev. Auth. Wtr. Rev. Bonds (Dauphin Cons. Wtr. Supply), Ser. A, 6.9s, 6/1/24	A	1,030,000
900,000	Delaware Cnty. PA. Incl. Dev. Auth. Arpt. VRDN, (UTD Parcel Svc. Project), 3 3/4s, 12/1/15	AAA	900,000
3,000,000	Delaware Cnty., Hlth. Care Auth. Rev. Bonds (Mercy Hlth. Corp., Southeastern), Ser. A, Connie Lee Insd., 5 1/8s, 11/15/12	AAA	2,640,000
1,000,000	Delaware Cnty., Hosp. Auth. Rev. Rfdg. Bonds (Crozer-Chester Med. Ctr.), MBIA 7 1/2s, 12/15/20	AAA	1,136,250
1,035,000	Delaware Cnty., Incl. Dev. Auth. Rev. Bonds (Resource Recvy. Project), Ser. A, 8.1s, 12/1/13	AA	1,094,512
4,100,000	Doylestown, Hosp. Auth. Rev. Bonds (Doylestown Hosp. Pine Run), Ser. A, 7.2s, 7/1/23	BBB/P	3,782,250
3,000,000	Emmaus, General Auth. Rev. Bonds (Local Govt. Bond Pool), Bond Investors Guaranty Insurance (BIGI) Ser. A, 8.15s, 5/15/18	AAA	3,277,500
6,500,000	Erie Cnty., Prison Auth. Lease Rev. Bonds MBIA, 6 5/8s, 11/1/14	AAA	7,052,500
	Erie, Higher Edl. Bldg. Auth. College Rev. Bonds (Mercyhurst College Project), 7.85s, 9/15/19	AAA	1,280,812
1,150,000	Refunded (Mercyhurst College Project), Ser. A, 5 3/4s, 3/15/13	BBB	912,500
1,860,000	Ser. A, 5 3/4s, 3/15/13	BBB	1,697,250
2,000,000	Erie, Higher Edl. Bldg. Auth. U. Rev. Bonds (Gannon U. Project) Ser. D, 5.85s, 6/1/15	BBB	1,810,000
1,360,000	Erie, Incl. Dev. Auth. Rev. Rfdg. Bonds (Beverly Enterprises), 6 5/8s, 5/1/02	BB/P	1,275,000
3,500,000	Erie, Wtr. Auth. Rev. Bonds 7 1/8s, 12/1/11	BBB	3,876,250
750,000	Erie-Western PA Port Auth. Gen. Rev. Bonds, 8 5/8s, 6/15/10	BBB	803,438
1,560,000	Greene Cnty., Hosp. Auth. Rev. Bonds (Greene Cnty. Memorial Hosp.), 6 1/2s, 1/1/02	BBB/P	1,483,950
3,500,000	Harrisburg, Auth. Lease Rev. Bonds (Green Cnty. Prison Project), Capital Guaranty Insurance Company (CGIC), 6 1/4s, 6/1/10	AAA	3,653,125
	Hazleton Area School Dist. Rev. Bonds, FGIC zero %, 3/1/22##	AAA	987,187

5,265,000	zero %, 3/1/21##	AAA	1,053,000	
5,265,000	zero %, 3/1/20##	AAA	1,118,812	
5,265,000	zero %, 3/1/19##	AAA	1,204,369	
550,000	Jenkins Township, Sanitary Auth. Swr. Rev. Bonds, 8s, 12/1/09	AAA/P	615,312	
700,000	Lancaster Cnty., Solid Waste Management Auth. (Resource Recvy. Sysys.) Rev. Bonds, Ser. A, 8 1/2s, 12/15/10	A	735,000	
2,200,000	Lebanon Cnty., Good Samaritan Hosp. Auth. Rev. Bonds, Ser. B, 8 1/4s, 11/1/18	BBB		2,516,250
1,000,000	Lehigh Cnty., General Purpose Auth. Rev. Bonds (Muhlenberg Hosp.), Ser. A, 8.1s, 7/15/10	Baa	1,061,250	
	Lehigh Cnty. Incl. Dev. Auth. Poll. Control Rev. Bonds (PA Power & Light Co. Project-B)			
5,000,000	MBIA, 6.4s, 9/1/29	AAA	5,081,250	
600,000	9 3/8s, 7/1/15	A	620,250	
2,000,000	Luzerne Cnty., Incl. Dev. Auth. Rev. Bonds (Gas & Wtr. Co. Project), Ser. B, 7 1/8s, 12/1/22	BBB	2,002,500	
2,305,000	McKeesport, Hosp. Auth. Rev. Bonds (McKeesport Hosp. Project), 6 1/4s, 7/1/03	Baa	2,215,681	
	Montgomery Cnty. Higher Ed. & Hlth. Auth. Rev. Bonds (Montgomery Hospital), AMBAC, 5 1/8s, 6/1/14	AAA	4,400,000	
5,000,000	(Sacred Heart Hosp. Norristown), Ser. A, BIGI, 6.8s, 2/1/13	AAA	3,018,750	
3,000,000	(UTD Hosp. Project), Ser. B, 7 1/2s, 11/1/12	Ba	957,500	
1,000,000	Montgomery Cnty., Higher Ed. & Health. Auth. Hosp. Inverse Floating Bond (IFB) (Abington Hosp.), Ser. A, AMBAC, 8.89s, 6/1/11	AAA	2,190,000	
2,000,000	Montgomery Cnty., Incl. Dev. Auth. Poll. Control Rev. Bonds (Philadelphia Elec. Co.), Ser. A, 10 1/2s, 5/15/15	Baa	1,379,656	
1,325,000	New Morgan, Incl. Dev. Auth. Solid Waste Disp. Rev. Bonds (New Morgan Landfill Co. Inc. Project), 6 1/2s, 4/1/19	A	2,943,750	
3,000,000	Northeastern PA Hosp. & Edl. Auth. College Rev. Bonds (Kings College Project), Ser. B, 6s, 7/15/11	BBB	932,500	
1,000,000	PA Econ. Dev. Fin. Auth. Resource Recvy. Rev. Bonds (Northampton Generating), Ser. A, 6 1/2s, 1/1/13	BB/P	1,827,500	
2,000,000	(Colver Project) Ser. D, 7 1/8s, 12/1/15	BBB	1,010,000	
1,000,000	PA Econ. Dev. Fin. Auth. Rev. Bonds (MacMillan Ltd. Partnership), 7.6s, 12/1/20	Baa	4,190,000	
4,000,000	PA Hsg. Fin. Agcy. Rev. Bonds 4s, stepped-coupon (6.1s, 4/1/04), 10/1/13	++AA	1,662,500	
2,000,000	Ser. R, 8 1/8s, 10/1/19	AA	859,031	
825,000	Ser. U, GNMA 7.8s, 10/1/20	AA	409,063	
385,000	Ser. 29, 7 3/8s, 10/1/16	AA	420,000	
400,000	Ser. 33, 6.9s, 4/1/17	AA	2,057,500	
2,000,000				

3,000,000	PA Intergovernmental Co-op Auth. Spl. Tax Rev Bonds (City of Philadelphia), AMBAC, 5 3/4s, 6/15/15	AAA	2,883,750
4,000,000	PA Rfdg. & Projects Rev. Bonds 1st Ser., 5s, 4/15/07	AA	3,680,000
	PA State Higher Edl. Assistance Agcy. Inverse Floating Bond (IFB)		
2,400,000	Ser. B, MBIA, 10.454s, 3/1/20	AAA	2,640,000
3,850,000	Ser. B, AMBAC, 9.476s, 3/1/22	AAA	3,575,688
500,000	PA State Higher Edl. Fac. Auth. College & U. Rev. Bonds (Carnegie Project), 9s, 11/1/09	A	525,625
	PA State Higher Edl. Fac. Auth. Rev. Bonds (Med. College), Ser. A, 7 3/8s, 3/1/21	Baa	3,056,250
3,000,000	(Duquesne U. Project), MBIA 6 3/4s, 4/1/20	AAA	2,575,000
2,500,000	(Allegheny College Project), Ser. B, 6 1/8s, 11/1/13	BBB	2,483,000
2,600,000	PA State Higher Edl. Facs. Auth. Rev. Bonds (Med. College), Ser. A, 8 3/8s, 3/1/11	BBB	1,387,750
1,300,000	PA State Rev. Bonds Ser. 2, 5 1/4s, 6/15/13	AA	2,453,625
2,700,000	PA State Tpk. Rev. Bonds, 5 1/2s, 12/1/17	A	4,173,750
4,500,000	Penn Hills, G.O. Bonds, AMBAC, 5 7/8s, 12/1/15	AAA	1,962,500
2,000,000	Philadelphia, G.O. Bonds, FGIC, 8 1/4s, 2/15/09	AAA	1,053,750
	Philadelphia Gas Works Rev. Bonds, Ser. 13, Financial Security Assurance (FSA), 7.7s, 6/15/21	AAA	1,411,813
1,225,000	IFB, FSA, 6.69s, 8/1/21 I44A	AAA	2,960,000
4,000,000	Philadelphia Muni-Auth. Rev. Bonds Ser. B, FGIC, 7 1/8s, 11/15/18	AAA	1,127,500
1,000,000	Refunded, Ser. A, FGIC, 5 5/8s, 11/15/14	AAA	1,997,500
2,125,000	Refunded, FGIC, 7.8s, 4/1/18	AAA	3,509,513
3,130,000	Refunded, FGIC, 7.8s, 4/1/18	AAA	351,600
320,000	Philadelphia, Wtr. & Swr. Rev. Bonds, Capital Guaranty Insurance Corp. (CGIC), Ser. 16, 7s, 8/1/21	AAA	3,631,875
3,250,000	Philadelphia Wtr. & Wastewater Rev. Bonds Refunded, CGIC, 5s, 6/15/16	AAA	2,576,250
3,000,000	Schuylkill Cnty., Redev. Auth. Lease Rev. Bonds, Ser. A, FGIC, 7 1/8s, 6/1/13	AAA	1,092,500
1,000,000	Scranton-Lackawanna, Hlth. & Welfare Auth. Rev. Bonds (Moses Taylor Hosp. Project), Ser. B, 8 1/2s, 7/1/20	BB	3,075,000
3,000,000	Smithfield, Swr. Auth. Rev. Gtd. Bonds, 8 5/8s, 1/15/11	AAA/P	1,168,750
1,000,000	Trafford School District Rev. Bonds, MBIA, 6.6s, 5/1/08	AAA	2,636,725
2,470,000	Washington Cnty., Indl. Dev. Auth. 1st Mtge. Rev. Bonds (AHF/Central States Inc. Project), 10 1/4s, 11/1/19	B/P	485,000
500,000	Wilkes-Barre School Dist. Rev. Bonds, FGIC, 6 3/8s, 4/1/15	AAA	3,075,000
3,000,000	Wilkins Area, Indl. Dev. Auth. 1st Mtge.		
1,800,000			

	Rev. Bonds (Fairview Extended Care), Ser. A, 10 1/4s, 1/1/21	BB/P	1,959,750
1,030,000	York Cnty., Hosp. Auth. Rev. Bonds (Hlth. Ctr. Village at Sprinkle Drive), Ser. A, 7 3/4s, 4/1/21	BBB/P	1,058,325
1,845,000	York Cnty., Incl. Dev. Auth. First Mtge. Hlth. Fac. Rev. Bonds (Rehabilitation Hosp. of York Project), 7 1/2s, 9/1/07	BBB/P	1,881,900
650,000	York Cnty., Solid Waste & Refuse Auth. Incl. Dev. Rev. Bonds (Resource Recvy. Project), Ser A, 8.2s, 12/1/14	AA	703,625
890,000	(Resource Recvy. Project), Ser. C, 8.2s, 12/1/14	AA	963,425
300,000	(Resource Recvy. Project), Ser. B, 8.1s, 12/1/07	AA	325,500

	--		\$176,067,887

	--		
Puerto Rico (13.7%)			

	--		
\$1,000,000	Cmnwlth. of Puerto Rico IFB, MBIA, 8.08s, 7/1/08	AAA	\$ 1,018,750
800,000	Cmnwlth. of Puerto Rico IFB, MBIA, 3.9s, 7/1/08	AAA	800,000
200,000	Cmnwlth. of Puerto Rico, Pub. Impt. G.O. Bonds Ser. A, 7 3/4s, 7/1/13	AAA	221,500
2,150,000	7.7s, 7/1/20	AAA	2,461,750
450,000	Ser. A, 7 3/4s, 7/1/17	AAA	505,688
4,000,000	Cmnwlth. of Puerto Rico G.O. Bonds, IFB, FSA, 6.934s, 7/1/20	AAA	3,825,000
3,000,000	Cmnwlth. of Puerto Rico Rev. Bonds, MBIA, 5 1/4s, 7/1/18	AAA	2,688,750
5,000,000	Cmnwlth. of Puerto Rico, Hwy. & Trans. Auth. Rev. Bonds Ser. W, 5 1/4s, 7/1/20	A	4,375,000
200,000	Cmnwlth. of Puerto Rico, Hwy. Auth. Rev. Bonds Ser. P, 8 1/8s, 7/1/13	AAA	223,750
250,000	Ser. O, 8s, 7/1/05	AAA	278,750
900,000	Ser. Q, 7 3/4s, 7/1/16	AAA	1,032,750
2,500,000	Ser. Q, 7 3/4s, 7/1/10	AAA	2,856,250
2,000,000	Cmnwlth. of Puerto Rico, Pub. Bldgs. Auth. Ed. & Hlth. Fac. Rev. Bonds Ser. M, 5 3/4s, 7/1/15	A	1,900,000
575,000	Cmnwlth. of Puerto Rico, Urban Renewal & Hsg. Corp. Rev. Bonds, 7 7/8s, 10/1/04	Baa	638,250
4,550,000	Puerto Rico Elec. Pwr. Auth. Rev. Bonds, Ser. T, 6s, 7/1/16	A	4,453,313
1,200,000	Puerto Rico, Pub. Bldgs. Auth. Gtd. Edl. & Hlth. Fac. Rev. Bonds, Ser. H, 7 7/8s, 7/1/16	AAA	1,306,500

\$ 28,586,001

Total Investments (cost \$200,326,226)*** \$204,653,888

<FN>
NOTES

* Percentages indicated are based on net assets of \$208,237,759, which correspond to a net asset value per class A and class B share of \$8.98 and \$8.97, respectively.

** The Moody's or Standard & Poor's ratings indicated are believed to be the most recent ratings available at February 28, 1995 for the securities listed. Ratings are generally ascribed to securities at the time of issuance. While the agencies may from time to time revise such ratings, they undertake no obligation to do so, and the ratings do not necessarily represent what the agencies would ascribe to these securities at February 28, 1995. Securities rated by Putnam are indicated by "/P" and are not publicly rated. Ratings are not covered by the Report of Independent Accountants.

++ The interest rate and date shown parenthetically represent the next interest rate to be paid and the date the fund will begin receiving interest at this rate.

These securities, having an aggregate value of \$4,363,368 or 2.1% of the fund's net assets have been purchased on a when-issued basis -- that is, the fund has agreed to take delivery of and make payment for such securities beyond the settlement time of 10 business days and subsequent to the date of this report. The purchase price and interest rate of such securities are fixed at the trade date, although the fund does not earn any interest on such securities until the settlement date.

*** The aggregate identified cost on a tax basis is \$200,326,226, resulting in gross unrealized appreciation and depreciation of \$8,054,951 and \$(3,727,289), respectively, or net unrealized appreciation of \$4,327,662. The rates shown on Inverse Floating Bonds (IFB) which are securities paying variable interest rates that vary inversely to changes in market interest rates and Variable Rate Demand Notes (VRDN) are the current interest rates at February 28, 1995, which are subject to change based on the terms of the security. The Fund had the following industry group concentrations greater than 10% on February 28, 1995 (as a percentage of net assets):

Hospitals/Health Care	17.0%
Utility, Water & Sewer	15.6
Education	10.9

144A after the name of a security represents those exempt from registration under rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. The Fund had the following

insurance concentrations greater than 10% at February 28, 1995 (as a percentage of net assets):

MBIA 14.2%

STATEMENT OF ASSETS AND LIABILITIES
February 28, 1995

</TABLE>

<TABLE><CAPTION>

<S>

<C>

ASSETS

--

Investments in securities, at value (identified cost \$200,326,226)
(Note 1)
\$204,653,888

--

Cash
3,709,552

--

Interest receivable
3,625,564

--

Receivable for shares of the Fund sold
1,312,736

--

Receivable for securities sold
363,110

--

Total assets
213,664,850

LIABILITIES

--

Payable for securities purchased
4,250,645

--

Payable for shares of the Fund repurchased
264,382

--

Payable for compensation of Manager (Note 2)
292,014

--

Distributions payable to shareholders
495,354

--
Payable for administrative services (Note 2)
1,436

--
Payable for compensation of Trustees (Note 2)
204

--
Payable for investor servicing and custodian fees (Note 2)
5,959

--
Payable for distribution fees (Note 2)
77,612

--
Other accrued expenses
39,485

--
TOTAL LIABILITIES
5,427,091

--
NET ASSETS
\$208,237,759

--
REPRESENTED BY

--
Paid-in capital (Notes 1 and 4)
\$204,667,314

--
Undistributed net investment income (Note 1)
90,838

--
Accumulated net realized loss on investments (Note 1)
(848,055)

--
Net unrealized appreciation of investments
4,327,662

--
TOTAL -- REPRESENTING NET ASSETS APPLICABLE TO CAPITAL SHARES
OUTSTANDING
\$208,237,759

--
COMPUTATION OF NET ASSET VALUE

--

Net asset value and redemption price per class A shares

(\$171,568,051 divided by 19,101,804 shares)

\$8.98

--

Offering price per share (100/95.25 of \$8.98)*

\$9.43

--

Net asset value and offering price per class B share (\$36,669,708

divided by 4,086,943 shares)**

\$8.97

--

<FN>

* On single retail sales of less than \$25,000. On sales of \$25,000 or more and on group sales the offering price is reduced.

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

</TABLE>

STATEMENT OF OPERATIONS

Year ended February 28, 1995

<TABLE><CAPTION>

<S>

<C>

TAX EXEMPT INTEREST INCOME:

\$13,212,959

EXPENSES:

Compensation of Manager (Note 2)

1,155,995

Investor servicing and custodian fees (Note 2)

135,312

Compensation of Trustees (Note 2)

10,727

Reports to shareholders

14,629

Auditing

27,254

Legal

20,519

Administrative services (Note 2)

8,865

Distribution fees -- Class A (Note 2)	334,268
Distribution fees -- Class B (Note 2)	215,603
Amortization of organization expenses (Note 1)	11,066
Other	1,622
TOTAL EXPENSES	1,935,860
NET INVESTMENT INCOME	11,277,099
Net realized loss on investments (Notes 1 and 3)	(381,727)
Net realized loss on futures contracts (Notes 1 and 3)	(349,797)
Net unrealized depreciation of investments during the year	(7,009,417)
NET LOSS ON INVESTMENTS	(7,740,941)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 3,536,158

</TABLE>

STATEMENT OF CHANGES IN NET ASSETS

<TABLE><CAPTION>

	<C> YEAR ENDED	<C> YEAR
ENDED	FEBRUARY 28	FEBRUARY
28		
--		
	1995	
1994		
INCREASE IN NET ASSETS		
Operations:		
Net investment income	\$ 11,277,099	\$

9,157,267

--
Net realized gain (loss) on investments
and futures (731,524)
581,495

--
Net unrealized depreciation of investments (7,009,417)
(643,257)

--
NET INCREASE IN NET ASSETS RESULTING
FROM OPERATIONS 3,536,158
9,095,505

--
Distributions to shareholders from:

--
Net investment income:

--
Class A (9,864,312)
(9,026,558)

--
Class B (1,330,727)
(170,225)

--
Net realized gain on investments

--
Class A (143,524)
(438,817)

--
Class B (26,246)
(15,999)

--
In excess of realized gains on investments

--
Class A (98,516)

--
Class B (18,015)

--
Increase from capital share transactions (Note 4) 31,793,571
40,571,165

--
TOTAL INCREASE IN NET ASSETS 23,848,389
40,015,071

NET ASSETS

Beginning of period	184,389,370
144,374,299	

END OF PERIOD (including undistributed net investment income of \$90,838 and \$4,404, respectively)	\$208,237,759
\$184,389,370	

</TABLE>

FINANCIAL HIGHLIGHTS*

(For a share outstanding throughout the period)

<TABLE><CAPTION>

<S>	<C>	<C>	<C>
		FOR THE PERIOD	
		JULY 15, 1993	
		(COMMENCEMENT	
	YEAR ENDED	OF OPERATIONS) TO	
	FEBRUARY 28	FEBRUARY 28	

	1995	1994	1995
--	------	------	------

CLASS B

NET ASSET VALUE, BEGINNING OF PERIOD	\$9.38	\$9.48	\$9.39
--------------------------------------	--------	--------	--------

INVESTMENT OPERATIONS

Net investment income	.47	.28	.53
-----------------------	-----	-----	-----

Net realized and unrealized gain (loss) on investments	(.40)	(.08)	(.40)
--	-------	-------	-------

TOTAL FROM INVESTMENT OPERATIONS	.07	.20	.13
----------------------------------	-----	-----	-----

LESS DISTRIBUTIONS FROM:

Net investment income	(.47)	(.28)	(.53)
-----------------------	-------	-------	-------

Net realized gain on investments	(.01)	(.02)	(.01)
----------------------------------	-------	-------	-------

In excess of realized gains on investments	--	--	--
TOTAL DISTRIBUTIONS	(.48)	(.30)	(.54)
NET ASSET VALUE, END OF PERIOD	\$8.97	\$9.38	\$8.98
TOTAL INVESTMENT RETURN AT NET ASSET VALUE (%) (B)	0.93	2.18 (C)	1.60
NET ASSET VALUE, END OF PERIOD (IN THOUSANDS)	\$36,670	\$12,633	\$171,568
Ratio of expenses to average net assets (%)	1.57	1.00 (c)	.92
Ratio of net investment income to average net assets (%)	5.23	2.90 (c)	5.94
Portfolio turnover (%)	26.09	15.65 (c)	26.09

</TABLE>

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE><CAPTION>

<C>	<C>	<C>	<C>	<C>	
				FOR THE PERIOD JULY 21, 1989 (COMMENCEMENT OF OPERATIONS) TO	
	YEAR ENDED FEBRUARY 28			FEBRUARY 28	
	1994	1993	1992	1991	
				1990	
	CLASS A				
	\$9.40	\$8.76	\$8.42	\$8.36	\$8.50
	.54	.57 (a)	.61 (a)	.62 (a)	.36 (a)

	--				
	.01	.65	.34	.06	(.14)
	--				
	.55	1.22	.95	.68	.22
	--				
	--				
	(.54)	(.57)	(.61)	(.62)	(.36)
	--				
	(.02)	(.01)	--	--	--
	--				
	--				
	--				
	--				
	(.56)	(.58)	(.61)	(.62)	(.36)
	--				
	\$9.39	\$9.40	\$8.76	\$8.42	\$8.36
	--				
	5.93	14.34	11.65	8.53	2.62 (c)
	--				
	\$171,757	\$144,374	\$93,086	\$47,112	\$19,203
	--				
	.91	.72 (a)	.52 (a)	.41 (a)	.48 (a) (c)
	--				
	5.36	6.31 (a)	6.98 (a)	7.43 (a)	4.25 (a) (c)
	--				
	15.65	12.26	3.30	9.01	4.41 (c)
	--				

</TABLE>

- (a) Reflects an expense limitation. As a result, net investment income for the year ended February 28, 1993, the year ended February 29, 1992, the year ended February 28, 1991 and the period ended February 28, 1990 reflects expense reductions of approximately \$0.01, \$0.04, \$0.06 and \$0.05 per share, respectively.
- (b) Total investment return assumes dividend reinvestment and does not reflect the effect of sales charges.
- (c) Not annualized.

NOTES TO FINANCIAL STATEMENTS
February 28, 1995

NOTE 1

SIGNIFICANT ACCOUNTING POLICIES

The Fund is registered under the Investment Company Act of 1940, as amended, as a diversified, open-end management investment company. The Fund seeks as high a level of current income exempt from federal income tax and Pennsylvania personal income tax as Putnam Management believes is consistent with preservation of capital by investing primarily in a diversified portfolio of Pennsylvania tax-exempt securities.

The Fund offers both class A and class B shares. Class A shares are sold with a maximum front-end sales charge of 4.75%. Class B shares do not pay a front-end sales charge, but pay a higher ongoing distribution fee than class A shares, and may be subject to a contingent deferred sales charge, if those shares are redeemed within six years of purchase. In addition, the Trustees declare separate dividends on each class of shares. Expenses of the Fund are borne pro-rata by the holders of both classes of shares, except that each class bears expenses unique to that class (including the distribution fees applicable to such class). Each class votes as a class only with respect to its own distribution plan or other matters on which a class vote is required by law or determined by the Trustees. Shares of each class would receive their pro-rata share of the net assets of the Fund, if the Fund were liquidated. The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principles.

A SECURITY VALUATION

Tax-exempt bonds and notes are stated on the basis of valuations provided by a pricing service, approved by the Trustees, which uses information with respect to transactions in bonds, quotations from bond dealers, market transactions in comparable securities and various relationships between securities in determining value. The fair value of restricted securities is determined by the Manager following procedures approved by the Trustees, and such valuations and procedures are reviewed periodically by the Trustees.

B SECURITY TRANSACTIONS AND RELATED INVESTMENT INCOME

Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Interest income is recorded on the accrual basis.

C FEDERAL TAXES

It is the policy of the Fund to distribute all of its income within the prescribed time and otherwise comply with the provisions of the Internal Revenue Code applicable to regulated investment companies. It is also the intention of the Fund to distribute an amount sufficient to avoid imposition of any excise tax under Section 4982 of the Internal Revenue

Code of 1986. Therefore, no provision has been made for federal taxes on income, capital gains or unrealized appreciation of securities held and excise tax on income and capital gains.

At February 28, 1995, the Fund had a capital loss carryover of approximately \$290,456 which may be available to offset realized gains, if any, to the extent provided by regulations. This amount will expire February 28, 2008.

To the extent that capital loss carryovers are used to offset realized capital gains, it is unlikely that gains so offset will be distributed to shareholders, since any such distribution might be taxable as ordinary income.

D DISTRIBUTIONS TO SHAREHOLDERS

Income dividends are recorded daily by the Fund and are distributed monthly.

Capital gains distributions, if any, are recorded on the ex-dividend date and paid annually.

The character of income and gains to be distributed are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. These differences include treatment of amortization of organizational costs. Reclassifications are made to the fund's capital accounts as necessary so that they reflect income and gains available for distributions (or available capital loss carryovers) under income tax regulations. During the year ended February 28, 1995 the fund reclassified \$4,374 to increase undistributed net investment income, with a decrease of \$4,374, to additional paid-in capital.

E AMORTIZATION OF BOND PREMIUM AND DISCOUNT

Any premium resulting from the purchase of securities in excess of maturity value is amortized using the effective yield method for bonds issued after September 27, 1985, and on straight line basis for bonds issued prior thereto.

The premium in excess of the call price, if any, is amortized to the call date thereafter, and the remaining excess premium is amortized to maturity on

a yield-to-maturity basis. Discount on zero-coupon bonds, and income on stepped-coupon bonds, is recognized according to the effective yield method.

F UNAMORTIZED ORGANIZATION EXPENSES

Expenses incurred by the Fund in connection with its organization, its registration with the Securities and Exchange Commission and with various states, and the initial public offering of its class A shares aggregated \$60,484. These expenses were amortized over a five-year period based on current and projected net asset levels.

NOTE 2

MANAGEMENT FEE, ADMINISTRATIVE SERVICES, AND OTHER TRANSACTIONS

Compensation of Putnam Investment Management, Inc., the Fund's Manager, a

wholly-owned subsidiary of Putnam Investments, Inc., for management and investment advisory services is paid quarterly based on the average net assets of the Fund for the quarter. Such fee is based on the following annual rates: 0.6% of the first \$500 million of average net assets, 0.5% of the next \$500 million, 0.45% of the next \$500 million and 0.4% of any amount over \$1.5 billion subject to reduction in any year to the extent of certain brokerage commissions and fees (less expenses) received by affiliates of the Manager on the Fund's portfolio transactions.

The Fund also reimburses the Manager for the compensation and related expenses of certain officers of the Fund and their staff who provide administrative services to the Fund. The aggregate amount of all such reimbursements is determined annually by the Trustees.

Trustees of the Fund receive an annual Trustee's fee of \$730 and an additional fee for each Trustees' meeting attended. Trustees who are not interested persons of the Manager and who serve on committees of the Trustees receive additional fees for attendance at certain committee meetings.

Custodial functions for the Fund are provided by Putnam Fiduciary Trust Company (PFTC), a subsidiary of Putnam Investments, Inc. Investor servicing agent functions are provided by Putnam Investor Services, a division of PFTC.

Investor servicing and custodian fees reported in the Statement of operations for the year ended February 28, 1995 have been reduced by credits allowed by PFTC.

The fund has adopted distribution plans (the "Plans") with respect to its class A shares and class B shares pursuant to Rule 12b-1 under the Investment Company Act of 1940. The purpose of the Plans is to compensate Putnam Mutual Funds Corp., a wholly-owned subsidiary of Putnam Investments, Inc. for services provided and expenses incurred by it in distributing each class of shares of the fund. The Plans provide for payments by the fund to Putnam Mutual Funds Corp. at an annual rate up to 0.35% and 1.00% of the average net assets attributable to class A and class B shares, respectively.

The Trustees have approved payments by the fund at an annual rate of 0.20% and 0.85% of the average net assets attributable to class A and class B shares, respectively.

For the year ended February 28, 1995, Putnam Mutual Funds Corp., acting as underwriter received net commissions of \$71,739 from the sale of class A shares and \$69,280 in contingent deferred sales charges from redemptions of class B shares.

A deferred sales charge of up to 1% is assessed on certain redemptions of class A shares purchased as part of an investment of \$1 million or more. For the year ended February 28, 1995, Putnam Mutual Funds Corp., acting as

underwriter received no commissions on such redemptions.

NOTE 3
PURCHASES AND SALES OF SECURITIES

During the year ended February 28, 1995, purchases and sales of investment securities other than short-term investments aggregated \$79,981,305 and \$48,654,259, respectively.

Purchases and sales of short-term municipal obligations aggregated \$15,700,000 and \$17,000,000, respectively. In determining the net gain or loss on securities sold, the cost of securities has been determined on the identified cost basis.

NOTE 4
CAPITAL SHARES

At February 28, 1995, there was an unlimited number of class A and class B capital shares of beneficial interest authorized. Transactions in capital shares were as follows:

<TABLE><CAPTION>

<S>	<C>	<C>
	YEAR ENDED FEBRUARY 28	

	1995	

CLASS A	SHARES	AMOUNT

Shares sold	4,764,552	\$ 42,380,328
Shares issued in connection with reinvestment of distributions	631,124	5,583,837
	5,395,676	47,964,165

Shares repurchased	(4,589,936)	(40,611,535)

NET INCREASE	805,740	\$ 7,352,630

</TABLE>

<TABLE><CAPTION>

<S>	<C>	<C>
	YEAR ENDED FEBRUARY 28	

	1994	

CLASS A	SHARES	AMOUNT

Shares sold	4,612,523	\$ 43,626,301
Shares issued in connection with reinvestment of distributions	554,144	5,240,173
	5,166,667	48,866,474

Shares repurchased	(2,227,002)	(21,139,190)

NET INCREASE	2,939,665	\$ 27,727,284

</TABLE>

<TABLE><CAPTION>

<S>

	<C>	<C>
	YEAR ENDED FEBRUARY 28	

1995

CLASS B	SHARES	AMOUNT
---------	--------	--------

Shares sold	2,977,430	\$26,531,088
-------------	-----------	--------------

Shares issued in connection with reinvestment of distributions	91,725	806,568
--	--------	---------

	3,069,155	27,337,656
--	-----------	------------

Shares repurchased	(328,507)	(2,896,715)
--------------------	-----------	-------------

NET INCREASE	2,740,648	\$24,440,941
--------------	-----------	--------------

</TABLE>

<TABLE><CAPTION>

<S>

	<C>	<C>
	JULY 15, 1993 (COMMENCEMENT OF OPERATIONS) TO FEBRUARY 28	

1994

CLASS B	SHARES	AMOUNT
---------	--------	--------

Shares sold	1,365,905	\$13,030,991
-------------	-----------	--------------

Shares issued in connection with reinvestment of distributions	10,492	99,743
--	--------	--------

	1,376,397	13,130,734
--	-----------	------------

Shares repurchased	(30,102)	(286,853)
--------------------	----------	-----------

Net increase	1,346,295	\$12,843,881
--------------	-----------	--------------

</TABLE>

TAX INFORMATION

The fund has designated all income dividends paid during the fiscal year as exempt-interest dividends. Thus 100% of these distributions are exempt from federal income tax. For residents of the state of Pennsylvania, 100% of the fund's distributions are also exempt from Pennsylvania personal income tax.

During the fiscal year the fund paid long-term capital gains distribution of \$0.002 and \$0.002 per share and short-term capital gains of \$0.011 and \$0.011 on February 28, 1995 on class A and class B shares, respectively. Any additional capital gains paid subsequent to February 28, 1995 will be reported to you on the Form 1099 you will receive in January 1996.

Fund information

INVESTMENT MANAGER

Putnam Investment
Management, Inc.
One Post Office Square
Boston, MA 02109

MARKETING SERVICES

Putnam Mutual Funds Corp.
One Post Office Square
Boston, MA 02109

CUSTODIAN

Putnam Fiduciary Trust Company

LEGAL COUNSEL

Ropes & Gray

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