

PUTNAM INVESTMENT GRADE MUNICIPAL TRUST  
Form N-CSR  
January 26, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number: (811-05901 )  
Exact name of registrant as specified in charter: Putnam Investment Grade Municipal Trust

Address of principal executive offices: One Post Office Square, Boston, Massachusetts 02109

Name and address of agent for service: Beth S. Mazor, Vice President  
One Post Office Square  
Boston, Massachusetts 02109

Copy to: John W. Gerstmayr, Esq.  
Ropes & Gray LLP  
One International Place  
Boston, Massachusetts 02110

Registrant's telephone number, including area code: (617) 292-1000

Date of fiscal year end: November 30, 2006

Date of reporting period: December 1, 2005 - November 30, 2006

Item 1. Report to Stockholders:

The following is a copy of the report transmitted to stockholders pursuant to Rule 30e-1 under the Investment Company Act of 1940:

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# What makes Putnam different?

## A time-honored tradition in money management

Since 1937, our values have been rooted in a profound sense of responsibility for the money entrusted to us.

## A prudent approach to investing

We use a research-driven team approach to seek consistent, dependable, superior investment results over time, although there is no guarantee a fund will meet its objectives.

## Funds for every investment goal

We offer a broad range of mutual funds and other financial products so investors and their financial representatives can build diversified portfolios.

## A commitment to doing what's right for investors

We have stringent investor protections and provide a wealth of information about the Putnam funds.

## Industry-leading service

We help investors, along with their financial representatives, make informed investment decisions with confidence.

In 1830, Massachusetts Supreme Judicial Court Justice Samuel Putnam established The Prudent Man Rule, a legal foundation for responsible money management.

### THE PRUDENT MAN RULE

All that can be required of a trustee to invest is that he shall conduct himself faithfully and exercise a sound discretion. He is to observe how men of prudence, discretion, and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested.

# Putnam Investment Grade Municipal Trust

## 11 | 30 | 06

### *Annual Report*

Message from the Trustees	1
About the fund	2
Report from the fund managers	5
Performance	10
Your fund's management	12
Terms and definitions	14
Trustee approval of management contract	15

Other information for shareholders	18
Financial statements	19
Federal tax information	37
Compliance certifications	37
Shareholder meeting results	38
About the Trustees	39
Officers	43

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## Message from the Trustees

Dear Fellow Shareholder:

Looking back on the last few months of 2006, it appears that certain sectors of the economy may have slowed somewhat. The impact of declines in the housing sector and slower auto sales has spread to suppliers, and cautious manufacturers have curtailed production as a result. We consequently consider slower job growth and perhaps a rise in the unemployment rate as possible developments for 2007. On the other hand, since the Federal Reserve (the Fed) stopped raising interest rates, financial markets have begun to adjust in a way that may help revive the economy. Stock prices have moved higher, bond yields have moved down, and the dollar has declined somewhat against foreign currencies. With the benefit of this financial cushion, the new year could also bring the potential for a renewed economic expansion.

We would like to take this opportunity to announce that a new independent Trustee, Kenneth R. Leibler, has joined your fund's Board of Trustees. Mr. Leibler has had a distinguished career as a leader in the investment management industry. He is the founding Chairman of the Boston Options Exchange, the nation's newest electronic marketplace for the trading of derivative securities. He currently serves as a Trustee of Beth Israel Deaconess Hospital in Boston; a lead director of Ruder Finn Group, a global communications and advertising firm; and a director of the Optimum Funds group.

We would also like to announce the retirement of one of your fund's Trustees, John Mullin, an independent Trustee of the Putnam funds since 1997. We thank him for his service.

In the following pages, members of your fund's management team discuss the fund's performance and strategies for the fiscal period ended November 30, 2006, and provide their outlook for the months ahead. We thank you for your support of the Putnam funds in 2006 and extend our best wishes for a happy and prosperous 2007.

Respectfully yours,

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## Putnam Investment Grade Municipal Trust:

### potential for income exempt from federal income tax

Municipal bonds finance important public projects, such as schools, roads, and hospitals, and they can help investors keep more of their investment income. Putnam Investment Grade Municipal Trust offers another advantage — the flexibility to invest in municipal bonds issued by any state in the country.

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Municipal bonds are typically issued by states and local municipalities to raise funds for building and maintaining public facilities. The income from a municipal bond is generally exempt from federal income tax. The bonds are backed by either the issuing city or town or by revenues collected from usage fees.

The fund's management team can select bonds issued by a variety of state and local governments. The fund also combines bonds of differing quality levels to increase income potential. The portfolio focuses primarily on investment-grade bonds to seek a high level of overall credit quality. The team also allocates a portion of assets to lower-rated bonds, which may offer higher income in return for more risk. When deciding whether to invest in a bond, the team considers factors such as credit risk, interest-rate risk, and the risk that the bond will be prepaid. Once a bond has been purchased, the team continues to monitor developments that affect the bond market, the sector, and the issuer of the bond. Typically, lower-rated bonds are reviewed more often because of their greater potential risk.

Putnam Investment Grade Municipal Trust's management team is backed by the resources of Putnam's fixed-income organization, one of the largest in the investment industry. Putnam's municipal bond analysts are grouped into sector teams and conduct ongoing, rigorous research.

The goal of the management team's research and active management is to stay a step ahead of the industry and pinpoint opportunities to adjust the fund's holdings — either by acquiring more of a particular bond or selling it — for the benefit of the fund and its shareholders.

*Capital gains, if any, are taxable for federal and, in most cases, state purposes. For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally exempt funds may be subject to state and local taxes. Please consult with your tax advisor for more information. Mutual funds that invest in bonds are subject to certain risks, including interest-rate risk, credit risk, and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. The fund uses leverage, which involves risk and may increase the volatility of the fund's net asset value. The fund's shares trade on a stock exchange at market prices, which may be higher or lower than the fund's net asset value.*

### How do closed-end funds differ from open-end funds?

**More assets at work** While open-end funds need to maintain a cash position to meet redemptions, closed-end funds are not subject to redemptions and can keep more of their assets invested in the market.

**Traded like stocks** Closed-end fund shares are traded on stock exchanges, and their market prices fluctuate in response to supply and demand, among other factors.

**Market price vs. net asset value** Like an open-end fund's net asset value (NAV) per share, the NAV of a closed-end fund share equals the current value of the fund's assets, minus its liabilities, divided by the number of shares outstanding. However, when buying or selling closed-end fund shares, the price you pay or receive is the market price. Market price reflects current market supply and demand and may be higher or lower than the NAV.

**Strategies for higher income** Closed-end funds have greater flexibility to use strategies such as "leverage" — for example, issuing preferred shares to raise capital, then seeking to invest that capital at higher rates to enhance return for common shareholders.

## Municipal bonds may finance a range of projects in your community and thus play a key role in its development.

**Putnam Investment Grade Municipal Trust** is a leveraged fund that seeks as high a level of current income free from federal income tax as we believe is consistent with preservation of capital by investing primarily in investment-grade municipal bonds. The fund may be suitable for investors seeking tax-exempt income who can accept a higher level of risk in exchange for the potentially higher level of income offered by a leveraged fund.

## Highlights

For the fiscal year ended November 30, 2006, Putnam Investment Grade Municipal Trust returned 8.52% at net asset value (NAV) and 12.20% at market price.

The fund's benchmark, the Lehman Municipal Bond Index, returned 6.10% .

The average return for the fund's Lipper category, General Municipal Debt Funds (leveraged closed-end) was 9.06% .

Additional fund performance, comparative performance, and Lipper data can be found in the performance section beginning on page 10.

## Performance

It is important to note that a fund's performance at market price usually differs from its results at NAV. Although market price performance generally reflects investment results, it may also be influenced by several other factors, including changes in investor perceptions of the fund or its investment manager, market conditions, fluctuations in supply and demand for the fund's shares, and changes in fund distributions.

Total return for periods ended 11/30/06

Since the fund's inception (10/26/89), average annual return is 7.55% at NAV and 6.36% at market price.

	Average annual return		Cumulative return	
	NAV	Market price	NAV	Market price
10 years	6.40%	3.83%	85.95%	45.56%
5 years	7.21	5.38	41.65	29.98
3 years	7.53	3.47	24.35	10.77
1 year	8.52	12.20	8.52	12.20

*Data is historical. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate, and you may have a gain or a loss when you sell your shares. Performance assumes reinvestment of distributions and does not account for taxes.*

## *Report from the fund managers*

# The year in review

An emphasis on tobacco settlement bonds and single-family housing bonds contributed to your fund's solid results for the fiscal year ended November 30, 2006. Effective management of the fund's duration — a measure of interest-rate sensitivity — was also a factor, helping to protect portfolio value while rates were on the rise in the first half of the fiscal year. Consequently, the fund's results at NAV exceeded those of the Lehman Municipal Bond Index, its benchmark. However, as the strength of the economy continued, investors' risk tolerance increased, along with the demand for lower-quality, higher-yielding bonds, as well as bonds with longer stated maturities. The surging demand led to higher prices, and greater benefits for funds that focused heavily on lower-rated and longer-term bonds. This explains why your fund, which focuses on higher-quality bonds, underperformed the average for its Lipper peer group. Nevertheless, we continue to believe that the risks associated with emphasizing longer-term and lower-quality bonds outweigh the potential rewards, and that broader diversification is a more prudent approach.

## Market overview

Following a series of 17 increases in the federal funds rate — including five that occurred during the fund's 2006 fiscal year — the Fed suspended its credit-tightening program in August, holding this benchmark rate for overnight loans between banks steady at 5.25%. Statements from the Federal Open Market Committee, the Fed's policy-setting panel, indicate that future rate decisions will depend on whether the Fed concludes that its two-year campaign to keep inflation in check has been successful.

For the period as a whole, yields on shorter-term bonds were essentially unchanged, while yields on long-term bonds declined. As a result, we saw a convergence of shorter- and longer-term rates. As this occurred, the yield curve — a graphical representation of differences in yield for bonds of comparable quality plotted from the shortest to the longest maturity — flattened. Tax-exempt bonds, especially those with long-term maturities, continued to outperform comparable Treasury bonds.

A generally robust economy, coupled with solid demand from buyers searching for higher yields, contributed to the strong relative performance of lower-rated bonds. Among

## Market sector performance

These indexes provide an overview of performance in different market sectors for the 12 months ended 11/30/06.

### Bonds

Lehman Municipal Bond Index (tax-exempt bonds)	6.10%
Lehman Aggregate Bond Index (broad bond market)	5.94%

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Lehman Government Bond Index (U.S. Treasury and agency securities)	5.16%
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JPMorgan Global High Yield Index (global high-yield corporate bonds)	11.22%
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Equities	
<hr/>	
S&P 500 Index (broad stock market)	14.23%
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Russell 1000 Index (large-company stocks)	14.16%
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Russell 2000 Index (small-company stocks)	17.43%

5

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uninsured bonds in general, and especially bonds rated Baa and below, yield spreads tightened as lower-rated bonds performed better than higher-rated bonds. Non-rated bonds also rallied.

Market sectors that performed particularly well during the period included airline-related industrial development bonds (IDBs); securities issued by hospitals, utilities, and long-term care facilities; and land-secured bonds. Tobacco settlement bonds, meanwhile, underperformed other credit-sensitive sectors modestly, but still outperformed higher-rated bonds.

## Strategy overview

Given our expectation for rising interest rates, we maintained a short (defensive) portfolio duration relative to the fund's Lipper peer group. This strategy detracted moderately from results since bonds with longer maturities generally outperformed those with shorter maturities. Duration is a measure of a fund's sensitivity to changes in interest rates. Having a shorter-duration portfolio may help protect principal when interest rates rise, but it can reduce appreciation potential when rates fall. In light of the changing interest-rate environment, we established a significantly short duration position for the fund relative to its peers in the first half of the period. Later in the period, we closed this duration gap between the fund and its peers by adding bonds with longer maturities. This dynamic positioning was a positive contributor to performance for the fiscal year overall.

The fund's overweight position in tobacco settlement bonds added to relative performance. Limited issuance of these bonds, coupled with strong investor demand, provided solid supply-and-demand support for the sector, boosting results. However, the fund's underweight allocation to bonds at the lower-end of the credit spectrum — bonds rated Ba and below — detracted from results relative to the peer group, as bonds in this area of the market outperformed during the period.

Relative to the fund's peer group, we maintained an overweight position in single-family housing bonds. This strategy proved helpful to results as declining mortgage prepayments continued to support bonds in this sector.

## Your fund's holdings

As noted earlier, your fund's emphasis on **tobacco settlement bonds** contributed favorably to performance. These bonds carry investment-grade ratings, but since the interest they pay is secured by income from tobacco companies' settlement obligations to the states that issue them, they generally offer higher yields than bonds of comparable quality. An improving litigation environment, combined with investors' appetite for higher-yielding

## Comparison of the fund's maturity and duration

This chart compares changes in the fund's average effective maturity (a weighted average of the holdings' maturities) and its average effective duration (a measure of its sensitivity to interest-rate changes).

*Average effective duration and average effective maturity take into account put and call features, where applicable, and reflect prepayments for mortgage-backed securities.*

*Duration is usually shorter than maturity because it reflects interest payments on a bond prior to its maturity. Duration may be higher for funds that use leverage, which magnifies the effects of interest-rate changes.*

6

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bonds, has driven prices up for these bonds. The most recent class action challenge to the tobacco industry, launched this spring, had relatively little effect on the market. Moreover, we think tobacco settlement bonds provide valuable diversification, since their performance is not as closely tied to economic growth as are other, more economically sensitive holdings. The fund owns tobacco settlement bonds issued in **California, New Jersey, South Carolina, South Dakota, Washington, and Wisconsin**.

We added to the fund's holdings in **single-family housing bonds** during the year, as rising interest rates and declining mortgage prepayments made the sector seem increasingly attractive. In April we purchased some high-quality, single-family mortgage bonds issued in **New Mexico**, and we added some **Minnesota** issues in August. These new holdings are **planned amortization class (PAC) bonds**, which we consider attractive because they provide more predictable cash flows over a range of prepayment rates. Unless interest rates drop dramatically, which we do not anticipate, we believe these issues are less likely to experience volatility than other types of mortgage-backed bonds.

The fund had limited exposure to a market sector that gained substantially during the period [**airline-related industrial development bonds (IDBs)**]. IDBs are issued by municipalities but backed by the credit of the company or institution benefiting from the financing. Investor perceptions about the backing company's health, or that of its industry, affect the prices of these bonds more than the rating of the issuing municipality. The airline industry has been under a cloud ever since the terrorist attacks of September 2001, and rising fuel prices made a bad situation worse. Recently, however, a rise in passenger counts and increases in ticket prices improved airlines' balance sheets, and many investors rushed to buy airline-related IDBs. However, most of these bonds are still rated well below investment grade, and we have limited the portfolio's exposure to lower-rated bonds as part of our risk management strategy. Consequently, the fund has only a small position in **New York City IDBs** issued for **British Airways**, purchased when the industry and its ratings were much stronger. While the industry appears to be stabilizing, we prefer to wait for more attractive opportunities before increasing the fund's exposure to this volatile area.

Two pre-refunded bonds were among the fund's best-performing individual issues. These included bonds issued for **Adventist Health System**, a hospital chain in Illinois, which were pre-refunded in December 2005, and **New Jersey Economic Development Authority revenue bonds** issued for **Cedar Crest Village**, a continuing care retirement community, which were pre-refunded in November 2006. A pre-refunding occurs

## Credit quality overview



Credit qualities shown as a percentage of portfolio value as of 11/30/06. A bond rated Baa or higher (MIG2/VMIG2 or higher, for short-term debt) is considered investment grade. The chart reflects Moody's ratings; percentages may include bonds not rated by Moody's but considered by Putnam Management to be of comparable quality. Ratings will vary over time.

7

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when an issuer refinances an older, higher-coupon bond by issuing new bonds at current, lower interest rates. The proceeds of the pre-refunding are invested in a secure investment — usually U.S. Treasury securities — that matures at the original issue's first call date. The secure backing has the effect of raising the bond's perceived credit rating while the shorter effective maturity lowers its interest-rate risk. Since both of these developments are favorable for investors, bond prices often rise after pre-refunding. Both of these issues have been stable since they were issued several years ago, when interest rates were higher than they are today, and both bonds gained in value after they were pre-refunded.

*Please note that the holdings discussed in this report may not have been held by the fund for the entire period. Portfolio composition is subject to review in accordance with the fund's investment strategy and may vary in the future.*

8

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## The outlook for your fund

**The following commentary reflects anticipated developments that could affect your fund over the next six months, as well as your management team's plans for responding to them.**

We continue to monitor Fed policy for indications of how its efforts to engineer a "soft landing" for the economy will affect interest rates and bond markets going forward. A soft landing occurs when economic growth slows but is still solid enough to sustain job creation and corporate profits. Therefore, while we believe economic growth is likely to slow as we move into 2007, we plan to maintain a defensive duration strategy until longer-range Fed policy becomes clearer. In addition, given the municipal bond market's exceptionally strong performance relative to Treasuries throughout the period, valuations have become elevated to levels that, we believe, argue in favor of taking a defensive approach over the near term.

In our view, the extended rally among lower-rated, higher-yielding bonds may be in its final stages. We base this view, in part, on the fact that the difference in yield between Aaa-rated bonds and Baa-rated bonds — the highest and lowest investment-grade ratings, respectively — is at its narrowest point since late 1999. In other words, the higher-income advantage available to those willing to assume additional credit risk has diminished substantially.

Among sectors, we remain positive on tobacco settlement bonds and currently plan to maintain an overweight allocation to the sector relative to peer funds. We believe that these bonds continue to offer an attractive risk/reward profile. We are also maintaining the fund's exposure to the single-family housing sector, and will look to add to these holdings as opportunities arise.

*The views expressed in this report are exclusively those of Putnam Management. They are not meant as investment advice.*

*Capital gains, if any, are taxable for federal and, in most cases, state purposes. For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally exempt funds may be subject to state and local taxes. Please consult with your tax advisor for more information. Mutual funds that invest in bonds are subject to certain risks, including interest-rate risk, credit risk, and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. The fund uses leverage, which involves risk and may increase the volatility of the fund's net asset value.*

*The fund's shares trade on a stock exchange at market prices, which may be higher or lower than the fund's net asset value.*

9

## Your fund's performance

This section shows your fund's performance for periods ended November 30, 2006, the end of its fiscal year. In accordance with regulatory requirements for mutual funds, we also include performance as of the most recent calendar quarter-end. Performance should always be considered in light of a fund's investment strategy. Data represents past performance. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate, and you may have a gain or a loss when you sell your shares.

### Fund performance Total return and comparative index results for periods ended 11/30/06

	NAV	Market price	Lehman Municipal Bond Index	Lipper General Municipal Debt Funds (Leveraged closed-end) category average*
Annual average				
Life of fund (since 10/26/89)	7.55%	6.36%	6.81%	7.43%
10 years	85.95	45.56	74.87	88.43
Annual average	6.40	3.83	5.75	6.53
5 years	41.65	29.98	30.10	44.09
Annual average	7.21	5.38	5.40	7.55
3 years	24.35	10.77	14.73	23.45
Annual average	7.53	3.47	4.69	7.25
1 year	8.52	12.20	6.10	9.06

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*Performance assumes reinvestment of distributions and does not account for taxes.*

*Index and Lipper results should be compared to fund performance at net asset value. Lipper calculations for reinvested dividends may differ from actual performance.*

*\* Over the 1-, 3-, 5-, and 10-year periods ended 11/30/06, there were 56, 56, 49, and 39 funds, respectively, in this Lipper category.*

### **Fund price and distribution information** For the 12-month period ended 11/30/06

Distributions □ common shares

Number	12
Income <sup>1</sup>	\$0.4918
Capital gains <sup>2</sup>	□
Total	\$0.4918

Series A

Distributions □ preferred shares	(1,400 shares)
Income <sup>1</sup>	\$3,377.00
Capital gains <sup>2</sup>	□
Total	\$3,377.00

Common share value:	NAV	Market price
11/30/05	\$10.81	\$9.34
11/30/06	11.15	9.96
Current yield (common shares, end of period)		
Current dividend rate <sup>3</sup>	4.40%	4.93%
Taxable equivalent <sup>4</sup>	6.77	7.58

*1 For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally exempt funds may be subject to state and local taxes.*

*2 Capital gains, if any, are taxable for federal and, in most cases, state purposes.*

*3 Most recent distribution, excluding capital gains, annualized and divided by NAV or market price at end of period.*

4 Assumes maximum 35% federal tax rate for 2006. Results for investors subject to lower tax rates would not be as advantageous.

10

**Fund performance as of most recent calendar quarter** Total return for periods ended 12/31/06

	NAV	Market price
Annual average		
Life of fund (since 10/26/89)	7.48%	6.42%
10 years	84.80	49.58
Annual average	6.33	4.11
5 years	44.25	37.12
Annual average	7.60	6.52
3 years	21.88	11.28
Annual average	6.82	3.63
1 year	6.53	12.44

11

**Your fund's management**

Your fund is managed by the members of the Putnam Tax Exempt Fixed-Income Team. James St. John is the Portfolio Leader, and Paul Drury, Brad Libby, Susan McCormack, and Thalia Meehan are Portfolio Members of your fund. The Portfolio Leader and Portfolio Members coordinate the team's management of the fund.

For a complete listing of the members of the Putnam Tax Exempt Fixed-Income Team, including those who are not Portfolio Leaders or Portfolio Members of your fund, visit Putnam's Individual Investor Web site at [www.putnam.com](http://www.putnam.com).

**Investment team fund ownership**

The table below shows how much the fund's current Portfolio Leader and Portfolio Members have invested in the fund and in all Putnam mutual funds (in dollar ranges). Information shown is as of November 30, 2006, and November 30, 2005.

*N/A indicates the individual was not a Portfolio Leader or Portfolio Member as of 11/30/05.*

**Trustee and Putnam employee fund ownership**

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As of November 30, 2006, all of the Trustees on the Board of the Putnam funds owned fund shares. The table below shows the approximate value of investments in the fund and all Putnam funds as of that date by the Trustees and Putnam employees. These amounts include investments by the Trustees and employees, immediate family members and investments through retirement and deferred compensation plans.

	Assets in the fund	Total assets in all Putnam funds
Trustees	\$34,000	\$ 93,000,000
Putnam employees	\$ 3,000	\$437,000,000

### Fund manager compensation

The total 2005 fund manager compensation that is attributable to your fund is approximately \$160,000. This amount includes a portion of 2005 compensation paid by Putnam Management to the fund managers listed in this section for their portfolio management responsibilities, calculated based on the fund assets they manage taken as a percentage of the total assets they manage. The compensation amount also includes a portion of the 2005 compensation paid to the Chief Investment Officer of the team and the Group Chief Investment Officer of the fund's broader investment category for their oversight responsibilities, calculated based on the fund assets they oversee taken as a percentage of the total assets they oversee. This amount does not include compensation of other personnel involved in research, trading, administration, systems, compliance, or fund operations; nor does it include non-compensation costs. These percentages are determined as of the fund's fiscal period-end. For personnel who joined Putnam Management during or after 2005, the calculation reflects annualized 2005 compensation or an estimate of 2006 compensation, as applicable.

12

### Other Putnam funds managed by the Portfolio Leader and Portfolio Members

James St. John is the Portfolio Leader, and Paul Drury, Brad Libby, Susan McCormack, and Thalia Meehan are Portfolio Members, of Putnam's open-end tax-exempt funds for the following states: Arizona, California, Florida, Massachusetts, Michigan, Minnesota, New Jersey, New York, Ohio, and Pennsylvania. The same group also manages Putnam AMT-Free Insured Municipal Fund, Putnam California Investment Grade Municipal Trust, Putnam Municipal Bond Fund, Putnam Municipal Opportunities Trust, Putnam New York Investment Grade Municipal Trust, and Putnam Tax Exempt Income Fund.

Paul Drury is the Portfolio Leader, and Brad Libby, Susan McCormack, Thalia Meehan, and James St. John are Portfolio Members, of Putnam High Yield Municipal Trust, Putnam Managed Municipal Income Trust, Putnam Tax-Free Health Care Fund, and Putnam Tax-Free High Yield Fund.

James St. John, Paul Drury, Brad Libby, Susan McCormack, and Thalia Meehan may also manage other accounts and variable trust funds advised by Putnam Management or an affiliate.

### Changes in your fund's Portfolio Leader and Portfolio Members

During the year ended November 30, 2006, Portfolio Member James St. John became Portfolio Leader, and Brad Libby and Thalia Meehan became Portfolio Members of your fund. These changes followed the departure of Portfolio Leader David Hamlin from your fund's management team.

### Putnam fund ownership by Putnam's Executive Board

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The table below shows how much the members of Putnam's Executive Board have invested in all Putnam mutual funds (in dollar ranges). Information shown is as of November 30, 2006, and November 30, 2005.

	Year	\$1 □ \$10,001 □ \$50,001 □ \$100,001 □ \$500,001 □ \$1,000,001					
		\$0	\$10,000	\$50,000	\$100,000	\$500,000	\$1,000,000 and over
Philippe Bibi	2006						□
<i>Chief Technology Officer</i>	2005						□
Joshua Brooks	2006						□
<i>Deputy Head of Investments</i>	2005						□
William Connolly	2006						□
<i>Head of Retail Management</i>	2005						□
Kevin Cronin	2006						□
<i>Head of Investments</i>	2005						□
Charles Haldeman, Jr.	2006						□
<i>President and CEO</i>	2005						□
Amrit Kanwal	2006						□
<i>Chief Financial Officer</i>	2005						□
Steven Krichmar	2006						□
<i>Chief of Operations</i>	2005						□
Francis McNamara, III	2006						□
<i>General Counsel</i>	2005						□
Jeffrey Peters	2006						□
<i>Head of International Business</i>	N/A						
Richard Robie, III	2006						□
<i>Chief Administrative Officer</i>	2005						□
Edward Shadek	2006						□
<i>Deputy Head of Investments</i>	2005						□
Sandra Whiston	2006						□
<i>Head of Institutional Management</i>	2005						□

N/A indicates the individual was not a member of Putnam's Executive Board as of 11/30/05.

## Terms and definitions

### Important terms

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 in the fund.

Net asset value (NAV) is the value of all your fund's assets, minus any liabilities and the net assets allocated to any outstanding preferred shares, divided by the number of outstanding common shares.

Market price is the current trading price of one share of the fund. Market prices are set by transactions between buyers and sellers on exchanges such as the New York Stock Exchange and the American Stock Exchange.

### Comparative indexes

JPMorgan Global High Yield Index is an unmanaged index of global high-yield fixed-income securities.

Lehman Aggregate Bond Index is an unmanaged index of U.S. investment-grade fixed-income securities.

Lehman Government Bond Index is an unmanaged index of U.S. Treasury and agency securities.

Lehman Municipal Bond Index is an unmanaged index of long-term fixed-rate investment-grade tax-exempt bonds.

Russell 1000 Index is an unmanaged index of the 1,000 largest companies in the Russell 3000 Index.

Russell 2000 Index is an unmanaged index of the 2,000 smallest companies in the Russell 3000 Index.

S&P 500 Index is an unmanaged index of common stock performance.

*Indexes assume reinvestment of all distributions and do not account for fees. Securities and performance of a fund and an index will differ. You cannot invest directly in an index.*

Lipper is a third-party industry-ranking entity that ranks mutual funds. Its rankings do not reflect sales charges. Lipper rankings are based on total return at net asset value relative to other funds that have similar current investment styles or objectives as determined by Lipper. Lipper may change a fund's category assignment at its discretion. Lipper category averages reflect performance trends for funds within a category.

14

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## Trustee approval of management contract

### General conclusions

The Board of Trustees of the Putnam funds oversees the management of each fund and, as required by law, determines annually whether to approve the continuance of your fund's management contract with Putnam Management. In this regard, the Board of Trustees, with the assistance of its Contract Committee consisting solely of Trustees who are not "interested persons" (as such term is defined in the Investment Company Act of 1940, as amended) of the Putnam funds (the "Independent Trustees"), requests and evaluates all information it deems reasonably necessary under the circumstances. Over the course of several months ending in June 2006, the Contract Committee met four times to consider the information provided by Putnam Management and other

information developed with the assistance of the Board's independent counsel and independent staff. The Contract Committee reviewed and discussed key aspects of this information with all of the Independent Trustees. Upon completion of this review, the Contract Committee recommended, and the Independent Trustees approved, the continuance of your fund's management contract, effective July 1, 2006.

This approval was based on the following conclusions:

That the fee schedule in effect for your fund represents reasonable compensation in light of the nature and quality of the services being provided to the fund, the fees paid by competitive funds and the costs incurred by Putnam Management in providing such services, and

That such fee schedule represents an appropriate sharing between fund shareholders and Putnam Management of such economies of scale as may exist in the management of the fund at current asset levels.

These conclusions were based on a comprehensive consideration of all information provided to the Trustees and were not the result of any single factor. Some of the factors that figured particularly in the Trustees' deliberations and how the Trustees considered these factors are described below, although individual Trustees may have evaluated the information presented differently, giving different weights to various factors. It is also important to recognize that the fee arrangements for your fund and the other Putnam funds are the result of many years of review and discussion between the Independent Trustees and Putnam Management, that certain aspects of such arrangements may receive greater scrutiny in some years than others, and that the Trustees' conclusions may be based, in part, on their consideration of these same arrangements in prior years.

### **Management fee schedules and categories; total expenses**

The Trustees reviewed the management fee schedules in effect for all Putnam funds, including fee levels and breakpoints, and the assignment of funds to particular fee categories. In reviewing fees and expenses, the Trustees generally focused their attention on material changes in circumstances — for example, changes in a fund's size or investment style, changes in Putnam Management's operating costs, or changes in competitive practices in the mutual fund industry — that suggest that consideration of fee changes might be warranted. The Trustees concluded that the circumstances did not warrant changes to the management fee structure of your fund, which had been carefully developed over the years, re-examined on many occasions and adjusted where appropriate. The Trustees focused on two areas of particular interest, as discussed further below:

**Competitiveness.** The Trustees reviewed comparative fee and expense information for competitive funds, which indicated that, in a custom peer group of competitive funds selected by Lipper Inc., your fund ranked in the 81st percentile in management fees and in the 50th percentile in total expenses as of December 31, 2005 (the first percentile being the least expensive funds and the 100th percentile being the most expensive funds). The Trustees expressed their intention to monitor this information closely to ensure that fees and expenses of your fund continue to meet evolving competitive standards.

**Economies of scale.** In recent years, the Trustees have examined the operation of the existing breakpoint structure during periods of both growth and decline in asset levels. (A "breakpoint" is a reduction in fee rates that applies to additional assets once specified asset levels are reached.) The Trustees concluded that the fee schedules in effect for the funds represented an appropriate sharing of economies of scale at current asset levels. In reaching this conclusion, the Trustees considered the Contract Committee's stated intent to continue to work with Putnam Management to plan for an eventual resumption in the growth of assets, including a study of potential economies that might be produced under various growth assumptions.

In connection with their review of the management fees and total expenses of the Putnam funds, the Trustees also reviewed the costs of the services to be provided and profits to be realized by



of Putnam Management's revenues, expenses and profitability with respect to the funds' management contracts, allocated on a fund-by-fund basis. Because many of the costs incurred by Putnam Management in managing the funds are not readily identifiable to particular funds, the Trustees observed that the methodology for allocating costs is an important factor in evaluating Putnam Management's costs and profitability, both as to the Putnam funds in the aggregate and as to individual funds. The Trustees reviewed Putnam Management's cost allocation methodology with the assistance of independent consultants and concluded that this methodology was reasonable and well-considered.

## Investment performance

The quality of the investment process provided by Putnam Management represented a major factor in the Trustees' evaluation of the quality of services provided by Putnam Management under your fund's management contract. The Trustees were assisted in their review of the Putnam funds' investment process and performance by the work of the Investment Process Committee of the Trustees and the Investment Oversight Committee of the Trustees, which meet on a regular monthly basis with the funds' portfolio teams throughout the year. The Trustees concluded that Putnam Management generally provides a high-quality investment process — as measured by the experience and skills of the individuals assigned to the management of fund portfolios, the resources made available to such personnel, and in general the ability of Putnam Management to attract and retain high-quality personnel — but also recognize that this does not guarantee favorable investment results for every fund in every time period. The Trustees considered the investment performance of each fund over multiple time periods and considered information comparing each fund's performance with various benchmarks and with the performance of competitive funds.

The Trustees noted the satisfactory investment performance of many Putnam funds. They also noted the disappointing investment performance of certain funds in recent years and discussed with senior management of Putnam Management the factors contributing to such underperformance and actions being taken to improve performance. The Trustees recognized that, in recent years, Putnam Management has made significant changes in its investment personnel and processes and in the fund product line to address areas of underperformance. In particular, they noted the important contributions of Putnam Management's leadership in attracting, retaining and supporting high-quality investment professionals and in systematically implementing an investment process that seeks to merge the best features of fundamental and quantitative analysis. The Trustees indicated their intention to continue to monitor performance trends to assess the effectiveness of these changes and to evaluate whether additional changes to address areas of underperformance are warranted.

In the case of your fund, the Trustees considered that your fund's common share cumulative total return performance at net asset value was in the following percentiles of its Lipper Inc. peer group (Lipper General Municipal Debt Funds (leveraged closed-end)) (compared using tax-adjusted performance to recognize the different federal income tax treatment for capital gains distributions and exempt-interest distributions) for the one-, three- and five-year periods ended March 31, 2006 (the first percentile being the best performing funds and the 100th percentile being the worst performing funds):

One-year period	Three-year period	Five-year period
88th	38th	68th

(Because of the passage of time, these performance results may differ from the performance results for more recent periods shown elsewhere in this report. Over the one-, three- and five-year periods ended March 31, 2006, there were 61, 58, and 46 funds, respectively, in your fund's Lipper peer group.\* Past performance is no guarantee of future performance.)

The Trustees noted the disappointing performance for your fund for the one-year period ended March 31, 2006. In this regard, the Trustees considered Putnam Management's view that one factor in the fund's relative underperformance during this period appears to have been its selection of higher quality bonds, given market conditions. The Trustees also considered Putnam Management's view that the fund's investment strategy and process are designed to produce attractive relative performance over longer periods.

\* The percentile rankings for your fund's common share annualized total return performance in the Lipper General Municipal Debt Funds (leveraged closed-end) category for the one-, five- and ten-year periods ended December 31, 2006, were 74%, 60%,

and 55%, respectively. Over the one-, five- and ten-year periods ended December 31, 2006, the fund ranked 42nd out of 56, 30th out of 49, and 22nd out of 39 funds, respectively. Unlike the information above, these rankings reflect performance before taxes. Note that this more recent information was not available when the Trustees approved the continuance of your fund's management contract.

16

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As a general matter, the Trustees concluded that cooperative efforts between the Trustees and Putnam Management represent the most effective way to address investment performance problems. The Trustees noted that investors in the Putnam funds have, in effect, placed their trust in the Putnam organization, under the oversight of the funds' Trustees, to make appropriate decisions regarding the management of the funds. Based on the responsiveness of Putnam Management in the recent past to Trustee concerns about investment performance, the Trustees concluded that it is preferable to seek change within Putnam Management to address performance shortcomings. In the Trustees' view, the alternative of terminating a management contract and engaging a new investment adviser for an underperforming fund would entail significant disruptions and would not provide any greater assurance of improved investment performance.

### **Brokerage and soft-dollar allocations; other benefits**

The Trustees considered various potential benefits that Putnam Management may receive in connection with the services it provides under the management contract with your fund. These include benefits related to brokerage and soft-dollar allocations, whereby a portion of the commissions paid by a fund for brokerage may be used to acquire research services that may be useful to Putnam Management in managing the assets of the fund and of other clients. The Trustees indicated their continued intent to monitor the potential benefits associated with the allocation of fund brokerage to ensure that the principle of seeking "best price and execution" remains paramount in the portfolio trading process.

The Trustees' annual review of your fund's management contract also included the review of your fund's custodian and investor servicing agreements with Putnam Fiduciary Trust Company, which provide benefits to affiliates of Putnam Management.

### **Comparison of retail and institutional fee schedules**

The information examined by the Trustees as part of their annual contract review has included for many years information regarding fees charged by Putnam Management and its affiliates to institutional clients such as defined benefit pension plans, college endowments, etc. This information included comparison of such fees with fees charged to the funds, as well as a detailed assessment of the differences in the services provided to these two types of clients. The Trustees observed, in this regard, that the differences in fee rates between institutional clients and the mutual funds are by no means uniform when examined by individual asset sectors, suggesting that differences in the pricing of investment management services to these types of clients reflect to a substantial degree historical competitive forces operating in separate market places. The Trustees considered the fact that fee rates across all asset sectors are higher on average for mutual funds than for institutional clients, as well as the differences between the services that Putnam Management provides to the Putnam funds and those that it provides to institutional clients of the firm, but did not rely on such comparisons to any significant extent in concluding that the management fees paid by your fund are reasonable.

17

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## **Other information for shareholders**

### **Important notice regarding share repurchase program**

In September 2006, the Trustees of your fund approved an extension of the current share repurchase program being implemented by Putnam Investments on behalf of your fund. The plan, as extended, allows your fund to repurchase, in the 24 months ending October 6, 2007, up to 10% of the common shares outstanding as of October

7, 2005.

## **Putnam's policy on confidentiality**

In order to conduct business with our shareholders, we must obtain certain personal information such as account holders' addresses, telephone numbers, Social Security numbers, and the names of their financial advisors. We use this information to assign an account number and to help us maintain accurate records of transactions and account balances. It is our policy to protect the confidentiality of your information, whether or not you currently own shares of our funds, and in particular, not to sell information about you or your accounts to outside marketing firms. We have safeguards in place designed to prevent unauthorized access to our computer systems and procedures to protect personal information from unauthorized use. Under certain circumstances, we share this information with outside vendors who provide services to us, such as mailing and proxy solicitation. In those cases, the service providers enter into confidentiality agreements with us, and we provide only the information necessary to process transactions and perform other services related to your account. We may also share this information with our Putnam affiliates to service your account or provide you with information about other Putnam products or services. It is also our policy to share account information with your financial advisor, if you've listed one on your Putnam account. If you would like clarification about our confidentiality policies or have any questions or concerns, please don't hesitate to contact us at 1-800-225-1581, Monday through Friday, 8:30 a.m. to 7:00 p.m., or Saturdays from 9:00 a.m. to 5:00 p.m. Eastern Time.

## **Proxy voting**

Putnam is committed to managing our mutual funds in the best interests of our shareholders. The Putnam funds' proxy voting guidelines and procedures, as well as information regarding how your fund voted proxies relating to portfolio securities during the 12-month period ended June 30, 2006, are available on the Putnam Individual Investor Web site, [www.putnam.com/individual](http://www.putnam.com/individual), and on the SEC's Web site, [www.sec.gov](http://www.sec.gov). If you have questions about finding forms on the SEC's Web site, you may call the SEC at 1-800-SEC-0330. You may also obtain the Putnam funds' proxy voting guidelines and procedures at no charge by calling Putnam's Shareholder Services at 1-800-225-1581.

## **Fund portfolio holdings**

The fund will file a complete schedule of its portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. Shareholders may obtain the fund's Forms N-Q on the SEC's Web site at [www.sec.gov](http://www.sec.gov). In addition, the fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. You may call the SEC at 1-800-SEC-0330 for information about the SEC's Web site or the operation of the Public Reference Room.

18

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## **Financial statements**

These sections of the report, as well as the accompanying Notes, preceded by the Report of Independent Registered Public Accounting Firm, constitute the fund's financial statements.

The fund's portfolidists all the fund's investments and their values as of the last day of the reporting period. Holdings are organized by asset type and industry sector, country, or state to show areas of concentration and diversification.

Statement of assets and liabilities shows how the fund's net assets and share price are determined. All investment and noninvestment assets are added together. Any unpaid expenses and other liabilities are subtracted from this total. The result is divided by the number of shares to determine the net asset value per share. (For funds with preferred shares, the amount subtracted from total assets includes the liquidation preference of preferred shares.)

Statement of operations shows the fund's net investment gain or loss. This is done by first adding up all the fund's earnings — from dividends and interest income — and subtracting its operating expenses to determine net investment income (or loss). Then, any net gain or loss the fund realized on the sales of its holdings — as well as any unrealized gains or losses over the period — is added to or subtracted from the net investment result to determine the fund's net gain or loss for the fiscal year.

Statement of changes in net assets shows how the fund's net assets were affected by the fund's net investment gain or loss, by distributions to shareholders, and by changes in the number of the fund's shares. It lists distributions and their sources (net investment income or realized capital gains) over the current reporting period and the most recent fiscal year-end. The distributions listed here may not match the sources listed in the Statement of operations because the distributions are determined on a tax basis and may be paid in a different period from the one in which they were earned.

Financial highlights provide an overview of the fund's investment results, per-share distributions, expense ratios, net investment income ratios, and portfolio turnover in one summary table, reflecting the five most recent reporting periods. In a semiannual report, the highlight table also includes the current reporting period.

19

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## **Report of Independent Registered Public Accounting Firm**

The Board of Trustees and Shareholders  
Putnam Investment Grade Municipal Trust:

We have audited the accompanying statement of assets and liabilities of Putnam Investment Grade Municipal Trust, including the fund's portfolio, as of November 30, 2006, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform our 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 November 30, 2006 by correspondence with the custodian and brokers or by other appropriate auditing procedures. 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 Investment Grade Municipal Trust as of November 30, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts  
January 8, 2007

20

## The fund's portfolio<sup>1/30/06</sup>

### Key to abbreviations

AMBAC AMBAC Indemnity Corporation

COP Certificate of Participation

FGIC Financial Guaranty Insurance Company

FHA Insd. Federal Housing Administration Insured

FHLMC Coll. Federal Home Loan Mortgage Corporation Collateralized

FNMA Coll. Federal National Mortgage Association Collateralized

FRN Floating Rate Notes

FSA Financial Security Assurance

GNMA Coll. Government National Mortgage Association Collateralized

G.O. Bonds General Obligation Bonds

MBIA MBIA Insurance Company

PSFG Permanent School Fund Guaranteed

U.S. Govt. Coll. U.S. Government Collateralized

VRDN Variable Rate Demand Notes

XLCA XL Capital Assurance

### MUNICIPAL BONDS AND NOTES (160.0%)\*

	Rating**	Principal amount	Value
Alabama (0.2%) Sylacauga, Hlth. Care Auth. Rev. Bonds (Coosa Valley Med. Ctr.), Ser. A, 6s, 8/1/25	B/P	\$ 400,000	\$ 421,476

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Arizona (2.0%) AZ Hlth. Fac. Auth. Hosp. Syst. Rev. Bonds (John C. Lincoln Hlth. Network), 6 3/8s, 12/1/37 (Prerefunded)	BBB	500,000	577,310
Casa Grande, Indl. Dev. Auth. Rev. Bonds (Casa Grande Regl. Med. Ctr.), Ser. A, 7 5/8s, 12/1/29	BBB/P	1,175,000	1,313,157
Phoenix, Indl. Dev. Auth. VRDN (Valley of the Sun YMCA), 3.65s, 1/1/31	A-1+	600,000	600,000
Pima Cnty., Indl Dev. Auth. Rev. Bonds (Horizon Cmnty. Learning Ctr.), 5.05s, 6/1/25	BBB	525,000	522,501
Queen Creek, Special Assmt. Bonds (Impt. Dist. No. 001), 5s, 1/1/18	Baa2	400,000	415,316

MUNICIPAL BONDS AND NOTES (160.0%)\* *continued*

	Rating**	Principal amount	Value
Arizona <i>continued</i> Scottsdale, Indl. Dev. Auth. Hosp. Rev. Bonds (Scottsdale Hlth. Care), 5.8s, 12/1/31 (Prerefunded)	A3	\$ 1,000,000 \$	1,109,460 4,537,744

Arkansas (2.4%) AR State Hosp. Dev. Fin. Auth. Rev. Bonds (Washington Regl. Med. Ctr.), 7 3/8s, 2/1/29 (Prerefunded)	Baa2	3,000,000	3,333,810
Independence Cnty., Poll. Control Rev. Bonds (Entergy AR, Inc.), 5s, 1/1/21	A	500,000	514,125

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Jefferson Cnty., Poll. Control Rev. Bonds (Entergy AR, Inc.), 4.6s, 10/1/17	A□	355,000	361,816
Little Rock G.O. Bonds (Cap. Impt.), FSA, 3.95s, 4/1/19	Aaa	760,000	754,042
Springdale, Sales & Use Tax Rev. Bonds, FSA, 4.05s, 7/1/26	AAA	500,000	499,315
			5,463,108

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California (21.8%) ABC Unified School Dist. G.O. Bonds, Ser. B, FGIC, zero %, 8/1/20	Aaa	1,500,000	851,475
Anaheim, Pub. Fin. Auth. Tax Alloc. Rev. Bonds, MBIA, 6.45s, 12/28/18	Aaa	4,000,000	4,200,040
CA Edl. Fac. Auth. Rev. Bonds (U. of the Pacific), 5s, 11/1/21	A2	525,000	560,338
CA Hlth. Fac. Auth. Rev. Bonds (Sutter Hlth.), Ser. A, MBIA, 5 3/8s, 8/15/30	Aaa	2,500,000	2,599,075
CA State G.O. Bonds 5 1/8s, 4/1/23	A+	500,000	537,670
5.1s, 2/1/34	A+	750,000	769,958
CA State Dept. of Wtr. Resources Rev. Bonds, Ser. A 6s, 5/1/15 (Prerefunded)	Aaa	1,500,000	1,701,165
AMBAC, 5 1/2s, 5/1/13	Aaa	13,000,000	14,398,020
5 1/2s, 5/1/11	A1	1,500,000	1,618,905
CA State Econ. Recvy. G.O. Bonds, Ser. A, 5s, 7/1/16	AA+	1,000,000	1,061,980

21

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MUNICIPAL BONDS AND NOTES (160.0%)\* *continued*

	Rating**	Principal amount	Value
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California <i>continued</i>				
CA Statewide Cmnty.,				
Dev. Auth. COP (The				
Internext Group),				
5 3/8s, 4/1/30	BBB	\$	1,750,000	\$ 1,788,570
Cathedral City, Impt.				
Board Act of 1915				
Special Assmt. Bonds				
(Cove Impt. Dist.),				
Ser. 04-02,				
5.05s, 9/2/35	BB+/P		270,000	276,747
Chula Vista, Incl.				
Dev. Rev. Bonds (San				
Diego Gas), Ser. B,				
5s, 12/1/27	A1		640,000	680,058
Gilroy, Rev. Bonds				
(Bonfante Gardens				
Park), 8s, 11/1/25				
Golden State Tobacco				
Securitization Corp.				
Rev. Bonds				
Ser. 03 A-1, 6				
1/4s, 6/1/33	BBB		1,000,000	1,125,650
Ser. B, FHLMC Coll.,				
5 5/8s, 6/1/38				
(Prerefunded)				
Ser. 03 A-1,				
5s, 6/1/21	BBB		410,000	411,788
Modesto, High School				
Dist. Stanislaus Cnty.,				
G.O. Bonds, Ser. A,				
FGIC, zero %, 8/1/24				
Newark, Unified School				
Dist. G.O. Bonds				
(Election of 1997),				
Ser. D, FSA,				
zero %, 8/1/21				
Orange Cnty., Cmnty.				
Fac. Dist. Special Tax				
Bonds (No. 02-1				
Ladera Ranch), Ser. A,				
5.55s, 8/15/33	BBB/P		450,000	465,026
Riverside Cnty., Redev.				
Agcy. Tax Alloc.,				
Ser. A, XLCA,				
5s, 10/1/29	Aaa		4,700,000	4,993,280
Roseville, Special				



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Tax Bonds

(Cmnty. Fac. Dist.

No. 1 □ Westpark),

5 1/4s, 9/1/19	BB/P	875,000	902,160
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(Cmnty. Fac. Dist.

No. 1 □ Fiddymment

Ranch Cmnty. Fac),

Ser. 1, 5s, 9/1/20	BB/P	255,000	259,906
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MUNICIPAL BONDS AND NOTES (160.0%)\* *continued*

	Rating**	Principal amount	Value
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California *continued*

Sacramento, Special Tax

Bonds (North Natomas

Cmnty. Fac.), 5s, 9/1/18	BB/P	\$ 1,040,000	\$ 1,080,487
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Santa Clara Cnty., Fin.

Auth. Lease Rev. Bonds

(Multiple Fac.), Ser. I,

AMBAC, 5s, 5/15/20	Aaa	3,000,000	3,280,890
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Vallejo, COP (Marine

World Foundation),

7.2s, 2/1/26	BBB□/P	1,400,000	1,433,894
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49,320,131

Colorado (2.5%)

CO Hlth. Fac. Auth.

Rev. Bonds

(Christian Living

Cmntys.), Ser. A,

5 3/4s, 1/1/26	BB□/P	100,000	105,874
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(Evangelical Lutheran),

5 1/4s, 6/1/21	A3	250,000	270,165
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(Evangelical Lutheran),

5 1/4s, 6/1/17	A3	160,000	174,738
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CO Springs, Hosp.

Rev. Bonds

6 3/8s, 12/15/30	A3	1,515,000	1,670,030
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6 3/8s, 12/15/30

(Prerefunded)	A3	1,485,000	1,650,474
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CO State Hsg. Fin. Auth.

Rev. Bonds (Single Fam.)

Ser. B-2, 7s, 5/1/26	Aa2	65,000	65,469
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Ser. B-3,

6.8s, 11/1/28	Aa2	35,000	35,334
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U. of CO Enterprise

Syst. Rev. Bonds,

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FGIC, 5s, 6/1/26	Aaa	1,650,000	1,780,086
			5,752,170

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Delaware (0.7%)

GMAC Muni. Mtge.

Trust 144A sub. notes

Ser. A1-3,

5.3s, 10/31/39
 A3 | 500,000 | 534,260 |

Ser. A1-2,

4.9s, 10/31/39
 A3 | 1,000,000 | 1,040,490 |

 1,574,750 |

District of Columbia (1.8%)

DC G.O. Bonds, Ser. B,

FSA, 5 1/4s, 6/1/26
 Aaa | 4,000,000 | 4,148,120 |

22

MUNICIPAL BONDS AND NOTES (160.0%)\* *continued*

	Rating**	Principal amount	Value
Florida (4.5%)			
Escambia Cnty., Hlth.			
Fac. Auth. Rev. Bonds			
(Baptist Hosp. &			
Baptist Manor),			
5 1/8s, 10/1/19	Baa1	\$ 1,895,000	\$ 1,939,874
Halifax, Hosp. Med.			
Ctr. Rev. Bonds,			
Ser. A, 5 1/4s, 6/1/19	BBB+	2,200,000	2,370,324
Highlands Cnty., Hlth.			
Fac. Auth. Rev. Bonds			
FRN (Adventist Hlth.),			
Ser. A, 5s, 11/15/23	A+	300,000	318,195
Lee Cnty., Indl. Dev.			
Auth. Rev. Bonds			
(Alliance Cmnty.),			
Ser. C, 5 1/2s, 11/15/29	BBB□	1,000,000	1,030,730
Miami Beach, Hlth.			
Fac. Auth. Hosp.			
Rev. Bonds (Mount			
Sinai Med. Ctr.),			
5 3/8s, 11/15/28	BB+	2,000,000	2,043,400
Okeechobee Cnty.,			

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Solid Waste Mandatory Put Bonds (Waste Mgt./Landfill), Ser. A, 4.2s, 7/1/09 Reunion West, Cmnty. Dev. Dist. Special Assmt. Bonds, 6 1/4s, 5/1/36 Tern Bay, Cmnty. Dev. Dist. Special Assmt. Bonds, Ser. B, 5s, 5/1/15 Tolomato, Cmnty. Dev. Dist. Special Assmt. Bonds, 5.4s, 5/1/37 Wentworth Estates, Dev. Dist. Special Assmt. Bonds, Ser. B, 5 1/8s, 11/1/12	BBB  BB□/P  BB□/P  BB□/P	375,000  850,000  450,000  175,000  465,000	375,263  905,004  452,741  179,036  474,012  10,088,579
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Georgia (4.4%) Atlanta, Arpt. Rev. Bonds, Ser. B, FGIC, 5 5/8s, 1/1/30 Atlanta, Wtr. & Waste Wtr. Rev. Bonds, Ser. A, FGIC, 5s, 11/1/38 (Prerefunded) Cobb Cnty., Dev. Auth. U. Fac. Rev. Bonds (Kennesaw State U. Hsg.), Ser. A, MBIA, 5s, 7/15/29 GA Med. Ctr. Hosp. Auth. Rev. Bonds, MBIA, 6.367s, 8/1/10	Aaa  Aaa  Aaa	1,500,000  1,045,000  5,215,000  600,000	1,590,195  1,087,730  5,585,891  600,606
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MUNICIPAL BONDS AND NOTES (160.0%)\* *continued*

	Rating**	Principal amount	Value
Georgia <i>continued</i> Rockdale Cnty., Dev. Auth. Solid Waste Disp. Rev. Bonds (Visay Paper, Inc.), 7.4s, 1/1/16	B+/P	\$ 1,155,000	\$ 1,155,889 10,020,311

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Idaho (0.2%)			
ID Hsg. & Fin. Assn. Rev. Bonds (Single Fam. Mtge.), Ser. C-2, FHA Insd., 5.15s, 7/1/29			
Aaa	375,000	379,545	
Illinois (12.0%)			
Chicago, G.O. Bonds, Ser. A, FSA, 5s, 1/1/27			
Aaa	4,270,000	4,536,064	
Chicago, Board of Ed. G.O. Bonds (School Reform), Ser. A AMBAC, 5 1/4s, 12/1/27			
Aaa	2,500,000	2,582,025	
FGIC, zero %, 12/1/18			
Aaa	5,440,000	3,352,019	
Cook Cnty., Cmnty. G.O. Bonds (Cons. School Dist. No. 64 Pk. Ridge), FSA, 5 1/2s, 12/1/16			
Aaa	1,580,000	1,815,689	
IL Dev. Fin. Auth. Rev. Bonds (Midwestern U.), Ser. B, 6s, 5/15/26			
A□	1,600,000	1,753,440	
IL Dev. Fin. Auth. Hosp. Rev. Bonds (Adventist Hlth. Syst./ Sunbelt Obligation), 5.65s, 11/15/24 (Prerefunded)			
A2	2,500,000	2,661,525	
IL State Toll Hwy. Auth. Rev. Bonds, Ser. A-1, FSA, 5s, 1/1/23			
Aaa	2,250,000	2,444,198	
IL U. Rev. Bonds (Auxiliary Fac. Syst.), Ser. A, AMBAC, 5 1/4s, 4/1/19			
Aaa	1,945,000	2,226,539	
Lake Cnty., Cmnty. School Dist. G.O. Bonds (No. 073 Hawthorn), Ser. 02, FGIC, zero %, 12/1/21			
Aaa	950,000	503,557	
Schaumburg, G.O. Bonds, Ser. B, FGIC,			

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5s, 12/1/27	Aaa	5,000,000	5,346,050
			27,221,106

23

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MUNICIPAL BONDS AND NOTES (160.0%)\* *continued*

	Rating**	Principal amount	Value
Indiana (1.6%)			
IN State Dev. Fin. Auth. Env. Impt. Rev. Bonds (USX Corp.), 5.6s, 12/1/32			
	Baa1	\$ 2,600,000	\$ 2,719,054
Rockport, Poll. Control Rev. Bonds (Indiana-Michigan Pwr.), Ser. A, 4.9s, 6/1/25			
	Baa2	1,000,000	1,003,150
			3,722,204

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Iowa (2.8%)			
IA Fin. Auth. Hlth. Care Fac. Rev. Bonds (Care Initiatives), 9 1/4s, 7/1/25 (Prerefunded)			
	AAA	1,500,000	1,865,580
IA State Rev. Bonds (Honey Creek Premier Destination Pk.), FSA 5s, 6/1/27			
	AAA	1,470,000	1,583,910
	AAA	1,400,000	1,510,782
	AAA	1,335,000	1,447,220
			6,407,492

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Kansas (0.1%)			
Lawrence, Hosp. Rev. Bonds (Lawrence Memorial Hosp.), 5 1/4s, 7/1/21			
	A3	250,000	271,740

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Louisiana (0.9%)  
Ernest N. Morial-New Orleans, Exhibit Hall

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Auth. Special Tax Bonds, Ser. A, AMBAC, 5 1/4s, 7/15/21	Aaa	1,500,000	1,599,840
LA Pub. Fac. Auth. Rev. Bonds (Pennington Med. Foundation), 5s, 7/1/16	A3	400,000	426,444
			2,026,284

Maine (0.5%) ME State Hsg. Auth. Rev. Bonds, Ser. D-2-AMT, 5s, 11/15/27	Aa1	1,085,000	1,102,295
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Massachusetts (11.2%) MA State Dev. Fin. Agcy. Rev. Bonds (MA Biomedical Research), Ser. C, 6 3/8s, 8/1/17	Aa3	2,785,000	3,044,729
MA State Dev. Fin. Agcy. Higher Ed. Rev. Bonds (Emerson College), Ser. A, 5s, 1/1/19	A□	310,000	336,824

MUNICIPAL BONDS AND NOTES (160.0%)\* *continued*

	Rating**	Principal amount	Value
Massachusetts <i>continued</i> MA State Hlth. & Edl. Fac. Auth. Rev. Bonds (Civic Investments/ HPHC), Ser. A, 9s, 12/15/15	BBB□/P	\$ 1,000,000	\$ 1,243,920
(Jordan Hosp.), Ser. E, 6 3/4s, 10/1/33	BBB□	750,000	829,208
(Med. Ctr. of Central MA), AMBAC, 6.55s, 6/23/22	Aaa	16,150,000	16,750,124
(UMass Memorial), Ser. D, 5s, 7/1/33	Baa2	500,000	514,375
MA State Hsg. Fin. Agcy. Rev. Bonds (Rental Mtge.),			

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Ser. C, AMBAC, 5 5/8s, 7/1/40	Aaa	2,500,000	2,538,425 25,257,605
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Michigan (3.8%) Dickinson Cnty., Econ. Dev. Corp. Poll. Control Rev. Bonds (Intl. Paper Co.), Ser. A, 4.8s, 11/1/18	BBB	900,000	923,175
Flint, Hosp. Bldg. Auth. Rev. Bonds (Hurley Med. Ctr.), 6s, 7/1/20	Ba1	75,000	79,628
MI State Hosp. Fin. Auth. Rev. Bonds (Oakwood Hosp.), Ser. A, 5 3/4s, 4/1/32	A2	1,000,000	1,076,020
(Holland Cmnty. Hosp.), Ser. A, FGIC, 5 3/4s, 1/1/21	A2	1,250,000	1,369,050
Ser. A, 5s, 4/15/26	A1	1,775,000	1,874,027
MI State Hsg. Dev. Auth. Rev. Bonds, Ser. A, 3.9s, 6/1/30	AA+	1,200,000	1,197,756
Monroe Cnty., Hosp. Fin. Auth. Rev. Bonds (Mercy Memorial Hosp. Corp.), 5 3/8s, 6/1/26	Baa3	750,000	794,280
Saginaw Cnty., G.O. Bonds (Healthsource Saginaw, Inc.), MBIA, 5s, 5/1/26	Aaa	1,210,000	1,294,724 8,608,660

24

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MUNICIPAL BONDS AND NOTES (160.0%)\* *continued*

	Rating**	Principal amount	Value
Minnesota (2.9%) Cohasset, Poll. Control Rev. Bonds (Allele, Inc.),			

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4.95s, 7/1/22 Minneapolis, Cmnty. Dev. Agcy. Supported Dev. Rev. Bonds, Ser. G-3, U.S. Govt. Coll., 5.45s, 12/1/31 (Prerefunded)	A	\$ 2,500,000	\$ 2,590,925
MN State Hsg. Fin. Agcy. Rev. Bonds (Res. Hsg.), Ser. M, 5 3/4s, 1/1/37 Spring Lake Pk., G.O. Bonds (Indpt. School Dist. No. 016 School Bldg.), Ser. C, FSA, 5s, 2/1/24 St. Paul, Hsg. & Redev. Auth. Hosp. Rev. Bonds (Hlth. East), 6s, 11/15/25	A+	1,705,000	1,850,300
	Aa1	500,000	540,710
	Aaa	1,000,000	1,086,910
	Baa3	350,000	389,169
			6,458,014

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Mississippi (2.5%) Lowndes Cnty., Solid Waste Disp. & Poll. Control Rev. Bonds (Weyerhaeuser Co.) Ser. A, 6.8s, 4/1/22 Ser. B, 6.7s, 4/1/22 MS Bus. Fin. Corp. Poll. Control Rev. Bonds (Syst. Energy Resources, Inc.), 5 7/8s, 4/1/22 MS Dev. Bk. Special Obligation Rev. Bonds (Jackson, MS), FSA, 5 1/4s, 3/1/21 MS Home Corp. Rev. Bonds (Single Fam. Mtge.), Ser. B-2, GNMA Coll., FNMA Coll., 6.45s, 12/1/33 MS Hosp. Equip. & Fac. Auth. Rev. Bonds (Hosp. South Central), 5 1/4s, 12/1/21	Baa2	500,000	621,220
	Baa2	525,000	646,548
	BBB□	1,750,000	1,756,020
	Aaa	1,385,000	1,592,639
	Aaa	640,000	665,216
	BBB+	250,000	268,910



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5,550,553

MUNICIPAL BONDS AND NOTES (160.0%)\* *continued*

	Rating**	Principal amount	Value
Missouri (2.2%)			
Cape Girardeau Cnty., Indl. Dev. Auth. Hlth. Care Fac. Rev. Bonds (St. Francis Med. Ctr.), Ser. A, 5 1/2s, 6/1/16	A+	\$ 1,250,000	\$ 1,359,950
MO Hsg. Dev. Comm. Rev. Bonds (Home Ownership), Ser. D, GNMA Coll., FNMA Coll., 5.55s, 9/1/34	Aaa	1,020,000	1,046,673
MO State Hlth. & Edl. Fac. Auth. Rev. Bonds (BJC Hlth. Syst.), 5 1/4s, 5/15/32	Aa2	1,000,000	1,060,460
MO State Hsg. Dev. Comm. Mtge. Rev. Bonds (Single Fam. Homeowner Loan) Ser. A-2, GNMA Coll., 6.3s, 3/1/30	AAA	745,000	768,259
Ser. C, GNMA Coll., FNMA Coll., 5.6s, 9/1/35	AAA	670,000	711,976
			4,947,318

Montana (1.0%)			
Jackson Cnty., Special Oblig. Rev. Bonds (Harry S. Truman Sports Complex), AMBAC, 5s, 12/1/22	Aaa	2,000,000	2,187,500

Nevada (3.8%)			
Clark Cnty., Arpt. Rev. Bonds, Ser. A-2, FGIC, 5 1/8s, 7/1/26	Aaa	5,105,000	5,494,154
Clark Cnty., Impt. Dist. Special Assmt.			

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Bonds (Summerlin No. 151), 5s, 8/1/25 Henderson, Local Impt. Dist. Special Assmt. Bonds (No. T-16), 5.1s, 3/1/21 (No. T-17), 5s, 9/1/25 (No. T-14), 4 3/4s, 3/1/10	BB/P  BB/P BB/P BB/P	700,000  1,000,000 225,000 1,075,000	729,939  1,030,410 230,983 1,089,416 8,574,902
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25

MUNICIPAL BONDS AND NOTES (160.0%)\* *continued*

	Rating**	Principal amount	Value
New Hampshire (0.4%) NH State Bus. Fin. Auth. Poll. Control Rev. Bonds, 3 1/2s, 7/1/27	Baa2	\$ 950,000	\$ 940,244

New Jersey (5.7%) NJ Econ. Dev. Auth. Rev. Bonds (Cedar Crest Village, Inc.), Ser. A, 7 1/4s, 11/15/31 (Prerefunded) (Cigarette Tax), 5 3/4s, 6/15/29 (Motor Vehicle), Ser. A, MBIA, 5s, 7/1/27	BB/P  Baa2  Aaa	650,000  1,750,000  5,000,000	761,371  1,899,975  5,354,100
NJ State Rev. Bonds (Trans. Syst.), Ser. C, AMBAC, zero %, 12/15/24 NJ State Edl. Fac. Auth. Rev. Bonds (Fairleigh Dickinson), Ser. C, 6s, 7/1/20 Tobacco Settlement	Aaa  Aaa  BBB/F	4,800,000  750,000	2,280,960  837,795

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Fin. Corp. Rev. Bonds			
6 3/4s, 6/1/39	BBB	500,000	575,435
6s, 6/1/37	BBB	1,000,000	1,093,560
			12,803,196

New Mexico (1.2%)			
Farmington, Poll. Control VRDN (AZ Pub. Svc. Co.), Ser. A, 3.65s, 5/1/24			
	VMIG1	1,000,000	1,000,000
NM Fin. Auth. Rev. Bonds, Ser. A, MBIA, 5s, 6/15/22			
	Aaa	750,000	816,368
NM Mtge. Fin. Auth. Rev. Bonds (Single Fam. Mtge.) Ser. D-2, GNMA Coll., FNMA Coll., FHLMC Coll., 5.64s, 9/1/33			
	AAA	380,000	392,213
Ser. F2, Class I, GNMA Coll., FNMA Coll., FHLMC Coll., 5.6s, 7/1/38			
	AAA	500,000	540,175
			2,748,756

MUNICIPAL BONDS AND NOTES (160.0%)\* *continued*

	Rating**	Principal amount	Value
New York (18.3%)			
Metro. Trans. Auth. Dedicated Tax Rev. Bonds, Ser. B, MBIA, 5s, 11/15/25			
	AAA	\$ 1,200,000	\$ 1,307,916
NY City, G.O. Bonds, Ser. B, 5 1/4s, 12/1/09			
	AA□	7,780,000	8,142,937
NY City, Hsg. Dev. Corp. Rev. Bonds, Ser. A, FGIC, 5s, 7/1/25			
	Aaa	500,000	538,225
NY City, Indl. Dev. Agcy. Rev. Bonds (Liberty□7 World Trade Ctr.), Ser. A, 6 1/4s, 3/1/15 (Brooklyn Navy			
	B□/P	500,000	533,750

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Yard Cogen. Partners), Ser. G, 5 3/4s, 10/1/36	BBB□	2,000,000	2,032,680
NY City, Indl. Dev. Agcy. Special Fac. Rev. Bonds (British Airways PLC), 5 1/4s, 12/1/32	BB+	250,000	250,175
NY City, Muni. Wtr. & Swr. Fin. Auth. Rev. Bonds Ser. B, 5 3/4s, 6/15/26 (Prerefunded)	AA+	4,100,000	4,188,478
Ser. D, 5s, 6/15/37	AA+	7,500,000	8,014,950
NY State Dorm. Auth. Rev. Bonds (NY Methodist Hosp.), 5 1/4s, 7/1/15	A3	500,000	543,190
NY State Energy Research & Dev. Auth. Gas Fac. Rev. Bonds (Brooklyn Union Gas), 6.952s, 7/1/26	A+	2,000,000	2,044,240
NY State Env. Fac. Corp. Rev. Bonds, 5s, 6/15/32	Aaa	4,000,000	4,258,480
NY State Hwy. Auth. Rev. Bonds (Hwy. & Bridge Trust Fund), Ser. B, FGIC, 5s, 4/1/17	AAA	3,000,000	3,295,860
Port. Auth. NY & NJ Special Oblig. Rev. Bonds (JFK Intl. Air Term. - 6), MBIA, 5.9s, 12/1/17	Aaa	5,250,000	5,457,690
Suffolk Cnty., Indl. Dev. Agcy. Rev. Bonds (Peconic Landing), Ser. A, 8s, 10/1/30	B+/P	650,000	716,723
			41,325,294

26

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MUNICIPAL BONDS AND NOTES (160.0%)\* *continued*

	Rating**	Principal amount	Value
North Carolina (3.3%)			

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NC Eastern Muni. Pwr.				
Agcy. Syst. Rev. Bonds				
Ser. D, 6 3/4s, 1/1/26	Baa2	\$	1,000,000	\$ 1,096,710
Ser. A, 5 3/4s, 1/1/26	Baa2		2,000,000	2,116,000
NC Med. Care Cmnty.				
Hlth. Care Fac. Rev.				
Bonds (First Mtge.				
Presbyterian Homes),				
5 3/8s, 10/1/22	BB/P		500,000	523,865
NC State Muni. Pwr.				
Agcy. Rev. Bonds				
(No. 1, Catawba Elec.),				
Ser. B, 6 1/2s, 1/1/20	A3		3,500,000	3,815,420
				7,551,995

North Dakota (0.4%)				
ND State Board				
of Higher Ed. Rev.				
Bonds (U. of ND Hsg.				
& Auxillary Fac.), FSA				
5s, 4/1/21	Aaa		400,000	433,116
5s, 4/1/19	Aaa		500,000	543,835
				976,951

Ohio (2.4%)				
Coshocton Cnty.,				
Env. Rev. Bonds				
(Smurfit-Stone				
Container Corp.),				
5 1/8s, 8/1/13	CCC+		600,000	608,910
OH State Air Quality				
Dev. Auth. Rev. Bonds				
(Toledo Poll. Control),				
Ser. A, 6.1s, 8/1/27	Baa2		2,000,000	2,069,200
Rickenbacker, Port				
Auth. Rev. Bonds				
(OASBO Expanded				
Asset Pooled), Ser. A,				
5 3/8s, 1/1/32	A2		2,500,000	2,867,850
				5,545,960

Oklahoma (0.5%)  
 OK Dev. Fin. Auth.  
 Rev. Bonds (Hillcrest  
 Hlth. Care Syst.),

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Ser. A, U.S. Govt. Coll., 5 5/8s, 8/15/29 (Prerefunded)	Aaa	1,050,000	1,113,893
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Oregon (0.3%) OR State Hsg. & Cmnty. Svcs. Dept. Rev. Bonds (Single Family Mtge.), Ser. K, 5 5/8s, 7/1/29	Aa2	765,000	786,412
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MUNICIPAL BONDS AND NOTES (160.0%)\* *continued*

	Rating**	Principal amount	Value
Pennsylvania (5.5%) Bucks Cnty., Indl. Dev. Auth. Retirement Cmnty. Rev. Bonds (Ann <sup>o</sup> s Choice, Inc.), Ser. A, 5.4s, 1/1/15	BB/P	\$ 530,000	\$545,974
Carbon Cnty., Indl. Dev. Auth. Rev. Bonds (Panther Creek Partners), 6.65s, 5/1/10	BBB <sup>o</sup>	870,000	906,531
Lancaster Cnty., Hosp. Auth. Rev. Bonds (Gen. Hosp.), 5 1/2s, 3/15/26	A+	1,500,000	1,620,315
Lehigh Cnty., Gen. Purpose Auth. Rev. Bonds (Lehigh Valley Hosp. Hlth. Network), Ser. A, 5 1/4s, 7/1/32	A1	1,000,000	1,060,240
PA State Econ. Dev. Fin. Auth. Resource Recvy. Rev. Bonds (Northampton Generating), Ser. A, 6.6s, 1/1/19	B+	750,000	764,453
Philadelphia, Indl. Dev. Auth. VRDN (Fox Chase Cancer Ctr.), 3.65s, 7/1/10	VMIG1	1,000,000	1,000,000
Philadelphia, School Dist. G.O. Bonds, Ser. D, FGIC, 5s, 6/1/27 Sayre, Hlth. Care Fac.	Aaa	5,000,000	5,360,900

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Auth. Rev. Bonds (Guthrie Hlth.), Ser. A, 5 7/8s, 12/1/31	A□	1,000,000	1,094,620 12,353,033
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Puerto Rico (3.0%) Cmnwlth. of PR, G.O. Bonds (Pub. Impt.), Ser. A, 5 1/4s, 7/1/25	BBB	1,000,000	1,096,070
Cmnwlth. of PR, Govt. Dev. Bank Rev. Bonds, Ser. AA, 5s, 12/1/16	BBB	250,000	272,355
Cmnwlth. of PR, Hwy. & Trans. Auth. Rev. Bonds, Ser. B, 6s, 7/1/39 (Prerefunded)	BBB+	5,000,000	5,467,400 6,835,825

27

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MUNICIPAL BONDS AND NOTES (160.0%)\* *continued*

	Rating**	Principal amount	Value
South Carolina (3.2%) Florence Cnty., Hosp. Rev. Bonds (McLeod Regl. Med. Ctr.), Ser. A, FSA, 5 1/4s, 11/1/23	Aaa	\$ 2,515,000	\$ 2,751,133
Greenwood Cnty., Hosp. Rev. Bonds (Memorial Hosp.), 5 1/2s, 10/1/26	A2	750,000	797,835
SC Hosp. Auth. Rev. Bonds (Med. U.), Ser. A, 6 1/2s, 8/15/32 (Prerefunded)	AAA	1,000,000	1,149,160
SC Jobs Econ. Dev. Auth. Hosp. Fac. Rev. Bonds (Palmetto Hlth. Alliance), Ser. A, 7 3/8s, 12/15/21 (Prerefunded)	BBB+/F	600,000	693,132
SC Tobacco Settlement Rev. Mgt. Rev. Bonds, Ser. B, 6 3/8s, 5/15/28	BBB	1,750,000	1,884,890 7,276,150

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South Dakota (1.0%)			
SD Edl. Enhancement			
Funding Corp.			
SD Tobacco Rev. Bonds,			
Ser. B, 6 1/2s, 6/1/32	BBB	2,000,000	2,197,040

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Tennessee (1.3%)			
Johnson City, Hlth. &			
Edl. Fac. Board Hosp.			
Rev. Bonds (Mountain			
States Hlth.), Ser. A,			
7 1/2s, 7/1/25	BBB+	2,000,000	2,345,300
Sullivan Cnty., Hlth.			
Edl. & Hsg. Hosp.			
Fac. Board Rev. Bonds			
(Wellmont Hlth. Syst.),			
Ser. C, 5s, 9/1/22	BBB+	480,000	504,134
			2,849,434

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Texas (9.8%)			
Alliance, Arpt. Auth.			
Rev. Bonds (Federal			
Express Corp.),			
4.85s, 4/1/21	Baa2	1,750,000	1,797,460
Columbus, Indpt.			
School Dist. G.O. Bonds,			
PSFG, 5 1/8s, 8/15/29	Aaa	4,525,000	4,862,158
Conroe, Indpt. School			
Dist. G.O. Bonds			
(School House), PSFG,			
5s, 2/15/26	Aaa	2,905,000	3,083,018
Gateway, Pub. Fac.			
Corp. Rev. Bonds			
(Stonegate Villas Apt.),			
FNMA Coll.,			
4.55s, 7/1/34	Aaa	750,000	784,178

MUNICIPAL BONDS AND NOTES (160.0%)\* *continued*

	Rating**	Principal amount	Value
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Texas *continued*  
Harris Cnty., Hlth.  
Fac. Rev. Bonds  
(Memorial Hermann  
Hlth. Care), Ser. A,  
6 3/8s, 6/1/29



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(Prerefunded)	A+	\$	1,500,000	\$ 1,685,880
Montgomery Cnty., G.O. Bonds (Library), Ser. B, AMBAC, 5s, 3/1/26	Aaa		1,335,000	1,407,237
Sam Rayburn Muni. Pwr. Agcy. Rev. Bonds, 6s, 10/1/21	Baa2		1,500,000	1,606,080
Snyder, Indpt. School Dist. G.O. Bonds (School Bldg.), AMBAC 5 1/4s, 2/15/24	AAA		1,215,000	1,335,297
5 1/4s, 2/15/23	AAA		1,150,000	1,265,552
Socorro, Indpt. School Dist. G.O. Bonds, PSFG, 5s, 8/15/29	AAA		1,360,000	1,445,530
Tomball, Hosp. Auth. Rev. Bonds (Tomball Regl. Hosp.), 6s, 7/1/19	Baa3		1,700,000	1,783,997
TX State Dept. of Hsg. & Cmnty. Affairs Rev. Bonds (Single Fam.), Ser. F, FHA Insd., 5 3/4s, 3/1/37	AAA		1,000,000	1,076,980
				22,133,367

Utah (4.2%) Intermountain Pwr. Agcy. Rev. Bonds Ser. A, MBIA, 6.15s, 7/1/14	Aaa		70,000	71,495
Ser. A, MBIA, U.S. Govt. Coll., 6.15s, 7/1/14 (Prerefunded)	Aaa		8,280,000	8,639,766
UT Cnty., Env. Impt. Rev. Bonds (Marathon Oil), 5.05s, 11/1/17	Baa1		675,000	719,584
				9,430,845

Vermont (0.4%) VT Hsg. Fin. Agcy. Rev. Bonds, Ser. 19A, FSA, 4.62s, 5/1/29	Aaa		820,000	828,151
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Virgin Islands (0.4%)

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VI Pub. Fin. Auth. Rev. Bonds, FGIC, 5s, 10/1/24	Aaa	750,000	819,308
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28

MUNICIPAL BONDS AND NOTES (160.0%)\* *continued*

	Rating**	Principal amount	Value
Virginia (1.0%) Prince William Cnty., Indl. Dev. Auth. Hosp. Rev. Bonds (Potomac Hosp. Corp.), 5.35s, 10/1/36	A3	\$2,000,000	\$2,160,240

Washington (1.1%) Tobacco Settlement Auth. of WA Rev. Bonds, 6 1/2s, 6/1/26	BBB	2,305,000	2,551,013
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West Virginia (6.4%) Econ. Dev. Auth. Lease Rev. Bonds (Correctional Juvenile Safety), Ser. A, MBIA, 5s, 6/1/29	Aaa	7,500,000	8,016,225
West Virginia U. Rev. Bonds (Impt. West VA. U.), Ser. C, FGIC, 5s, 10/1/26	Aaa	6,000,000	6,432,600 14,448,825

MUNICIPAL BONDS AND NOTES (160.0%)\* *continued*

	Rating**	Principal amount	Value
Wisconsin (3.8%) Badger Tobacco Settlement Asset Securitization Corp. Rev. Bonds 7s, 6/1/28	BBB	\$1,800,000	\$ 2,012,076
6 3/8s, 6/1/32	BBB	3,500,000	3,828,475
WI State Hlth. & Edl. Fac. Auth. Rev. Bonds			

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(Wheaton Franciscan),

5 3/4s, 8/15/30	A3	2,500,000	2,695,500
			8,536,051

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Wyoming (0.6%)

Sweetwater Cnty.,

Poll. Control VRDN

(Pacifcorp.), Ser. B,

3.75s, 1/1/14	VMIG1	1,275,000	1,275,000
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TOTAL INVESTMENTS

Total investments (cost \$341,102,803) \$ 361,528,590

\* Percentages indicated are based on net assets of \$225,924,043.

\*\* The Moody's, Standard & Poor's or Fitch's ratings indicated are believed to be the most recent ratings available at November 30, 2006 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 November 30, 2006. Securities rated by Putnam are indicated by [P]. Securities rated by Fitch are indicated by [F]. Ratings are not covered by the Report of Independent Registered Public Accounting Firm.

144A after the name of an issuer represents securities exempt from registration under Rule 144A under the Securities Act of 1933, as amended. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

The rates shown on VRDN, Mandatory Put Bonds and Floating Rate Notes (FRN) are the current interest rates at November 30, 2006.

The dates shown on Mandatory Put Bonds are the next mandatory put dates.

The dates shown on debt obligations other than Mandatory Put Bonds are the original maturity dates.

The fund had the following sector concentrations greater than 10% at November 30, 2006 (as a percentage of net assets):

Health care	36.1%
Utilities and power	30.2

The fund had the following insurance concentrations greater than 10% at November 30, 2006 (as a percentage of net assets):

AMBAC	23.0%
MBIA	19.4
FGIC	17.1
FSA	12.1

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

**Statement of assets and liabilities** 11/30/06

## ASSETS

Investment in securities, at value (Note 1):	
Unaffiliated issuers (identified cost \$341,102,803)	\$361,528,590
Cash	911,194
Interest and other receivables	5,619,576
Receivable for securities sold	242,819
Total assets	368,302,179

## LIABILITIES

Distributions payable to shareholders	831,281
Accrued preferred shares distribution payable (Note 1)	83,076
Payable for securities purchased	498,171
Payable for shares of the fund repurchased	248,245
Payable for compensation of Manager (Note 2)	516,580
Payable for investor servicing and custodian fees (Note 2)	16,091
Payable for Trustee compensation and expenses (Note 2)	55,202
Payable for administrative services (Note 2)	3,666
Other accrued expenses	125,824
Total liabilities	2,378,136

Series A remarketed preferred shares: (1,400 shares authorized and outstanding at \$100,000 per share) (Note 4)	140,000,000
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Net assets applicable to common shares outstanding	\$225,924,043
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## REPRESENTED BY

Paid-in capital <input type="checkbox"/> common shares (Unlimited shares authorized) (Notes 1 and 5)	\$223,895,492
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Undistributed net investment income (Note 1)	151,162
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Accumulated net realized loss on investments (Note 1)	(18,548,398)
Net unrealized appreciation of investments	20,425,787
Total <input type="checkbox"/> Representing net assets applicable to common shares outstanding	\$225,924,043

COMPUTATION OF NET ASSET VALUE

Net asset value per common share (\$225,924,043 divided by 20,266,556 shares)	\$11.15
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The accompanying notes are an integral part of these financial statements.

30

**Statement of operations** Year ended 11/30/06

INTEREST INCOME	\$17,995,765
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EXPENSES

Compensation of Manager (Note 2)	2,059,634
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Investor servicing fees (Note 2)	112,961
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Custodian fees (Note 2)	124,251
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Trustee compensation and expenses (Note 2)	33,489
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Administrative services (Note 2)	20,302
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Preferred share remarketing agent fees	354,861
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Other	220,706
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Total expenses	2,926,204
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Expense reduction (Note 2)	(86,350)
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Net expenses	2,839,854
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Net investment income	15,155,911
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Net realized loss on investments (Notes 1 and 3)	(25,444)
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Net realized gain on futures contracts (Note 1)	15,619
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Net unrealized appreciation of investments and futures contracts during the year	5,406,747
Net gain on investments	5,396,922
Net increase in net assets resulting from operations	\$20,552,833
DISTRIBUTIONS TO SERIES A REMARKETED PREFERRED SHAREHOLDERS: (NOTE 1)	
From ordinary income	
Taxable net investment income	(5,614)
From tax exempt net investment income	(4,722,189)
Net increase in net assets resulting from operations (applicable to common shareholders)	\$15,825,030

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

31

## Statement of changes in net assets

INCREASE (DECREASE) IN NET ASSETS	Year ended 11/30/06	Year ended 11/30/05
<i>Operations:</i>		
Net investment income	\$ 15,155,911	\$ 15,007,413
Net realized gain (loss) on investments	(9,825)	1,068,274
Net unrealized appreciation of investments	5,406,747	671,266
Net increase in net assets resulting from operations	20,552,833	16,746,953
DISTRIBUTIONS TO SERIES A REMARKETED PREFERRED SHAREHOLDERS: (NOTE 1)		
From ordinary income		
Taxable net investment income	(5,614)	(17,048)
From tax exempt net investment income	(4,722,189)	(3,259,131)
Net increase in net assets resulting from operations (applicable to common shareholders)	15,825,030	13,470,774

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DISTRIBUTIONS TO COMMON SHAREHOLDERS: (NOTE 1)

From ordinary income

Taxable net investment income	(21,265)	(147,919)
From tax exempt net investment income	(10,220,934)	(11,664,433)
Decrease from shares repurchased (Note 5)	(10,094,034)	(1,161,555)
Total increase (decrease) in net assets	(4,511,203)	496,867

NET ASSETS

Beginning of year	230,435,246	229,938,379
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