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)

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PUTNAM ARIZONA TAX EXEMPT INCOME FUND
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PUTNAM
ARIZONA
TAX EXEMPT
INCOME FUND

[GRAPHIC OMITTED: art work]

ANNUAL REPORT
May 31, 1995

[LOGO: BOSTON - LONDON - TOKYO]

PERFORMANCE HIGHLIGHTS

- "The gap is narrowing between Treasury and municipal yields, making munis look increasingly attractive."
  -- The Wall Street Journal, May 19, 1995.

FISCAL 1995 RESULTS AT A GLANCE

TOTAL RETURN:	CLASS A NAV	CLASS A POP	CLASS B NAV	CLASS B CDSC
9 months ended May 31, 1995 (change in value during period plus reinvested distributions)	6.45%	1.40%	5.99%	0.99%

SHARE VALUE:	NAV	POP	NAV
August 31, 1994	$8.84	$9.28	$8.83
May 31, 1995	9.01	9.46	9.00

DISTRIBUTIONS:	NO.	INCOME	CAPITAL GAINS(1)	TOTAL
Class A	9	$0.375197	--	$0.375197
Class B	9	0.337401	--	0.337401

CURRENT RETURN:	NAV	POP	NAV
End of period			
Current dividend rate(2)	5.50%	5.23%	4.93%
Taxable equivalent(3)	9.65	9.17	8.65
Current 30-day SEC yield(4)	5.28	5.02	4.62
Taxable equivalent(3)	9.26	8.80	8.10

Performance data represent past results, will differ for each share class and is no indication of future performance. For performance over longer periods, see page 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 combined 42.98% 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.

FROM THE CHAIRMAN

[GRAPHIC OMITTED: Photo of George Putnam]
(C) Karsh, Ottawa

Dear Shareholder:

You may not have noticed, but this annual report for Putnam Arizona Tax Exempt Income Fund has arrived somewhat earlier than usual. Putnam Management has decided to realign many of its tax-exempt bond funds' fiscal years so they have common fiscal year ends.

Your fund was among those affected by this change. In the future its fiscal year will end on May 31, instead of August 31, as in the past. Consequently, this report covers a fiscal period of only nine months, instead of a full fiscal year.

The change should provide savings for your fund in the future. It will allow us to take advantage of economies of scale in financial reporting, accounting, literature production, and the like.

We are also pleased to announce the appointment of Howard Manning as your fund's manager. Howard, who has been with Putnam since 1986, has 13 years of investment experience.

In the report that follows, Howard reviews performance during this abbreviated period, then offers some insights on prospects for the months ahead.

Respectfully yours,

/s/ George Putnam
George Putnam
Chairman of the Trustees
July 17, 1995

REPORT FROM THE FUND MANAGER
HOWARD MANNING

At the close of Putnam Arizona Tax Exempt Income Fund's fiscal year on May 31, 1995, it appeared the Federal Reserve Board bouncer had temporarily thrown the U.S. Treasury market out of the 1995 bond-market party. Evidence at the time, however, suggested the municipal bond market had the potential to celebrate long into the night. Now, the Fed's lowering of a key interest rate has not only reignited fixed-income markets, it has served to reinforce our optimism about the municipal bond market.

Your fund has prospered along with the market. Calendar year-to-date, the fund's class A shares have returned 10.07% at net asset value (NAV). And, in a dramatic reversal from its negative returns in 1994, the fund's class A shares posted an 7.62% return at NAV for the one-year period ended May 31, 1995.

o BONDS COAST TO STRONG FIRST-QUARTER FINISH

The first five months of 1995 encompassed one of the bond market's most impressive rallies in recent memory. Investors were already beginning to anticipate the end of the Fed's interest-rate tightening cycle and there were early signs that the economy would proceed to grow at a slow but steady pace with inflation remaining low.

The municipal bond market showed its resilience when market players began buying despite concerns about investors' confidence following the announcement of the Orange County, California bankruptcy in December. In fact, for the first quarter of calendar 1995, municipal bond yields -- which move in the opposite direction from their prices -- fell more than 90 basis points (nine-tenths of one percentage point). This, however, was where municipal bonds and other fixed-income securities went their separate ways.

o FLAT-TAX CONCERNS CREATE OPPORTUNITY

In late April, investors' fears of the effects of the current flat-tax proposal now being considered by Congress jarred the municipal bond market out of its dramatic recovery. A flat tax, which is one of many tax-reform proposals being considered by congressional committees, would deprive municipal bonds of their exclusivity as a tax-exempt investment.

In our opinion, the market reacted to the perceived effects of the flat-tax rhetoric and not to any hard facts. By May, investors were starting to look beyond the flat tax to the likelihood of a more broad-based income tax revision in the distant future. In fact, a report in The Wall Street Journal (May 5, 1995) suggested that the short-term downturn in the market was not grounded in reality and it had actually created more possibilities than it quashed. "(Tax-law changes) are far off in the future -- 1997 at the earliest -- and that overhauling the current tax system is a far more difficult task than many investors now believe. As a result...there's a buying opportunity in municipals."

[GRAPHIC OMITTED: line chart:
YIELD RATIO: MUNICIPAL BOND YIELDS AS A PERCENTAGE OF U.S. TREASURY BONDS
Legend reads: It is usually considered a buying signal when municipal bonds yield between 78% and 82% of Treasurys
X-axis reads (left to right) 11/94 through 5/95 in monthly increments.
Y-axis reads (top to bottom) 85%, 80, and 75.
Plot points (bi-weekly) from November 30, 1994 through May 31, 1995 are:
84.2, 84, 82.5, 82.2, 80.7, 79.2, 78.9, 79.2, 79.9, 78.5, 80.5, 82.9 & 84.9.
Caption reads: Chart shows the yield of an average 30-year general obligation bond versus the yield of an average 30-year U.S. Treasury bond plotted

biweekly. Treasury bonds are backed by the full faith and credit of the U.S. government. Source: Bloomberg.]

What kind of value has this created? Analysts evaluate municipal bonds in relation to taxable Treasury bonds with similar maturities. By this reasoning, municipal bonds are as undervalued as they were when the bond market began to turn in November of 1994, albeit at much lower yields. On November 30, 1994, the average 30-year AAA-general obligation bond was yielding 84.2% of the average 30-year Treasury bond. Similarly, on May 31, 1995, that ratio stood at 84.9% (See chart on page 5). In other words, the municipal bond market's failure to participate in the full extent of the appreciation in other fixed-income securities leaves the potential that it could make up this ground. There can, of course, be no guarantees of this result.

o SUPPLY/DEMAND DYNAMICS STILL ATTRACTIVE

The supply and demand imbalance we discussed last year has contributed to the recent strength of municipal bonds. Independent analysts expect issuance of new municipal bonds to shrink to $125 billion this year from $150 billion last year and $300 billion in 1993. According to The Bond Buyer, an industry periodical, the volume of new issues year-to-date is at the lowest level since 1990. In fact, issuance in Arizona is off more than 40%.

The summer months are also a traditional time for bonds to mature or be called in. This July, about $80 billion is expected to flood the market as many municipal bonds come due or are called by issuers. Should falling interest rates persist, additional refunding could push more cash into the market.

o HEALTH CARE ASSETS DECREASE SLIGHTLY BUT REMAIN A PRIORITY

Since the beginning of this period, the fund's largest holding, hospitals and health care systems, has decreased from 24% to 21% of assets. Credit risk from hospital bonds, however, is less with 12% in insured bonds and 9% in uninsured bonds.

While health-care bonds generally provide a good deal of income, they have, at times, lagged other types of municipal bonds in terms of total return. We have attempted to make up for this by using careful credit research to evaluate the issuers of what we believe to be undervalued bonds.

[GRAPHIC OMITTED: horizontal bar chart TOP INDUSTRY SECTORS* showing: Hospital/Healthcare 21.0%; Utilities 12.7%; Water & Sewerage 11.4%; and Housing 10.0%. Footnote reads:
*Based on net assets on 5/31/95. Holdings will vary over time.]

One issuer we have invested in is the Pinal County Industrial Development Authority. We believe the hospital that supports their revenue bonds, Casa Grande Regional Medical Center, could be in the right place at the right time. Located between Phoenix and Tucson, it is the only medical facility in a rapidly growing area of Arizona.

o PREREFUNDED ISSUES CONTRIBUTE TO SOLID PERFORMANCE

Depending on a bond issuer's interest rate outlook, additional bonds may be issued and sold in order to eliminate older, higher-cost debt. In this situation, known as a refunding, the proceeds of the new issue are invested in AAA-rated government securities. This investment is used to establish an account that will pay interest and principal on the outstanding issue. Should the outstanding debt be retired prior to maturity, it is known in bond parlance as being "prerefunded to the first call date." Owning prerefunded debt is beneficial to a portfolio because it immediately improves the credit quality of the bonds, which, in turn, may increase their value.

One example of this was the Arizona Health Facilities Authority's revenue bonds issued on behalf of the St. Luke's Health System. These bonds had a Ba credit rating from Moody's, a major credit rating agency, and from Putnam's analysts. Thus, they were considered "speculative" in terms of credit quality. Following a prerefunding, however, we were able to sell them at a substantial profit.

The same may be true for another issuer, the Sierra Vista Industrial Development Authority. Based on credit quality and the current interest-rate environment, these hospital revenue bonds, used to fund the Sierra Vista Community Hospital, have the potential, in our opinion, to be the subject of a prerefunding within the next 6-12 months. Even if this does not come to pass, we still believe these bonds add value to the fund's portfolio.

o A PROMISING FUTURE

The healthy state economy we reported on in the fund's semi annual report continues to be the major reason for our optimism about the state's municipal bond market. A major business influx and an increasing tax base can only benefit Arizona bonds.

Although the direction of the broader bond market for the remainder of calendar 1995 is anyone's guess, we believe the municipal bond market, and particularly Arizona, will continue to hold promise for investors seeking tax-free income.

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 5/31/95, there is no guarantee the fund will continue to hold these securities in the future. Past performance is no guarantee of future results.

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.

Performance should always be considered in light of a fund's investment strategy. Putnam Arizona Tax Exempt Income Fund is designed for investors seeking a high level of current income free from federal and Arizona state income taxes, consistent with preservation of capital.

TOTAL RETURN FOR PERIODS ENDED 5/31/95

	CLASS A		CLASS B		LEHMAN BROS. MUNICIPAL BOND INDEX	CPI
	NAV	POP	NAV	CDSC		
9 months	6.45%	1.40%	5.99%	0.99%	7.43%	2.15%
1 year	7.62	2.53	6.88	1.88	9.11	3.19
3 years	22.12	16.34	--	--	25.18	8.95
Annual average	6.89	5.17	--	--	7.77	2.90
Life of class A	39.06	32.52	--	--	41.82	13.08
Annual average	7.89	6.70	--	--	8.38	2.87
Life of class B	--	--	5.61	1.77	9.97	5.40
Annual average	--	--	2.94	0.94	5.18	2.84

TOTAL RETURN FOR PERIODS ENDED 6/30/95
(Most recent calendar quarter)

	CLASS A		CLASS B	
	NAV	POP	NAV	CDSC
1 year	6.87%	1.77%	6.15%	1.15%
3 years	18.39	12.73	--	--
Annual average	5.79	4.08	--	--
Life of class A	37.16	30.71	--	--
Annual average	7.41	6.25	--	--
Life of class B	--	--	4.13	0.36
Annual average	--	--	2.09	0.18

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 1/30/91 offering shares now known as class A shares. Effective 7/15/93, the fund commenced operations of class B shares. Performance data represent past results, will differ for each share class, and is no indication of future performance. Investment returns and principal value will fluctuate so an investor's shares, when sold, may be worth more or less than their original cost.

[GRAPHIC OMITTED: line chart GROWTH OF A $10,000 INVESTMENT
X-axis reads (left to right) 1/30/91 8/30/91 8/30/92 8/30/93 8/30/94 & 5/31/95
Y-axis reads (top to bottom) $19,400 through 9,400 in $1,000 decrements
Legend reads: Cumulative total return of a $10,000 investment since 1/30/91
A white line represents "Fund's class A shares at POP" total of $13,251
(see plot points below: "Fund")
A black line represents "Lehman Bros. Municipal Bond Index" total of $14,182
(see plot points below: "Lehman")
A grey line represents "Consumer Price Index" total of $11,308
(see plot points below: "CPI")

Date	"Fund"	"Lehman"	"CPI"
1/30/91	9525	10000	10000
8/30/91	9841	10569	10149
8/30/92	10851	11749	10468
8/30/93	12128	13183	10758

8/30/94	12313	13201	11070
5/31/95	13251	14182	11308

Caption reads: 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 $10,561 on 5/31/95 ($10,177 with a redemption at the end of the period). Past performance is not indicative of future results.]

TERMS AND DEFINITIONS

CLASS A SHARES are generally subject to an initial shares 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 nine months ended May 31, 1995

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

We have audited the accompanying statement of assets and liabilities of Putnam Arizona Tax Exempt Income Fund, including the portfolio of investments owned, as of May 31, 1995, the related statement of operations for the nine months then ended, the statement of changes in net assets for the nine months then ended and for the year ended August 31, 1994, and the "Financial Highlights" for each of the periods indicated therein. These financial statements and "Financial Highlights" are the responsibility of the fund's management. Our responsibility is to express an opinion on these financial statements and "Financial Highlights" based on our audits.

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

In our opinion, the financial statements and "Financial Highlights" referred to above present fairly, in all material respects, the financial position of Putnam Arizona Tax Exempt Fund as of May 31, 1995, the results of its operations for the nine months then ended, the changes in its net assets for the nine months then ended and for the year ended August 31, 1994, and the "Financial Highlights" for each of the periods indicated therein, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Boston, Massachusetts
July 17, 1995

PORTFOLIO OF INVESTMENTS OWNED
May 31, 1995

KEY TO ABBREVIATIONS

AMBAC	--	American Municipal Bond Assurance Corporation
COP	--	Certificate of Participation
FGIC	--	Financial Guaranty Insurance Corporation
FHA	--	Federal Housing Administration
FSA	--	Financial Security Assurance

G.O. Bonds -- General Obligation Bonds
GNMA Coll. -- Government National Mortgage Association Collateralized
IFB -- Inverse Floating Bonds
MBIA -- Municipal Bond Investors Assurance Corp.

<TABLE>
<CAPTION>
MUNICIPAL BONDS AND NOTES (96.8%)<F1>

PRINCIPAL AMOUNT		RATINGS<F2>	VALUE
ARIZONA (88.4%)			
<C>	<S>	<C>	<C>
	AZ Hlth. Fac. Auth. Hosp. Syst. Rev. Bonds		
$1,965,000	Prerefunded (St. Luke's Hosp. Syst.),		
	Ser. A, 10 1/8s, 11/1/15	AAA	$ 2,050,969
1,975,000	(Phoenix Mem. Hosp.), 8.2s, 6/1/21	BBB	2,093,500
1,500,000	(Phoenix Mem. Hosp.), 8 1/8s, 6/1/12	BBB	1,588,125
1,185,000	AZ State Muni. Fing. COP Rev. Bonds		
	Ser. 4, FGIC, 5 1/2s, 8/1/19	AAA	1,140,563
1,500,000	AZ State Student Loan Acquisition Auth.		
	Rev. Bonds, Ser. B, 6.6s, 5/1/10	AA	1,575,000
2,500,000	AZ State Trans. Board Hwy. Rev. Bonds		
	Ser. A, 6 1/2s, 7/1/11	Aaa	2,768,750
2,140,000	Avondale, Muni. Dev. Corp. Facs. Rev. Bonds		
	AMBAC 8.85s, 7/1/13	AAA	2,190,568
1,100,000	Chandler, Street & Hwy. Rev. Bonds		
	MBIA, 8s, 7/1/11	AAA	1,388,750
	Chandler, G.O. Bonds		
1,450,000	FGIC, 8s, 7/1/10	AAA	1,758,125
500,000	FGIC, 7s, 7/1/12	AAA	551,250
	Chandler, Wtr. & Swr. Rev. Bonds		
2,150,000	FGIC, 8s, 7/1/14	AAA	2,588,063
750,000	FGIC, 7s, 7/1/12	AAA	826,875
750,000	Cochise Cnty., U. School Dist. No. 68 Rev. Bonds		
	FGIC, 7 1/2s, 7/1/09	AAA	900,000
6,880,000	Gila Cnty., Indl. Dev. Auth. Poll. Control Rev. Bonds		
	Ser. 85, 8.9s, 7/1/06	Baa	7,516,400
	Gilbert, G.O. Bonds		
2,500,000	Ser. C, MBIA, 5 1/2s, 7/1/23	AAA	2,381,250
1,105,000	Ser. C, MBIA, 5 1/2s, 7/1/22	AAA	1,067,706
1,000,000	Gilbert, Wtr. & Swr. Rev. Bonds		
	FGIC, 6 1/2s, 7/1/22	AAA	1,062,500
1,000,000	Glendale Indl. Dev. Auth. Edl. Fac. Rev. Bonds		
	7 1/8s, 7/1/20	AAA	1,117,500

MUNICIPAL BONDS AND NOTES

PRINCIPAL AMOUNT		RATINGS<F2>	VALUE
ARIZONA (continued)			
$2,700,000	Maricopa Cnty., Indl. Dev. Auth. Hlth. Fac. IFB		
	MBIA, 6.722s, 7/1/13	AAA	$ 2,639,250
	Maricopa Cnty., Indl. Dev. Auth. Hosp. Fac.		
	Rev. Bonds		
3,500,000	(Samaritan Hlth. Svcs.), Ser. A, MBIA, 7s, 12/1/16	AAA	4,086,250
2,500,000	(Samaritan Hlth. Svc. Hosp.-B2), MBIA, 2.8s,		
	12/1/08	A	2,500,000
600,000	(John C. Lincoln Hosp.), FSA, 7 1/2s, 12/1/13	AAA	670,500
1,670,000	Maricopa Cnty., Indl. Dev. Auth. Multi-Fam. Hsg.		
	Rev. Bonds, (Laguna Point Apt. Project), 6 3/4s, 7/1/19	A	1,695,050
1,000,000	Maricopa Cnty., Indl. Dev. Auth. Rev. Bonds		
	(Catholic Hlth. Care) Ser. A, MBIA, 5s, 7/1/15	AAA	908,750
2,080,000	Maricopa Cnty., Indl. Dev. Auth. Single Fam. Mtge.		
	Rev. Bonds, Ser. A, 7 1/2s, 8/1/12	AA	2,186,600
2,000,000	Maricopa Cnty., School Dist. No 028 Rev. Bonds		
	(Kyrene Elem.), Ser. C, FGIC, zero %, 1/1/11	AAA	815,000
	Maricopa Cnty., Unified School Dist. No 80		
	Rev. Bonds (Chandler), MBIA,		
500,000	zero %, 7/1/11	AAA	196,250
1,000,000	zero %, 7/1/09	AAA	446,250
750,000	Mohave Cnty., Indl. Dev. Auth. Hosp. Syst.		
	Rev. Bonds, (Env. Inc. & Phoenix Hosp. & Med. Ctr.),		
	6 3/4s, 7/1/08	BAA	770,625
3,000,000	Mohave Cnty., Indl. Dev. Auth. Indl. Dev. Rev. Bonds		
	(Citizens Utilities Co.) Ser. B, AMBAC, 5.8s, 11/15/28	AAA	2,981,250
1,485,000	Mohave Cnty., Indl. Dev. Auth. Multi-Fam. Mtge.		
	Rev. Bonds, (Cooper Ridge Apts.) FHA, 7 3/8s, 4/1/32	AAA	1,594,519
	Navajo Cnty., Poll. Cntrl. Corp. Rev. Bonds		
2,000,000	(Public Svc. Co.), Ser. A, 5 7/8s, 8/15/28	Baa	1,945,000
1,000,000	(AZ Pub. Svc. Co.), Ser. A, AMBAC, 5 1/2s, 8/15/28	AAA	952,500
3,200,000	Phoenix Az Civic Impt. Corp. Rev. Bonds		
	(New City Hall Project) 5.1s, 7/1/28	AA	2,880,000
1,600,000	Phoenix Hsg. Fin. Corp. Mtg. Rev. Bonds		
	Ser. A, MBIA, 6.9s, 1/1/23	AAA	1,656,000
1,500,000	Phoenix Wtr. Sys. Rev. Bonds 5 1/2s, 7/1/22	AA	1,447,500
	Phoenix, Civic Impt. Corp. Wtr. Syst. Rev. Bonds		

2,500,000	5 1/2s, 7/1/24	AA	2,400,000
4,800,000	FGIC, 5 1/2s, 7/1/24	AAA	4,572,000
1,000,000	Phoenix, Civic Impt. Corp. Wastewater Syst. Prerefunded Lease Rev. Bonds, 6 1/8s, 7/1/23	AAA	1,101,250
	Phoenix, G.O. Bonds		
1,000,000	6 3/8s, 7/1/13	AA	1,048,750
1,750,000	Ser. B, 5 1/2s, 7/1/16	AA	1,701,875
2,150,000	Phoenix, Indl. Dev. Auth. Mtge. Rev. Bonds (Chris Ridge Village Project), FHA, 6.8s, 11/1/25	AAA	2,217,188
955,000	Phoenix, Indl. Dev. Auth. Rev. Bonds (Christian Care Retirement Apts.), Ser. A, 10 1/4s, 1/1/18	BB/P	1,011,106

MUNICIPAL BONDS AND NOTES

PRINCIPAL AMOUNT		RATINGS<F2>	VALUE
ARIZONA (continued)			
$1,000,000	Pima Cnty., School Dist. No. 1 Rev. Bonds FGIC, 7 1/2s, 7/1/08	AAA	$ 1,188,750
2,000,000	Pinal Cnty., COP, 6 1/2s, 6/1/09	AA	2,080,000
	Pinal Cnty., Indl. Dev. Auth. Rev. Bonds		
2,000,000	(Casa Grande Regl. Med. Ctr.), 9s, 12/1/13	BB/P	2,075,000
2,000,000	(Casa Grande Regl. Med. Ctr.), Ser. A, 8 1/8s, 12/1/22	BB/P	2,125,000
3,000,000	Salt River, Project Agric. Impt. & Pwr. Dist. Elec. Syst. IFB 6.637s, 1/1/19 (acquired 3/16/93, cost $3,015,719) <F4>	A	3,011,250
	Salt River, Project Agric. Impt. & Pwr. Dist. Elec. Syst. Rev. Bonds (Salt River Project)		
3,150,000	Ser. C, 5 1/2s, 1/1/28	AA	3,000,375
3,500,000	Ser. B, MBIA, 5 1/4s, 1/1/19	AAA	3,281,250
5,000,000	Ser. D, 5s, 1/1/30	AA	4,406,250
2,250,000	Scottsdale, G.O. Bonds, 5 1/2s, 7/1/14	AA	2,174,063
1,000,000	Scottsdale Indl. Dev. Auth. Hosp. Rev. Bonds (Scottsdale Memorial Hosp.), AMBAC, 5 1/4s, 9/1/18	AAA	927,500
4,000,000	Scottsdale Ind. Dev. Auth. Rev. Bonds (First Mtge. Westminster Village), Ser. A, 8 1/4s, 6/1/15	BB/P	4,150,000
1,000,000	Sedona, COP, 7.2s, 4/1/12	BBB/P	1,011,250
	Sierra Vista, Indl. Dev. Auth. Hosp. Rev. Bonds (Sierra Vista Cmnty. Hosp. Project)		
1,800,000	8 3/4s, 12/1/16	BBB	1,932,750
1,995,000	8 1/2s, 12/1/21	BBB/P	2,167,069
2,800,000	8 1/4s, 12/1/14	BBB/P	2,968,000
1,000,000	South Tucson, Muni. Property Corp. Fac. Rev. Bonds 8 1/2s, 6/1/05	BBB	1,128,750
1,365,000	Tucson & Pima Cntys., Indl. Dev. Auths. Single Fam. Mtge. Rev. Bonds, 9 3/8s, 2/1/14	BB	1,405,950
6,750,000	Tucson, Arpt. Auth. Special Fac. Rev. Bonds (Lockheed Aermod Ctr. Inc.), 8.7s, 9/1/19	A	7,762,500
3,000,000	Tucson, G.O. Bonds, Ser. A, 5 3/8s, 7/1/20	AA	2,853,750
910,000	Tucson, Indl. Dev. Auth. Multi-Fam. Rev. Bonds (La Entrada), 7.4s, 7/1/26	AAA	956,638
1,500,000	Tucson, Street & Hwy. User Rev. Bonds Ser. B, 9 1/4s, 7/1/05	A	1,993,125
	Tucson, Wtr. Rev. Bonds		
300,000	Ser. D, FGIC, 9 3/4s, 7/1/10	AAA	430,500
1,500,000	6 1/2s, 7/1/16	A	1,575,000
1,000,000	U. of AZ, COP (Telecommunications Syst.), 6 1/2s, 7/15/12	A	1,060,000
1,450,000	U. of AZ, Med. Ctr. Corp. Hosp., Rev. Bonds MBIA, 6 7/8s, 7/1/21	AAA	1,640,313
	U. of AZ, Rev. Bonds		
1,000,000	Ser. B, 6.9s, 6/1/16	AA	1,112,500
1,000,000	6 1/4s, 6/1/11	AA	1,042,500
1,475,000	U. of Arizona Medical Ctr. MBIA, 5s, 7/1/21	AAA	1,333,031

			$139,782,421

MUNICIPAL BONDS AND NOTES

PRINCIPAL AMOUNT		RATINGS<F2>	VALUE
PUERTO RICO (8.4%)			
$2,500,000	Cmnwlth. of Puerto Rico, Aqueduct & Swr. Auth. Rev. Bonds, Ser. A, 7 7/8s, 7/1/16	Baa	$ 2,746,875
	Cmnwlth. of Puerto Rico, Hwy. & Trans. Auth. Rev. Bonds, Ser. X,		
2,500,000	5 1/4s, 7/1/21	A	2,262,500
1,000,000	5s, 7/1/22	A	870,000
2,000,000	PR Cmnwlth. G. O. Bonds, AMBAC, 5 1/2s, 7/1/13	AAA	1,985,000
1,375,000	PR Pub. Bldgs. Auth., Gtd. Edl. & Hlth. Fac. Prerefunded Rev. Bonds, Ser. H, 7 7/8s, 7/1/16	AAA	1,505,622
2,000,000	Puerto Rico, Hsg. Fin. Corp. Single Fam. Mtge. IFB GNMA, 8.585s, 8/4/25	AAA	2,155,000
1,500,000	Puerto Rico, Pub. Bldg. Auth. Gtd. Ed. & Hlth. Fac.		

Prerefunded Rev. Bonds, Ser. L, 6 7/8s, 7/1/21	AAA	1,730,625
		$ 13,255,622
TOTAL INVESTMENTS (cost $145,934,549) <F3>		$153,038,043

<FN>
<F1> Percentages indicated are based on net assets of $158,136,683, which corresponds to a net asset value per class A and class B share of $9.01 and $9.00 respectively.

<F2> The Moody's or Standard & Poor's ratings indicated are believed to be the most recent ratings available at May 31, 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 May 31, 1995. Securities rated by Putnam are indicated by "/P" and are not publicly rated. Ratings are not covered by the Report of Independent Accountants.

<F3> The aggregate identified cost for federal income tax purposes is $145,939,279, resulting in gross unrealized appreciation and depreciation of $7,683,400 and $584,636, respectively, or net unrealized appreciation of $7,098,764.

<F4> Restricted as to public resale. At the date of acquisition these securities were valued at cost. There were no outstanding securities of the same class as those held. Total market value of restricted securities owned at May 31, 1995 was $3,011,250 or 2.0% of net assets.

The fund had the following insurance concentrations greater than 10% of net assets at May 31, 1995.

MBIA	14.9%

The fund had the following industry group concentrations greater than 10% of net assets at May 31, 1995.

Hospitals/Health Care	21.0%
Utilities	12.7
Water & Sewerage	11.4

The rates shown on VRDNs and IFBs, which are securities paying variable interest rates that vary inversely to changes in the market interest rates, are the current interest rates at May 31, 1995, which are subject to change based on the terms of the security.
</FN>
</TABLE>

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

<TABLE>
<CAPTION>
STATEMENT OF ASSETS AND LIABILITIES
May 31, 1995

ASSETS

<S>	<C>
Investments in securities, at value (identified cost $145,934,549) (Note 1)	$153,038,043
Cash	101,255
Interest receivable	3,824,399
Receivable for shares of the fund sold	436,245
Receivable for securities sold	4,618,748
Unamortized organization expenses (Note 1)	8,331
TOTAL ASSETS	162,027,021

LIABILITIES

Distributions payable to shareholders	207,887
Payable for securities purchased	2,922,125
Payable for written call options closed	216,000
Payable for shares of the fund repurchased	186,390
Payable for compensation of Manager (Note 2)	234,320
Payable for compensation of Trustees (Note 2)	159
Payable for investor servicing and custodian fees (Note 2)	24,786

Payable for administrative services (Note 2)	1,496
Payable for distribution fees (Note 2)	60,299
Other accrued expenses	36,876
TOTAL LIABILITIES	3,890,338
NET ASSETS	$158,136,683
REPRESENTED BY	
Paid-in capital (Notes 1 and 4)	$157,268,516
Undistributed net investment income (Note 1)	106,796
Accumulated net realized loss on investment transactions, futures contracts and written options (Note 1)	(6,342,123)
Net unrealized appreciation of investments	7,103,494
TOTAL -- REPRESENTING NET ASSETS APPLICABLE TO CAPITAL SHARES OUTSTANDING	$158,136,683
COMPUTATION OF NET ASSET VALUE AND OFFERING PRICE	
Net asset value and redemption price of class A shares ($136,598,193 divided by 15,166,568 shares)	$9.01
Offering price per share (100/95.25 of $9.01)*	$9.46
Net asset value and offering price of class B shares ($21,538,490 divided by 2,394,416 shares)+	$9.00

*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.

The accompanying notes are an integral part of these financial statements.
</TABLE>

STATEMENT OF OPERATIONS
Nine months ended May 31, 1995

TAX EXEMPT INTEREST INCOME	$7,790,831
EXPENSES:	
Compensation of Manager (Note 2)	683,508
Investor servicing and custodian fees (Note 2)	52,454
Payable for compensation of Trustees (Note 2)	5,981
Reports to shareholders	37,095
Auditing	16,475
Legal	18,415
Administrative services (Note 2)	6,233
Postage	6,326
Registration fees	3,271
Distribution Fees (Note 2)	
Class A	199,364
Class B	114,668
Amortization of organization expenses (Note 1)	7,892
Other	4,065
TOTAL EXPENSES	1,155,747
NET INVESTMENT INCOME	6,635,084
Net realized loss on investments (Notes 1 and 3)	(3,272,033)

Net realized loss on futures contracts (Notes 1 and 3)	(673,978)
Net realized loss on written options (Notes 1 and 3)	(33,026)
Net unrealized appreciation of investments during the period	6,447,029
NET GAIN ON INVESTMENTS	2,467,992
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$9,103,076

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

STATEMENT OF CHANGES IN NET ASSETS
<TABLE>
<CAPTION>

	NINE MONTHS ENDED MAY 31 1995	YEAR ENDED AUGUST 31 1994
<S>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS		
Operations:		
Net investment income	$ 6,635,084	$ 8,770,368
Net realized loss on investments, written options, and futures contracts	(3,979,037)	(1,813,591)
Net unrealized appreciation (depreciation) of investments	6,447,029	(9,114,262)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	9,103,076	(2,157,485)
Distributions to shareholders from:		
Net investment income		
Class A	(5,840,450)	(8,146,391)
Class B	(700,347)	(518,597)
In excess of net realized gain on investments		
Class A	--	(474,505)
Class B	--	(18,380)
Increase (decrease) from capital share transactions (Note 4)	(3,622,742)	22,235,036
TOTAL INCREASE (DECREASE) IN NET ASSETS	(1,060,463)	10,919,678
NET ASSETS		
Beginning of period	159,197,146	148,277,468
END OF PERIOD (including undistributed net investment income and distributions in excess of net investment income of $106,796 and $(5,215), respectively)	$158,136,683	$159,197,146

</TABLE>

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

FINANCIAL HIGHLIGHTS
(For a share outstanding throughout the year)
<TABLE>
<CAPTION>

	FOR THE NINE MONTHS ENDED MAY 31	YEAR ENDED AUGUST 31	FOR THE PERIOD JULY 15, 1993 (COMMENCEMENT OF OPERATIONS) TO AUGUST 31	FOR THE NINE MONTHS ENDED MAY 31	YEAR ENDED AUGUST 31			FOR THE PERIOD JANUARY 30, 1991 (COMMENCEMENT OF OPERATIONS) TO AUGUST 31
	1995<F1>	1994	1993	1995<F1>	1994	1993	1992	1991
	CLASS B			CLASS A				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
NET ASSET VALUE, BEGINNING								

OF PERIOD	$8.83	$9.47	$9.39	$8.84	$9.47	$9.07	$8.66	$8.50
INVESTMENT OPERATIONS								
Net investment income	.34	.45	.11	.38	.51	.54<F2>	.57<F2>	.33<F2>
Net realized and unrealized gain (loss) on investments	.17	(.61)	.03	.17	(.61)	.47	.42	.16
TOTAL FROM INVESTMENT OPERATIONS	.51	(.16)	.14	.55	(.10)	1.01	.99	.49
LESS DISTRIBUTIONS FROM:								
Net investment income	(.34)	(.45)	(.06)	(.38)	(.50)	(.55)	(.57)	(.33)
Net realized gain on investments	--	--	--	--	--	(.06)	(.01)	--
In excess of net realized gain on investments	--	(.03)	--	--	(.03)	--	--	--
TOTAL DISTRIBUTIONS	(.34)	(.48)	(.06)	(.38)	(.53)	(.61)	(.58)	(.33)
NET ASSET VALUE, END OF PERIOD	$9.00	$8.83	$9.47	$9.01	$8.84	$9.47	$9.07	$8.66
TOTAL INVESTMENT RETURN AT NET ASSET VALUE (%) <F3>	5.99<F4>	(1.80)	1.45<F4>	6.45<F4>	(1.07)	11.54	11.85	5.84<F4>
NET ASSETS, END OF PERIOD (in thousands)	$21,538	$16,247	$2,974	$136,598	$142,950	$145,304	$88,566	$46,902
Ratio of expenses to average net assets (%)	1.19<F4>	1.60	.19<F4>	.70<F4>	.97	.89	.58<F2>	.16<F2><F4>
Ratio of net investment income to average net assets (%)	3.89<F4>	4.82	.43<F4>	4.42<F4>	5.55	5.82	6.34<F2>	3.91<F2><F4>
Portfolio turnover (%)	51.48<F4>	34.68	5.72	51.48<F4>	34.68	5.72	31.84	12.46<F4>

<FN>
<F1> The fiscal year end has advanced from August 31 to May 31.

<F2> Reflects expense limitation. As a result of these limitations, net investment income of the fund for the year ended August 31, 1992 and the period ended August 31, 1991, reflect expense reductions of $0.03 and $0.05 per share, respectively.

<F3> Total investment return assumes dividend reinvestment and does not reflect the effect of sales charges.

<F4> Not annualized.
</FN>
</TABLE>

NOTES TO FINANCIAL STATEMENTS
May 31, 1995

NOTE 1
SIGNIFICANT ACCOUNTING POLICIES

The fund is registered under the Investment Company Act of 1940, as amended, as a non-diversified, open-end management investment company. The fund seeks as high a level of current income exempt from federal income tax and Arizona state income tax as Putnam Investment Management, Inc., ("Putnam Management") the fund's manager, a wholly owned subsidiary of Putnam Investments, Inc., believes is consistent with preservation of capital by investing primarily in a portfolio of Arizona 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. 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) and 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. In addition, the Trustees declare separate dividends on each class of shares.

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 Trustee.

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 FUTURES The fund may purchase and sell financial futures contracts to hedge against changes in the values of tax-exempt municipal securities the fund owns or expects to purchase.

A futures contract is an agreement between two parties to buy or sell units of a particular index or a certain amount of a U.S. Government security at a set price on a future date.

Upon entering into such a contract the fund is required to pledge to the broker an amount of cash or securities equal to the minimum "initial margin" requirements of the futures. Pursuant to the contract, the fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as "variation margin"

and are recorded by the fund as unrealized gains or losses. When the contract is closed, the fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

The potential risk to the fund is that the change in value of futures contracts primarily corresponds with the value of underlying instruments which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that the fund may not be able to close out its futures positions due to an illiquid secondary market.

D OPTION ACCOUNTING PRINCIPLES The fund may, to the extent consistent with its investment objective and policies, seek to increase its current returns by writing covered call and put options on securities it owns or in which it may invest. When a fund writes a call or put option, an amount equal to the premium received by the fund is included in the fund's "Statement of assets and liabilities" as an asset and an equivalent liability. The amount of the liability is subsequently "marked-to-market" to reflect the current market value of an option written. The current market value of an option is the last sale price or, in the absence of a sale, the last offering price. If an option expires on its stipulated expiration date, or if the fund enters into a closing purchase transaction, the fund realizes a gain (or loss if the closing purchase transaction exceeds the premium received when the option was written) without regard to an unrealized gain or loss on the underlying security, and the liability related to such option is extinguished. If a written call option is exercised, the fund realizes a gain or loss from the sale of the underlying security and the proceeds of the sale are increased by the premium originally received. If a written put option is exercised, the amount of the premium originally received reduces the cost of the security that the fund purchases upon exercise of the option.

The risk in writing a call option is that the fund relinquishes the opportunity to profit if the market price of the underlying security increases and the option is exercised. In writing a put option, the fund assumes the risk of incurring a loss if the market price of the underlying security decreases and the option is exercised. In addition, there is the risk the fund may not be able to enter into a closing transaction because of an illiquid secondary market.

The fund may also, to the extent consistent with its investment objectives and policies, buy put options to protect its portfolio holdings in an underlying security against a decline in market value. The fund may buy call options to hedge against an increase in the price of the securities that the fund ultimately wants to buy. These funds may also buy and sell combinations of put and call options on the same underlying security to earn additional income. The premium paid by a fund for the purchase of a put or call option is included in the fund's "Statement of assets and liabilities" as an investment and is subsequently "marked-to-market" to reflect the current market value of the option. If an option the fund has purchased expires on the stipulated expiration date, the fund realizes a loss in the amount of the cost of the option. If the fund enters into a closing sale transaction, the fund realizes a gain or loss, depending on whether proceeds from the closing sale transaction are greater or less than the cost of the option. If the fund exercises a call option, the cost of securities acquired by exercising the call is increased by the premium paid to buy the call. If the fund exercises a put option, it realizes a gain or loss from the sale of the underlying security and the proceeds from such sale are

decreased by the premium originally paid. The risk associated with purchasing options is limited to the premium originally paid.

E 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 May 31, 1995 the fund had a capital loss carryover of approximately $1,952,000 which may be available to offset future realized capital gains to the extent provided by regulations. This amount will expire on May 31, 2003.

F DISTRIBUTIONS TO SHAREHOLDERS Income dividends are declared daily by the fund and are distributed monthly. Capital gains distributions, if any, are recorded on the ex-dividend date and paid annually.

The amount and 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 the treatment of post-October losses, dividends payable, loss deferrals and market discount. Reclassifications are made to the fund's capital accounts at the close of the fund's fiscal year to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations.

For the nine months ended May 31, 1995, the fund reclassified $17,724 to increase undistributed net investment income, $10,332 to increase accumulated net realized losses, and $7,392 to decrease paid-in-capital.

G AMORTIZATION OF BOND PREMIUM AND ACCRETION OF BOND DISCOUNT Any premium resulting from the purchase of securities in excess of maturity value is amortized using the yield to maturity method for bonds issued. The premium in excess of the call price, if any, is amortized to the call date; thereafter, the remaining excess premium is amortized to maturity. Discount on zero-coupon bonds is accreted according to the effective yield method.

H 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 $44,979. These expenses are being 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 Management 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, 0.4% of any excess over $1.5 billion, subject to reduction in any year by the amount 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 $700 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 nine months ended May 31, 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 shares of the fund. The Trustees have approved payment by the fund at an annual rate of .20% and 0.85% of the average net assets attributable to class A and class B shares respectively.

For the nine months ended May 31, 1995, Putnam Mutual Funds Corp., acting as underwriter received net commissions of $15,552 from the sale of class A shares and $48,101 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 nine months ended May 31, 1995, Putnam Mutual Funds Corp., acting as underwriter received $200 on class A redemptions.

NOTE 3
PURCHASES AND SALES OF SECURITIES

During the nine months ended May 31, 1995, purchases and sales of investment securities other than short-term municipal obligations aggregated $76,308,763, and $83,714,164, respectively. Purchases and sales of short-term municipal obligations aggregated $11,800,000 and $13,700,000 respectively. In determining the net gain or loss on securities sold, the cost of securities has been determined on the identified cost basis.

The following is a summary of written options activity during the nine months ended May 31, 1995.

	CONTRACT AMOUNTS	PREMIUMS RECEIVED
Contracts outstanding at beginning of period	--	$ --
Options opened	18,700,016	379,229
Options expired	18,700,016	379,229
Options closed	--	--
WRITTEN OPTIONS OUTSTANDING AT END OF PERIOD	--	$ --

NOTE 4
CAPITAL SHARES

At May 31, 1995, there was an unlimited number of shares of beneficial interest authorized, divided into two classes, class A and class B capital stock. Transactions in capital shares were as follows:
<TABLE>
<CAPTION>

	NINE MONTHS ENDED MAY 31 1995		YEAR ENDED AUGUST 31 1994	
CLASS A	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
Shares sold	1,316,331	$11,401,930	3,092,943	$28,751,671
Shares issued in connection with reinvestment of distributions	309,532	2,664,890	464,189	4,269,836
	1,625,863	14,066,820	3,557,132	33,021,507
Shares repurchased	(2,631,078)	(22,501,834)	(2,730,191)	(24,893,724)
NET INCREASE (DECREASE)	(1,005,215)	$(8,435,014)	826,941	$ 8,127,783

	NINE MONTHS ENDED MAY 31 1995		YEAR ENDED AUGUST 31 1994	
CLASS B	SHARES	AMOUNT	SHARES	AMOUNT
Shares sold	733,286	$6,313,926	1,640,165	$15,144,133
Shares issued in connection with reinvestment of distributions	41,782	360,443	31,774	288,584
	775,068	6,674,369	1,671,939	15,432,717
Shares repurchased	(219,915)	(1,862,097)	(146,633)	(1,325,464)
NET INCREASE	555,153	$4,812,272	1,525,306	$14,107,253

</TABLE>

TAX INFORMATION

The fund has designated all dividends paid during the fiscal period as exempt-interest dividends. Thus, 100% of the fund's distributions are exempt from federal income tax. For residents of Arizona, 100% of the fund's distributions are also exempt from Arizona state income tax. The Form 1099 you receive in January 1996 will show the tax status of any taxable distributions paid to your account in calendar 1995.

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

OFFICERS
George Putnam
President

Charles E. Porter
Executive Vice President

Patricia C. Flaherty
Senior Vice President

John R. Verani
Vice President

This report is for the information of shareholders of Putnam Arizona Tax Exempt Income Fund. It may also be used as sales literature when preceded or accompanied by the current prospectus, which gives details of sales charges, investment objectives, and operating policies of the fund, and the most recent Putnam Quarterly Performance Summary.

SHARES OF MUTUAL FUNDS ARE NOT DEPOSITS OR OBLIGATIONS OF, OR GUARANTEED OR ENDORSED BY, ANY FINANCIAL INSTITUTION, ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC), THE FEDERAL RESERVE BOARD OR ANY OTHER AGENCY, AND INVOLVE RISK, INCLUDING THE POSSIBLE LOSS OF PRINCIPAL AMOUNT INVESTED.

[LOGO: PUTNAM INVESTMENTS]

THE PUTNAM FUNDS
One Post Office Square
Boston, Massachusetts 02109

Bulk Rate
U.S. Postage
PAID
Putnam
Investments

18988-855/235