Pennsylvania Municipal Retirement System

Comprehensive Annual Financial Report For the fiscal year ended December 31, 1994

George E. Gift, Jr. Chairman Pennsylvania Municipal Retirement Board

James B. Allen PMRS Secretary

Report prepared by the Pennsylvania Municipal Retirement System staff

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Larry E. Barbour Accounting Division Chief

Jean A. Eckard Information Specialist

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INTRODUCTORY SECTION

- Letter of Transmittal
- GFOA Certificate of Achievement
- Administrative Organization Pennsylvania Municipal Retirement Board Administrative Staff Professional Consultants Organizational Chart
- Chairman's Report
- Summary of Plan Provisions

\$1,561,650 exclusive of investment fees; expenses (exclusive of investment fees and depreciation) amounted to \$1,492,788 allowing the System to end the year \$68,862 under budget.

Revenues

The System was established by law to pay pension benefits when due. It accumulates sufficient funds to pay benefits through employee and employer contributions and through investment earnings. The following schedule presents a summary of revenues for the fiscal year ended December 31, 1994 and the amount and percentage of increases and decreases in relation to December 31, 1993 revenues.

| Revenues | Amount | Percent of Total | (Decrease) from 1993 | Percent of Increase (Decrease) |
|-------------------------|--------------|---------------------|-------------------------|--------------------------------------|
| Member Contributions | \$ 8,692,966 | 13.26% | \$ 687,069 | 8.58% |
| Municipal Contributions | 20,803,673 | 31.73 | 3,409,963 | 19.60 |
| Assessments | 212,360 | .32 | (1,180) | (.55) |
| Investment Income | 35,856,385 | 54.69 | (9,817,105) | 21.49 |
| Total | \$65,565,384 | 100.00% | \$(5,721,253) | |

A majority of the revenues was derived from investment income. Investment revenues are a combination of earnings from bonds, equities, real estate, and a short-term cash management fund. The largest portions of the investment revenue came from equities (\$16,155,860) and bonds (\$9,061,960).

Another major source of revenue is from municipal and member contributions. Municipal contributions are based upon an actuarial valuation, using the Entry Age Normal Actuarial Cost Method, computed as a percentage of the total compensation of all active members during the period for which the amount is determined. Member contributions vay according to the type of pension plan. Under Articles II and III of the Act, members are required to contribute 3 to 8 percent of their salary. The amount a member contributes under Article IV of the Act is based upon contracted plan provisions and is principally expressed as a percent of compensation or salary. The final portion of revenue is derived from assessments. Each municipality is charged a \$20 assessment per member to help cover administrative expenses incurred by the System.

Ten-year historical trend information listing the System's revenues by source is presented in Schedule 2 of the Financial Section of this report.

Expenses

The System's primary expense represents the purpose for which it was created: payment of benefits. The following schedule presents a summary of the System's expenses for the fiscal year ended December 31, 1994 and the percentage of increases and decreases in relation to December 31, 1993 amounts.

| Expenses | Amount | Percent of Total | Increase (Decrease) from 1993 | of Increase (Decrease) |
|---------------------|--------------|---------------------|-------------------------------------|---------------------------|
| Annuity benefits | \$13,432,442 | 68.60% | \$1,288,163 | 10.61% |
| Disability benefits | 851,135 | 4.35 | 90,459 | 11.89 |
| Terminations | 2,652,912 | 13.55 | (4,535,307) | (63.09) |
| Administrative | 2,644,998 | 13.50 | 283,144 | 11.99 |
| Total | \$19,581,487 | 100.00% | \$(2,873,541) | |

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Letter of Transmittal (Continued)

The major expense-related items for 1994 were Payment of Benefits, Refunds of Contributions Due to Termination or Death, and administrative expenses. A breakdown of the System's expenses including ten-year historical trend information is presented in Schedules 2 and 3 of the Financial Section of this report.

Investment Highlights

The Board's investment objective is to benefit the System's member municipalities by adding value to their assets without taking undue risks. Recognizing that inflation can erode value, the Board's goal is to have the fund earn at least 2 percent more annually than the average annual inflation rate over a long period of time. The System invests its assets in order to maximize current and future income yield and to provide long-term stability. For the fiscal year ended December 31, 1994, investments provided 54.69 percent of the System's total revenues.

On December 31, 1994, the market value of the System's investments was \$445,467,060. This represents an increase of \$11,025,920 over the previous year. For the last five years, the System's annualized return was 7.5 percent. At December 31, 1994, the System's investment portfolio was distributed as follows: 46.7 percent in domestic equities, 9.7 percent in international equities, 30.1, percent in bonds, 9.5 percent in real estate, and 4.0 percent in cash equivalents.

Additional information on the System's investments is provided in the Investment Section of this report.

Funding

The System's level of funding is based on the actuarial reserve method. Funds are derived from the excess of revenues over expenses and are accumulated by the System in order to meet current and future benefit obligations to retirees and beneficiaries. As the funding level increases, the assets accumulate and strengthen the investment income potential. Net operating income for the 1994 fiscal year was \$45,983,897. This represents an increase in the fund balance of 11.6 percent over the 1993 fund balance.

To comply with GASB Statement No. 5 disclosure requirements, a pension benefit obligation (PBO) of \$ 378.6 million was calculated during the most recent actuarial valuation dated January 1, 1994. The market value of the System's assets exceeds this amount by \$59.1 million. This indicates that the contribution rates and the current assets of the System are adequate to fund the System's actuarial liabilities. Additional information on the System's pension benefit obligation, actuarial liability, and funding progress can be found in the Actuarial and Financial Sections of this report.

As an agent multiple-employer PERS, the System reports to each of the trustees of the plans it administers providing the governing authority of the member plans with complete actuarial, accounting, and funding data. PBOs for each plan were calculated and distributed. Detailed information on the funding level ranges of the System's plans can be found in the Actuarial Section of this report under "Schedule of Contribution Requirements vs. Actual Contributions."

Major Initiatives

During the 1994 financial year, the Board adopted a major revision to the investment guidelines in order to incorporate a detailed real estate section that identifies specific requirements for the System's 15 percent real estate asset allocation. Other initiatives concerning the investment portfolio included hiring an emerging money manager (Globalt, Inc. of Atlanta) to replace an investment advisor that was not performing at a level acceptable to the Board. The Board also awarded excess investment monies at a rate of 3.93 percent on year-end 1993 account balances. Added to the 6.5 percent regular interest, the 1994 award produced a compounded rate of return of over 10.4 percent on each plan's December 31, 1993 asset balance.

The System celebrated its twentieth anniversary in May. From the System's inception in May 1974, fund assets increased from \$16.8 million to \$400.3 million by May 1994. The System grew from 125 defined benefit plans to over 525 defined benefit plans and over 50 defined contribution plans. Total individual membership increased from 4,368 to over 10,000.

As required by law, the System's actuarial firm presented the most recent five-year Actuarial Experience Study (January 1, 1988 - January 1, 1993). After extensive review, the Board adopted several changes in the actuarial assumptions including the turnover rate assumption and adoption of a more current mortality table: the 1983 Group Annuity Table. The revisions (effective January 1, 1995) will not affect municipal billings until 1997.

Letter of Transmittal (Continued)

The year was also extremely active from a plan membership perspective. Thirty member plans were added and approval The year was also extremely dear of only one member municipality. As of December 31, 1994, the System had 537 defined was given for withdrawal of only one member. It administers to over 8,000 active amplements and an approval of the system had 537 defined to over 8,000 active amplements and an approximately active amplements and an approximately active amplements and approximately active approximately active amplements and approximately active approximately approximately active approximately active approximately approximately approximately approximately approximately active approximately appro was given for withdrawar of only one plans. It administers to over 8,000 active employees, over 2,200 retires ad benefit plans and 56 defined contribution plans. It administers to over 8,000 active employees, over 2,200 retires ad beneficiaries, over 150 vested members, and over 120 inactive members. Most membership activity during the year was associated with benefit consulting and redesigning plan structures. By year-end 1994, 35 plans increased benefits and consequently costs by amending plan contracts.

The Board's major initiatives for 1995 include requesting proposals and awarding contracts for investment consulting services and for actuarial services. The Board also plans to review and implement recommendations contained in the federal compliance analysis of the System's rules, regulations, and plan documents. Some regulations will be modified and legislation will be sought to provide consistency between state operations and the federal plan qualification provisions.

Professional Services

The financial information has been audited by the independent accounting firm of Ernst & Young LLP which is completing year two of a three-year contract with a two-year renewal option. The actuarial information was prepared with the help of E. Greenblum, consulting actuary from The Segal Company. The firm has completed the one-year extension of a competitively bid five-year contract with an extension option. The investment portion of the report was prepared with the cooperation of our independent investment consultant, R. Dahab of Dahab Associates. This firm's competitively bid three-year contract was completed on December 31, 1993, and then extended through year-end 1994. Without the complete cooperation and commitment of these three advisors in serving the Pennsylvania Municipal Retirement System. this report could not have been prepared.

Other Information

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Pennsylvania Municipal Retirement System for its comprehensive annual financial report for the fiscal year ended December 31, 1993. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Pennsylvania Municipal Retirement System has received a Certificate of Achievement for the last four consecutive years (fiscal years ended December 31, 1990 -December 31, 1993). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Acknowledgements

We would be remiss in not extending a sincere thank you to our Board members who faithfully serve the System without remuneration. Their leadership and support provide responsible and prudent management of the System's assets.

In addition, we thank the System's staff for contributions made in the preparation of this financial report. Without the dedicated service, the report would not have been published. The staff's efforts and commitment are also more appreciated appreciated.

The most important thank you, however, is reserved for our plan members whose support and trust have allowed us the continued opportunity to satisfy their pension needs.

Respectfully submitted,

Larry E. Barbour Chief of Accounting

James B Allen

James B. Allen Secretary

Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Pennsylvania Municipal Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 1993

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Administrative Organization

Pennsylvania Municipal Retirement Board as of December 31, 1994



George E. Gift, Jr. Chairman serves until replacement named Pennsylvania State Fire Fighters Association



James B. Bonner serves until replacement named Pennsylvania State Association of Boroughs



Robert N. Grant appointed by statute Secretary of the Commonwealth (ex-officio) represented by Pamella J. Raison Chief Counsel



Paul S. McMillen term expires March 11, 1996 Pennsylvania State Association of County Commissioners

Pennsylvania League of Cities

Vacant



Richard G. Bonneville term expires November 5, 1995 Chiefs of Police Association



David W. Hays term expires February 24, 1997 First Class Township Commissioners



John G. Brown, III Vice-Chairman serves until replacement named Pennsylvania State Association of Township Supervisors



Douglas K. Bowen term expires November 5, 1995 Pennsylvania Municipal Authorities Association



Catherine Baker Knoll appointed by statule State Treasurer (ex-officio) represented by Duane M. Searle Associate General Coursel



Veronica T. Recker term expires September 23, 1997 Pennsylvania Municipal Retirement System Retired Members

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Administrative Organization (Continued)

Introductory Section

Administrative Staff as of December 31, 1994

James B. Allen Secretary

Edward L. Bechtel Assistant Secretary

Benjamin F. Mader Membership & Municipal Services Division Chief

Professional Consultants as of December 31, 1994

Actuary

The Segal Company Washington, DC Eli Greenblum A.S.A., M.A.A.A.

Larry E. Barbour

Accounting Division Chief

Investment Consultant

Dahab Associates, Inc. Islip, NY Richard E. Dahab, C.F.A. President

Chase Investment Counsel Corp. Charlottesville, VA Derwood S. Chase, Jr., President

CIGNA Investment Management Real Estate Hartford, CT William J. Grady, Managing Director

First Fidelity Bank, N.A. Philadelphia, PA Robert C. Smith, Senior Vice President

Globalt Incorporated Atlanta, GA Angela Z. Allen, President

Heitman/JMB Advisory Chicago, IL George C. Gaines, Managing Director

Auditor

Ernst & Young LLP Harrisburg, PA Independent Auditors Stephen A. Baloga Vacant Operations Division Chief

Comptroller

Commonwealth of Pennsylvania Harrisburg, PA Central Services Bruno J. Chiesa

Legal Counsel

Commonwealth of Pennsylvania Harrisburg, PA Jeffrey B. Clay Chief Counsel

Investment Advisors

Newbold's Asset Management, Inc. Bryn Mawr, PA Stephen A. Mozur, Senior Vice President

Prudential Real Estate Investors (PRISA) Newark, NJ Lester F. Lockwood, Vice President

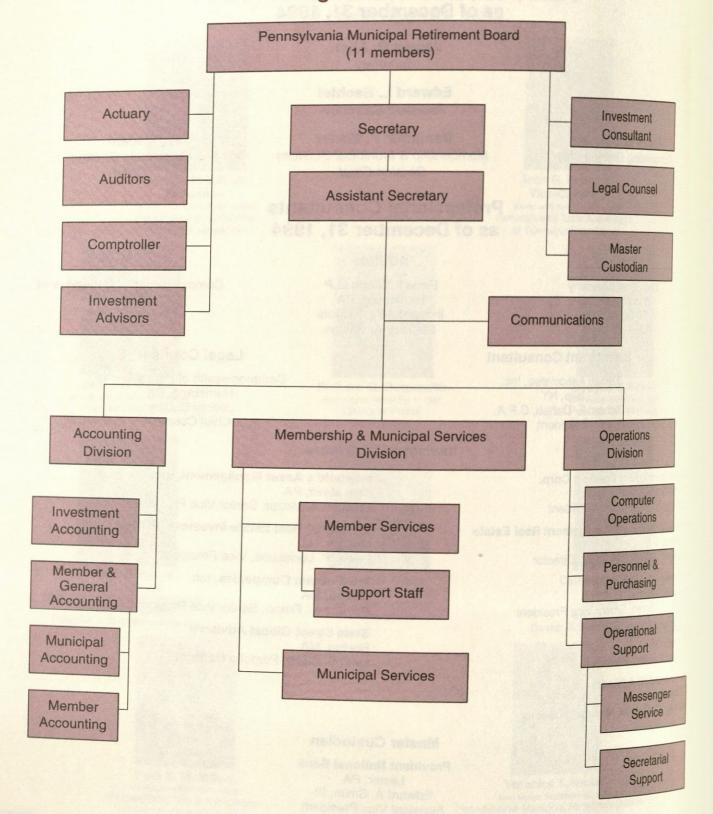
The Putnam Companies, Inc. Boston, MA Richard M. Frucci, Senior Vice President

State Street Global Advisors Boston, MA Lynn S. Blake, Portfolio Manager

Master Custodian

Provident National Bank Lester, PA Edward A. Smith, III Assistant Vice President Administrative Organization (Continued)

Organizational Chart



Chairman's Report



Mailing Address:

P.O. Box 1165 Harrisburg, PA 17108-1165

Building Address:

Suite 301 Eastgate Center 1010 N. 7th Street Harrisburg, PA 17102-1400

Phone:

717-787-2065 800-622-7968 TDD Available

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717-783-8363

(in (in)

Pennsylvania Municipal Retirement System

Commonwealth of Pennsylvania

May 10, 1995

Members of the Pennsylvania Municipal Retirement System Pennsylvania Municipal Retirement System P.O. Box 1165 Harrisburg, Pennsylvania 17108-1165

Dear PMRS Members:

On behalf of the Pennsylvania Municipal Retirement Board, it is a privilege to present the tenth Comprehensive Annual Financial Report of the Pennsylvania Municipal Retirement System. The report illustrates the System's solid record of consistency and strength as shown by the continued growth of assets, participating plans, and individual membership.

During the 1994 fiscal year, the System's investments increased by \$11 million at market for a total of over \$445 million at market as of December 31, 1994. During the calendar year, the System added 30 new member plans increasing the number of participating employers to nearly 600. The System now administers to over 10,400 employees, pensioners, and survivor beneficiaries.

The Board and staff are extremely pleased with the membership growth and the confidence it evidences. As the governing body with the fiduciary responsibility for the System's pension plans, we assure you that our ultimate goal is to continue providing financially secure retirement benefits for all of our plan members in the most cost-efficient manner possible.

In 1994, Board membership also experienced several changes. The Honorable Robert N. Grant was appointed Secretary of the Commonwealth and is represented on the Board by Pamella J. Raison. Also, Barbara W. Bigelow, who represented the Pennsylvania League of Cities on the Board, became ineligible to continue on the Board when she accepted a career advancement with another employer.

On behalf of the Board and the System's staff, I extend a special thank you to each of the System's participating plans — the administrative boards, the staffs, contact persons, and each individual plan member. The Board and staff appreciate your continued support and cooperation.

Sincerely,

George E. Gift, Jr. Chairman

Summary of Plan Provisions

The System offers a variety of alternative pension plans. Municipalities may design their own pension benefit structures. Most municipalities select this option and work with the System to create a combination of benefits that meet the individual needs of the municipality and its employees. Additionally, the System has two basic benefit plans designed by the State General Assembly: one for municipal employees and one for police and firefighters.

Superannuation and Early Annuity Eligibility Benefits

Under the basic plans, the minimum normal retirement age is 65 for municipal employees and 55 for police and firefighters. A member may retire early at any age after 24 years of service. Under an optional plan design, a municipality may choose any age or service requirement permitted under its particular municipal code. Early retirement under the optional plan may also be designed to meet the needs of the municipality.

There are two approaches to accumulating retirement benefits. Under the defined contribution approach, the benefit accrues based on the level of contributions and the investment earnings credited to the fund. The defined benefit approach depends upon the individual's age, years of credited service, and an actual benefit formula which usually includes a salary factor.

Disability Annuity Eligibility Benefits

A member who is unable to work because of serious injury or illness may apply for a disability annuity. The application and required medical documentation will be reviewed by the Board and the System's medical examiners to determine whether the member is eligible for the disability benefit.

A disability that results directly from doing one's job is classified as a job-related disability. A disability that is not caused by one's work is termed a nonservice disability.

Conditions for disability benefits are defined in the municipality's contract. The System's basic plans provide for (1) a service connected disability of 50 percent of the disabled individual's final average salary offset by workmen's compensation, and (2) a nonservice disability with a minimum of 10 years' service and a 30 percent final average salary annuity.

Vesting Annuity Eligibility Benefits

Conditions for vesting are defined in the municipality's contract. The basic plans have a 12 year service requirement for vesting.

A member who terminates service before retirement may elect to withdraw the member's accumulated contributions in the System and defer receipt of benefits until normal retirement age. When the member receives the vested benefits, payments will be reduced to reflect the withdrawal.

Benefit Payment Options

Depending on the municipality's contractual agreement, employees may choose individual alternatives for the monthly retirement allowance or may select one from a list of options. Typical options are as follows:

- Single Life Annuity: Provides a continual income throughout the annuitant's lifetime with no beneficiary benefit
- Option 1: Reduced lifetime benefit with remaining lump sum value of account to beneficiary
- Option 2: Joint and 100 percent survivorship annuity
- Option 3: Joint and 50 percent survivorship annuity

^{*} Descriptions are not identical to those in the audit report. Information has been rewritten for ease of understanding.

Summary of Plan Provisions (Continued)

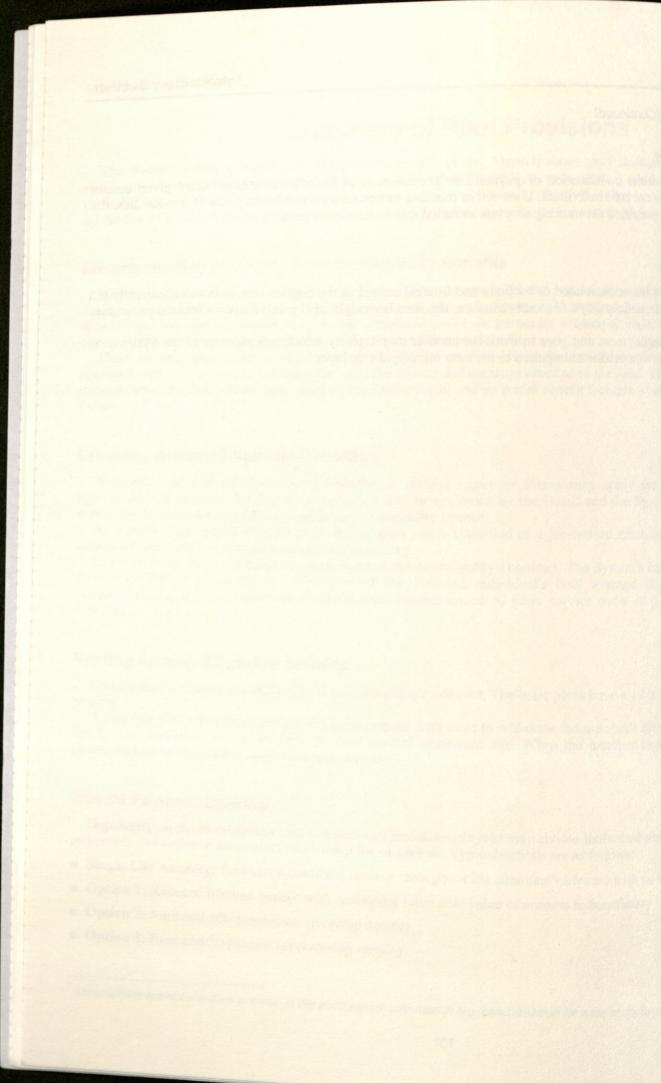
Death Benefit Eligibility

A death benefit provides some continuation of payment or presentation of benefits to a beneficiary given certain eligibility requirements of the covered individual. If an active member or vestee with minimum years of service dies, the death benefit goes into effect provided the municipality has included this feature in its plan.

Termination of Service

A member always receives his accumulated deductions and interest earned at the regular rate of interest, currently 6.5 percent. Depending upon the municipality's contract structure, the member might also receive excess investment monies upon withdrawal.

If a member terminates employment and goes to work for another municipality which is a member of the System, the employee may transfer his service credits unimpaired to the new municipal employer.



FINANCIAL SECTION

- Report of Independent Auditors
- Comparative Balance Sheets
- Statements of Revenues, Expenses, and Changes in Fund Balance
- Statements of Cash Flows
- Notes to Financial Statements

• Schedules:

Analysis of Funding Progress Revenues by Source and Expenses by Type Administrative Expenses Investment Summary

Report of Independent Auditors

ERNST & YOUNG LLP

Central Pennsylvania Practice
300 Locust Court
212 Locust Street
Harrisburg, Pennsylvania 17101

Phone: 717 232 7575
 Fax: 717 232 6797

Report of Independent Auditors

Board of Directors Pennsylvania Municipal Retirement System

We have audited the accompanying balance sheets of the Pennsylvania Municipal Retirement System (the System) as of December 31, 1994 and 1993, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements 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 are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 referred to above present fairly, in all material respects, the financial position of the Pennsylvania Municipal Retirement System at December 31, 1994 and 1993 and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Funding Progress, Ten-Year Historical Information, Administrative Expenses, and Investment Summary Information are presented in accordance with Statement No. 5 of the Governmental Accounting Standards Board for purposes of additional analysis and are not a required part of the financial statements. Such information for the years 1988 through 1994 has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. Such information for the years 1985 through 1987 has been derived from financial statements audited by other auditors whose reports thereon expressed unqualified opinions.

May 1, 1995

Ernst + Young LLP

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Comparative Balance Sheets December 31, 1994 and 1993

| tod December 31, 1994 and 1993 | 1994 | 1993 |
|--|---------------|---------------|
| Assets: | | |
| Cash | \$ 3,766 | \$ 3,577 |
| Short-term investments | 17,622,000 | 8,957,000 |
| Total cash and short-term investments | 17,625,766 | 8,960,577 |
| Contributions receivable | 1,175,406 | 1,328,067 |
| Accrued investment income | 2,078,491 | 2,708,409 |
| Investment sales receivable | 2,566,343 | 880,572 |
| Investments: | | |
| Bonds, at cost (market value \$134,180,128 in 1994 and | | |
| \$140,145,296 in 1993) | 135,556,154 | 124,529,240 |
| Common and preferred stocks, at cost (market value | | |
| \$251,468,924 in 1994 and \$243,861,584 in 1993) | 236,865,105 | 212,679,124 |
| Real estate mutual funds, at cost (market value \$42,196,008 | | |
| in 1994 and \$41,477,260 in 1993) | 48,021,033 | 46,202,824 |
| Total investments | 420,442,292 | 383,411,188 |
| Fixed assets | 161,801 | 156,859 |
| Total assets | \$444,050,099 | \$397,445,672 |
| | | |
| Liabilities and Fund Balance: | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 740,174 | \$ 599,028 |
| Investment purchases payable | 1,682,687 | 1,203,303 |
| Total liabilities | 2,422,861 | 1,802,331 |
| | | |
| Fund Balance: | | |
| Members' Reserve Account | 110,402,774 | 97,915,928 |
| Municipal Accounts | 187,483,564 | 161,093,399 |
| Retired Members' Reserve Account | 145,920,081 | 130,653,970 |
| Disability Reserve Account | 1,032,422 | 1,032,422 |
| Undistributed earnings (deficit) | (3,211,603) | 4,947,622 |
| Total fund balance | 441,627,238 | 395,643,341 |
| Total liabilities and fund balance | \$444,050,099 | \$397,445,672 |

See notes to financial statements.

Statements of Revenues, Expenses, and Changes in Fund Balance Years Ended December 31, 1994 and 1993

1994 1993 **Operating Revenues:** Member contributions \$ 8,692,966 \$ 8,005,897 Municipal contributions 20,803,673 17,393,710 Assessments 212,360 213,540 Investment income 35,856,385 45,673,490 Total operating revenues 65,565,384 71,286,637 **Operating Expenses:** Annuity benefits 13,432,442 12,144,279 Disability benefits..... 851,135 760.676 Terminations..... 2,652,912 7,188,219 Administrative 2,644,998 2,361,854 Total operating expenses 19,581,487 22,455,028 Net operating income..... 48,831,609 45,983,897 Fund balance, beginning of year.... 346.811.732 395,643,341 Fund balance, end of year \$395,643,341 \$441,627,238

See notes to financial statements.

Statements of Cash Flows December 31, 1994 and 1993

| | 1994 | 1993 |
|---|---------------|---------------|
| Operating Activities: | | |
| Net operating income | \$ 45,983,897 | \$ 48,831,609 |
| Adjustments to reconcile net operating income to net cash used in operating activities: | | |
| Depreciation/amortization | 26,827 | 21,159 |
| Investment income | (35,856,385) | (45,673,490) |
| Gain on sale of investments | (18,777,863) | (22,492,846) |
| Loss on sale of investments | 3,352,093 | 4,389,075 |
| Permanent decline in value of real estate investment | 0 | 4,879,582 |
| Changes in operating assets and liabilities: | | |
| Decrease in contributions receivable | 152,661 | 975,236 |
| Decrease (increase) in accrued investment income | 629,918 | (142,411) |
| (Increase) decrease in investment sales receivable | (1,685,771) | 4,155,037 |
| Increase (decrease) in accounts payable and other liabilities | 620,530 | (10,661,743) |
| Net cash used in operating activities | (5,554,093) | (15,718,792) |
| Investing Activities: | | |
| Purchases of investments | (190,296,463) | (212,771,088) |
| Proceeds from sale of investments | 168,691,128 | 178,955,333 |
| Investment income | 35,856,385 | 45,673,490 |
| Net cash provided by investing activities | 14,251,050 | 11,857,735 |
| Capital and Related Financing Activities: | | |
| Acquisition of capital assets | (31,768) | (51,885) |
| Net cash used in capital and related financing activities | (31,768) | (51,885) |
| Increase (decrease) in cash and cash equivalents | 8,665,189 | (3,912,942) |
| Cash and cash equivalents at beginning of year | 8,960,577 | 12,873,519 |
| Cash and cash equivalents at end of year | \$ 17,625,766 | \$ 8,960,577 |
| Soo potoo to financial at the | | |

See notes to financial statements.

(A) Organization and Description of the System

Organization

The Pennsylvania Municipal Retirement System (the System) was created by the Pennsylvania General Assembly in 1974 with the passage of the Pennsylvania Municipal Retirement Law, Act of 1974, P.L. 34, No. 15 (the Act). The System is an agent multiple-employer system, and its designated purpose is to administer sound, cost-effective pensions for local government employees. Responsibility for the organization and administration of the System is vested in the eleven-member Pennsylvania Municipal Retirement Board (the Board).

Membership in the System is optional for Pennsylvania's local governments. When a municipality joins the System, its permanent employees contractually become members. Seasonal and temporary employees as well as elected officials may also become members through contractual agreement. At January 1, 1994, the date of the most recent actuarial valuation, there were 531 municipalities with defined benefits and 55 with defined contributions.* Membership consisted of:

Participating Local Government Employers

| | Defined Benefits | Defined Contributions |
|-------------------------------|---------------------|--------------------------|
| Counties | 4 | 0 |
| Cities | 20 | 0 |
| Boroughs | 130 | 7 |
| Townships of the First Class | 21 | 0 |
| Townships of the Second Class | 81 | 26 |
| Authorities and Other Units | 129 | 20 |
| Police | 137 | 2 |
| Firefighters | 9 | 0 |
| Total | 531 | 55 |

This includes nineteen defined benefit plans in which there were no active participants as of the valuation date.

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Individual Membership

| Active Members | |
|--|--------|
| Defined Benefit Plans | |
| Municipal | 6,389 |
| Police | 794 |
| Firefighters | 146 |
| Total | 7,329 |
| Defined Contribution Plans | |
| Municipal | 315 |
| Police | 4 |
| Firefighters | 0 |
| Total | 319 |
| Total active members | 7,648 |
| Retirees and Beneficiaries | |
| Retirees | 1,912 |
| Beneficiaries | 291 |
| Total | 2,203 |
| Inactive participants with rights to deferred pension | |
| Defined Benefit | 152 |
| Defined Contribution | 17 |
| Total | 169 |
| Inactive participants with rights to return of contributions | |
| Defined Benefit | 121 |
| Defined Contribution | 4 |
| Total | 125 |
| Total individual memberships | 10,145 |

Benefits

The System has the broad authority of enabling a municipality to design its own retirement benefit structure. As an alternative, the System has two basic benefit plans: one for municipal employees (Article II of the Act) and one for uniformed employees (Article III of the Act). Members are eligible for monthly retirement benefits upon reaching the age of 65 and 55, under Articles II and III, respectively, or upon accumulating 24 years of service. Under Articles II and III of the Act, vesting occurs after 12 years of service.

Such benefits under Articles II and III are generally equal to (a) the actuarial value of the members' contributions and (b) a municipal annuity which is based upon a percentage of a member's salary or compensation.

The plans also provide death, disability, and early retirement benefits. These benefit provisions and all other requirements are established under Articles II and III of the Act.

Under Article IV of the Act, municipalities may provide for benefits different from those available under Articles II and III. Vesting provisions, if any, under Article IV may vary.

Contributions

Contributions to the System are made by members and municipalities. Under Articles II and III of the Act, members are required to contribute 3 to 8 percent of their salary. The amount a member contributes under Article IV of the Act is based upon contracted plan provisions and is principally expressed as a percent of compensation or salary. The contributions required of municipalities are based upon an actuarial valuation, using the Entry Age Normal Actuarial Cost Method, computed as a percentage of the total compensation of all active members during the period for which the amount is determined. The required contributions from municipalities for the year ended December 31, 1994 consisted of the following:

| Total | \$15,786,187 |
|--|--------------|
| Amortization of unfunded actuarial accrued liability | 4,337,730 |
| Municipality normal cost | \$11,448,457 |

Total contributions to the System during 1994 amounted to \$29,496,639 of which \$8,692,966 and \$20,803,673 were made by its members and municipalities, respectively. The difference between the municipalities' required and actual contributions is due to the municipalities transferring state aid money to the System as required under the Municipal Pension Plan Funding Standard and Recovery Act of 1984 (Act 205).

Each municipality is also charged a \$20 assessment per member to help cover administrative expenses incurred by the System.

Contributions Required and Contributions Made

The System's funding policy requires actuarially determined contributions at rates that accumulate sufficient assets to pay benefits when due. The System's actuary used the Entry Age Normal Actuarial Cost Method to determine plan liabilities and normal cost. Under this method, a normal cost is calculated that would fund each employee's benefits during the employee's career as a level percent of pay.

At each valuation date, the unfunded actuarial accrued liability is calculated as the present value of all plan benefits, less the present value of future normal cost accruals, less current assets (actuarial value).

The normal cost rate is applied to the projected payroll, and projected employee contributions are deducted. Actuarial gains (or losses) are reflected by decreases (or increases) in the unfunded actuarial accrued liability. Under Act 205, the unfunded accrued liability is being amortized as a level dollar amount over the lesser of:

- 1. a. 30 years with respect to the initial liability as of January 1, 1985 (or first valuation),
 - b. 20 years with respect to changes due to plan provisions and actuarial assumptions,
 - c. 15 years with respect to actuarial gains and losses, or

2. the average assumed working lifetime of active employees as of the date the liability was established.

Significant actuarial assumptions used to compute the actuarially determined contribution requirement include (a) a rate of return on the investment of present and future assets of 6.5 percent a year (net of investment and certain administrative expenses) compounded annually, (b) projected salary increases of 5.5 percent a year compounded annually comprised of 5.0 percent increases for inflation and 0.5 percent increases for merit/seniority, (c) post-retirement cost-of-living increases based on the 1971 Group Annuity Mortality Table set back 0 years for males, 6 years for females, and disability set

PMRS

Total does not include \$20.00 per member administrative charges to municipalities.

(B) Significant Accounting Policies

Basis of Accounting

The System's financial statements are prepared using the accrual basis of accounting and in accordance with NCGA Statement No. 6. Employee and employer contributions are recognized as revenues in the same period that services are performed. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

In November 1994, the Government Accounting Standards Board issued Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." Statement No. 25 will supersede most of the existing standards currently followed by the System in presenting its financial statements, including requiring the use of fair value to report system assets. The System has not completed the analyses required to estimate the financial statement impact of this new statement, which is effective for the System's 1997 fiscal year.

Statements of Cash Flows

The System has adopted Governmental Accounting Standards Statement No. 9 which permits the presentation of a "Statement of Cash Flows." Cash equivalents for purposes of the Statements of Cash Flows are defined as short-term investments with a remaining maturity at the date of acquisition of three months or less.

Fund Balance

Details concerning the pension benefit obligation have not been disclosed in the fund balance section of the balance sheets as required by NCGA Statement No. 6, since such actuarial information is not available as of December 31, 1994. Such information as of January 1, 1994 and 1993 is disclosed in Note E to the financial statements.

Methods Used to Value Investments

Corporate and government bonds with fixed maturities are reported at amortized cost. Investments in common and preferred stocks are carried at cost. Gains and losses on stock sales are recognized on the basis of the average cost of stocks sold. Real estate mutual funds are carried at cost. Gains and losses on sales and exchanges of investments are recognized on the transaction date.

Short-term investments, which include investments in the state treasury pool, U.S. Treasury bills, and other short-term investment vehicles are carried at cost which approximates market value.

Fixed Assets

Fixed assets, primarily office furniture and equipment, are recorded at cost. Depreciation is provided on the straightline method over the estimated useful lives of the assets, typically eight years.

Excess Interest

In addition to regular interest, the System may also award excess interest. Excess interest is investment earnings on the System's assets in excess of that required for allocation to regular interest and administrative expenses.

Rates for excess interest are determined yearly by the Board with advice from the System's actuary. The excess interest is distributed to the member accounts, the municipal accounts, and the retiree accounts as directed by the municipality.

Federal Income Tax Status

During the years ended December 31, 1994 and 1993, the System qualified under the provisions of the Internal Revenue Code and was exempt from federal income taxes.

The Act defines the following funds to be maintained by the System:

Members' Reserve Account

The Members' Reserve Account is credited with all contributions made by active members of the System. Interest is added to each member's individual account at an annual rate determined by the Board. The System's current interest rate is 6.5 percent.

Upon retirement or disability of an active member, the member's accumulated contributions plus interest are transferred to the Retired Members' Reserve Account or the Disability Reserve Account for subsequent benefit payments. Withdrawals of members' contributions not eligible for benefits are paid from this reserve.

Municipal Accounts

Separate municipal accounts are maintained for each municipality. The Municipal Reserve Account is credited with each municipality's contributions toward the superannuation retirement and death benefits of its members. Annual interest is added to each separate municipal account at the current rate of 6.5 percent.

Retired Members' Reserve Account

The Retired Members' Reserve Account represents the amounts transferred from the Members' Reserve Account, the Municipal Accounts, and the Disability Reserve Account. All retirement and retirees' death benefits plus voluntary and involuntary early retirements are paid from this reserve. Annual interest is credited to the Retired Members' Reserve Account at the current rate of 6.5 percent.

Disability Reserve Account

The Disability Reserve Account is credited with the contributions made by municipalities toward the disability retirement of member employees.

Undistributed Earnings (Deficit)

The System approved a distribution of excess interest at a rate of 3.93 percent during 1994. Such calculation, as described in Note B, was prepared in accordance with a Board approved formula and was based on the actuarial value (market value) of the System's assets as of December 31, 1993 and the expected cash flows of the System for 1994. This distribution, which amounted to \$14,864,447, combined with the excess of regular interest at 6.5 percent (distributed directly from undistributed earnings) and administrative costs over the investment income during 1994 resulted in a deficit in undistributed earnings of \$3,211,603 at December 31, 1994.

The System approved a similar distribution of excess interest at a rate of 0.49 percent during 1993 which amounted to \$1,697,000. The excess of investment income over administrative expenses was sufficient to result in a surplus of undistributed earnings as of December 31, 1993 after the distribution of excess interest and regular interest of 6.5 percent.

(D) Investments

Members of the Board are trustees of the System's assets. They have exclusive responsibility for the management of imposed by law upon fiduciaries.

The Board has authorized investments in U.S. government and agency securities, foreign government bonds denominated in U.S. dollars and rated "AAA," corporate bonds rated "A" or better, equity securities, and real estate

commingled funds allowing for equity participation. The Board specifically prohibits investments in commodities, mineral rights, and options. Additionally, short-selling and margin purchase transactions are prohibited.

The Board achieves day-to-day management of the investment portfolio through the use of investment advisors. Restrictions concerning diversification within each advisor and among advisors are provided by adopted investment policy.

The System invests in the Commonwealth of Pennsylvania Treasury Department's short-term cash management fund. The fund comprises various short-term investments, including repurchase agreements. Restrictions on these repurchase agreements are outlined below.

Repurchase agreements with nonbanking institutions are allowable if (a) the institution has a minimum of \$50 million in capital, (b) the collateral that is pledged to the Treasury is composed of U.S. government securities with a maturity of four years or less, (c) the collateral's market value equals or exceeds the amount invested by the Treasury, and (d) the collateral is delivered to Treasury's Book Entry Account at the Philadelphia Federal Reserve Bank.

Repurchase investments in banking institutions are subject to identical restrictions as those noted above for nonbanking institutions.

The System's investments are categorized below to give an indication of the level of risk assumed by the System at December 31, 1994. In accordance with a contractual relationship between the Commonwealth's Treasury Department and a custodial agent, substantially all investments subject to categorization are held in book entry form via a unique account so as to be identified at all times as the possession of the Commonwealth. Therefore, all such investments are reflected in Category 1, which is defined as investments which are insured or registered or securities held by the System or its agent in the System's name. Investments may also be categorized as Category 2, which is defined as investments which are uninsured and unregistered, with the securities held by the System's master custodian (bank) or agent in the System's master custodian (bank) or agent but not in the System's name. The System has no investments which would be classified in Categories 2 or 3. However, the System does have investments which are not in any of the three defined categories, because the securities are not used as evidence of the investment. Such investments are separately identified.

| Investments (Book Value) | Category 1 | Not Categorized | Total |
|--|---------------|-----------------|---------------|
| U.S. government and agency bonds (market value \$113,227,495) | \$114,534,128 | \$ 0 | \$114,534,128 |
| Corporate bonds and notes (market value \$20,952,633) | 21,022,026 | 0 | 21,022,026 |
| Common and preferred stocks (market value \$251,468,924) | 236,865,105 | 0 | 236,865,105 |
| Real estate mutual funds (market value \$42,196,008) | 0 | 48,021,033 | 48,021,033 |
| State Treasury short-term investment fund (market value \$17,622,000) | 0 | 17,622,000 | 17,622,000 |
| Total (market value \$445,467,060) | \$372,421,259 | \$65,643,033 | \$438,064,292 |

Financial Section

Notes to Financial Statements (Continued)

Investments that represented 5 percent or more of the plan's net assets at December 31, 1994 and 1993 were:

| Security | Rate | Due Date | Book Value | Market Value |
|---|----------|----------|--------------|-----------------|
| 1994 | | | | Burnette mer de |
| Prudential Real Estate Investors (PRISA) | Variable | Variable | \$28,943,961 | \$ 23,130,526 |
| State Street Index Fund | Variable | Variable | \$96,182,820 | \$102,577,013 |
| 1993 | | | | |
| Prudential Real Estate Investors (PRISA) | Variable | Variable | \$27,125,751 | \$ 22,937,419 |
| State Street Index Fund | Variable | Variable | \$98,461,768 | \$109,070,931 |

(E) Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. This measure is the actuarial present value of credited projected benefits and is intended to (a) help users assess the System's funding status on a going-concern basis, (b) assess progress being made in accumulating sufficient assets to pay benefits when due, and (c) allow for comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the System.

The pension benefit obligation which was determined for the most recent actuarial valuation, dated January 1, 1994, was done so in compliance with GASB Statement No. 5. Significant actuarial assumptions used include (a) a 7.0 percent discount rate per year (assumed net rate of return on the investment of present and future assets) compounded annually, (b) projected salary increases of 5.5 percent per year compounded annually comprised of 5.0 percent increases for inflation and 0.5 percent increases for merit/seniority, (c) post-retirement cost-of-living increases of 5 percent per annum until maximum is reached (optional in contracts), and (d) pre- and post-retirement mortality based on the 1971 Group Annuity Mortality Table set back 0 years for males, 6 years for females, and disability set forward 5 years.

The System's assets in excess of the pension benefit obligation were as follows at January 1:

| | Benefit Information Dat | |
|---|-------------------------|-----------------|
| Pension benefit obligation: | January 1, 1994 | January 1, 1993 |
| Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits Current employees | \$128,996,500 | \$115,232,000 |
| Accumulated employee contributions including allocated investment income | 89,611,100 | 84,581,000 |
| Employer-financed vested | 133,820,300 | 128,253,600 |
| Employer-linanced nonvested | 26,210,600 | 25,025,500 |
| I otal pension benefit obligation | 378,638,500 | 353,092,100 |
| Net assets available for benefits, at cost (market value is \$437,716,293 in 1994 and \$385,145,708 in 1993) | 395,643,341 | 346,811,732 |
| Unfunded (assets in excess of) pension benefit obligation | \$(17,004,841) | \$ 6,280,368 |

(F)

Relationships with Other Commonwealth Agencies

Responsibility for the organization and administration of the System is vested in the eleven-member Pennsylvania Municipal Retirement Board. The State Treasurer and the Secretary of the Commonwealth serve on the Board by virtue of statute. Eight Board members are also appointed by the Governor after being nominated by their respective organizations. One member each represents the Chiefs of Police Association, Pennsylvania League of Cities, Pennsylvania Municipal Authorities Association, Pennsylvania State Association of Boroughs, Pennsylvania State Association of County Commissioners, Pennsylvania State Association of Township Commissioners, Pennsylvania State Association of Township Supervisors, and the Pennsylvania State Fire Fighters Association. In addition, one Board position is filled by a retired member of the Pennsylvania Municipal Retirement System. Interested individuals submit an application, and then the Governor appoints someone from the list of applicants.

The System is not included as a component unit of the Commonwealth of Pennsylvania for financial reporting purposes because the System is not financially accountable to the Commonwealth as there is no imposition of will, no financial benefit/burden, nor fiscal dependency associated with the System toward the Commonwealth.

(G) Litigation and Contingencies

The System is subject to various threatened and pending lawsuits which generally deal with issues concerning upgrading of benefits. Management does not anticipate that the ultimate liability arising from such litigation and threats of litigation will have a material effect on the financial statements of the System.

(H) Plan Termination

Member municipalities may withdraw from the System if the conditions for withdrawal under the Act have been met. Requirements include a minimum of five years of membership and approval of the Board. In the event of withdrawal, a municipality is entitled to receive a net refund of the amount then standing to the credit of the municipality in the municipal account, the member employees' account, and the retired members' reserve account. In no event shall the municipality refund exceed the pro rata interest of the withdrawing municipality in the net assets of the entire fund based on market value of the fund investments. Liability for any continuation of retirement or disability benefits being paid from the System shall attach to the withdrawing municipality.

(I)

Historical Trend Information

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay pension benefits when due is presented immediately following the Notes to Financial Statements in Schedules 1 and 2.

Schedule 1 Analysis of Funding Progress for Last 8 Years

| t by vitere of | (1) | (2) | (3) | (4) | (5) | (6) |
|---------------------------|--|----------------------------------|---------------------------------|--|------------------------------|---|
| Valuation as of 1/1 | Net Assets Available for Benefits at Cost | Pension Benefit Obligation | Percentage Funded (1)÷(2) | Unfunded (Assets in Excess of) Pension Obligation (2)–(1) | Annual Covered Payroll | Unfunded (Assets in Excess of) Pension Obligation as % of Covered Payroll (4)÷(5) |
| 1994 | \$395,643,341 | \$378,638,500 | 104.5% | \$(17,004,841) | \$205,576,600 | (8.3%) |
| 1993 | 346,811,732 | 353,092,100 | 98.2% | 6,280,368 | 199,520,300 | 3.1% |
| 1992 | 308,188,187 | 306,891,400 | 100.4% | (1,296,787) | 183,077,135 | (0.7%) |
| 1991 | 280,860,370 | 276,842,300 | 101.5% | (4,018,070) | 169,014,027 | (2.4%) |
| 1990 | 259,678,437 | 242,959,900 | 106.9% | (16,718,537) | 154,392,434 | (10.8%) |
| 1989 | 233,842,678 | 227,907,400 | 102.6% | (5,935,278) | 148,709,536 | (4.0%) |
| 1988 | 215,563,330 | 227,201,900 | 94.9% | 11,638,570 | 139,935,278 | 8.3% |
| 1987 | 175,901,000 | 208,149,600 | 84.5% | 32,248,600 | 132,969,603 | 24.3% |

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded (assets in excess of) pension obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension obligation provides one indication of funding status on a going-concern basis. Analysis of this percentage over time indicates whether the fund is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the pension fund. Trends in unfunded (assets in excess of) pension obligation as a percentage of annual covered payroll approximately adjust for the effects of inflation and aid analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the pension fund.

* Data is unavailable prior to 1987.

Schedule 2[°] Revenues by Source and Expenses by Type for Last 10 Years

Revenues by Source

| Fiscal Year | Member Contributions | Municipal Contributions ⁽¹⁾ | Municipal Assessments ⁽²⁾ | Investment Income ⁽³⁾ | Total Revenue |
|----------------|-------------------------|---|---|-------------------------------------|------------------|
| 1994 | \$8,692,966 | \$20,803,673 | \$212,360 | \$35,856,385 | \$65,565,384 |
| 1993 | 8,005,897 | 17,393,710 | 213,540 | 45,673,490 | 71,286,637 |
| 1992 | 7,691,304 | 17,455,364 | 205,900 | 30,442,797 | 55,795,365 |
| 1991 | 7,049,195 | 14,175,058 | 200,520 | 25,317,942 | 46,742,715 |
| 1990 | 6,511,819 | 13,609,021 | 195,460 | 17,379,987 | 37,696,287 |
| 1989 | 5,983,693 | 17,457,290 | 198,460 | 20,488,089 | 44,127,532 |
| 1988 | 5,630,152 | 13,657,999 | 192,800 | 14,620,070 | 34,101,021 |
| 1987 | 5,570,496 | 24,008,631 | 181,920 | 25,445,009 | 55,206,056 |
| 1986 | 5,419,728 | 15,486,732 | 198,655 | 26,648,239 | 47,753,354 |
| 1985 | 5,007,502 | 13,578,542 | 185,743 | 12,528,442 | 31,300,229 |

(1) Contributions were made in accordance with actuarially determined contribution requirements.

(2) Municipal assessments are receipts but not assets of the plans.

(3) The investment income does not include any unrealized gains or losses resulting from changes in market movements in the System's portfolio.

Expenses by Type

| Sector 1 | An operation of a strength of | Administrati | | |
|----------------|-------------------------------|-------------------------|----------------------------------|-------------------|
| Fiscal Year | Total Benefit Expenses | Operational Expenses | Investment Management Fees | Total Expenses |
| 1994 | \$16,936,489 | \$1,519,615 | \$1,125,383 | \$19,581,487 |
| 1993 | 20,093,174 | 1,299,410 | 1,062,444 | 22,455,028 |
| 1992 | 14,912,545 | 1,300,173 | 959,102 | 17,171,820 |
| 1991 | 17,456,476 | 1,169,439 | 788,983 | 19,414,898 |
| 1990 | 14,723,270 | 1,132,739 | 658,345 | 16,514,354 |
| 1989 | 16,570,180 | 1,129,091 | 592,502 | 18,291,773 |
| 1988 | 14,360,550 | 923,046 | 538,077 | 15,821,673 |
| 1987 | 13,917,366 | 943,489 | 541,004 | 15,401,859 |
| 1986 | 12,568,611 | 794,026 | 499,771 | 13,862,408 |
| 1985 | 6,733,542 | 836,823 | 323,843 | 7,894,208 |

Schedule 2 is continued on the next page.

Financial Section

Schedule 2 (Continued)

Expenses by Type (Continued)

Benefit Expenses

| Fiscal Year | Annuity Benefits | Disability Benefits | Terminations | Total Benefit Expenses |
|----------------|---------------------|------------------------|--------------|---------------------------|
| 1994 | \$13,432,442 | \$851,135 | \$2,652,912 | \$16,936,489 |
| 1993 | 12,144,279 | 760,676 | 7,188,219 | 20,093,174 |
| 1992 | 11,288,793 | 658,263 | 2,965,489 | 14,912,545 |
| 1991 | 10,438,173 | 592,732 | 6,425,571 | 17,456,476 |
| 1990 | 8,992,091 | 632,732 | 5,098,447 | 14,723,270 |
| 1989 | 8,365,751 | 659,164 | 7,545,265 | 16,570,180 |
| 1988 | 7,406,401 | 489,130 | 6,465,019 | 14,360,550 |
| 1987 | 6,332,690 | 395,846 | 7,188,830 | 13,917,366 |
| 1986 | 6,021,055 | 341,426 | 6,206,130 | 12,568,611 |
| 1985 | 4,887,994 | 341,246 | 1,504,302 | 6,733,542 |

Schedule 3 Administrative Expenses Comparative Two-Year Schedule Years Ended December 31, 1994 and 1993

| | 199 | 4 | 1993 | |
|--------------------------------|-------------|--|-------------|----------------|
| | Actual | Budget | Actual | Budget |
| Personnel costs: | | | | |
| Salaries and wages | \$ 608,013 | | \$ 555,270 | |
| Social security contributions | 44,942 | | 42,152 | |
| Retirement contributions | 45,224 | | 42,565 | |
| Insurance contributions | 106,677 | | 143,880 | |
| Other employee benefits | 4,388 | <u>s </u> | 3,422 | Corporal |
| Total personnel costs | 809,244 | \$ 887,700 | 787,289 | \$ 851,211 |
| Professional costs: | | | | |
| Performance evaluation | 37,000 | | 33,250 | |
| Actuarial | 192,260 | | 201,481 | |
| Data processing | 8,774 | | 8,076 | |
| Audit | 20,000 | | 20,000 | |
| Legal | 67,285 | | 30,240 | |
| Security movement & control | 10,429 | | 9,735 | |
| Investment advisors | 1,125,383 | | 1,062,444 | |
| Miscellaneous professional | 92,588 | | 41,797 | |
| Total professional costs | 1,553,719 | 1,580,133 | 1,407,023 | 1,464,444 |
| Communication costs: | | | | |
| Printing | 30,378 | | 17,412 | |
| Telephone | 21,438 | | 9,798 | |
| Postage | 30,920 | | 30,541 | |
| Travel | 18,074 | | 13,512 | |
| Advertising | 2,208 | na the feel fai | 998 | ACCOUNTY STORE |
| Total communication costs | 103,018 | 74,300 | 72,261 | 78,750 |
| Other services and charges: | | | | |
| Office space rental | 121,683 | | 54,125 | |
| Equipment leasing | 6,277 | | 5,069 | |
| Supplies | 20,154 | | 8,666 | |
| Maintenance | 1,205 | | 3,745 | |
| Bonding & insurance | 1,065 | | 940 | |
| Dues & subscriptions | 1,806 | \$1.571.9 | 1,577 | RealDistate |
| Total other services & charges | 152,190 | 144,900 | 74,122 | 78,400 |
| Depreciation | 26,827 | | 21,159 | laib P.Y. |
| Total administrative expenses | \$2,644,998 | \$2,687,033 | \$2,361,854 | \$2,472,805 |

Schedule 4 Investment Summary Year Ended December 31, 1994

January 1, 1994

| tephuli InutoA tep | | | a suran a |
|---------------------------------|---------------|---------------|--|
| Type of Investment | Book Value | Market Value | Purchases |
| Corporate and government bonds: | | | nga kantang ang ing 2 Ingg Yinggang ingg 2 Kangg Bangarang |
| U.S. Government bonds | \$103,507,214 | \$116,383,328 | \$ 52,054,753 |
| Corporate bonds | 21,022,026 | 23,761,968 | 0 |
| Total bonds | 124,529,240 | 140,145,296 | 52,054,753 |
| Common stock | 212,679,124 | 243,861,584 | 136,423,500 |
| Real estate equity | 46,202,824 | 41,477,260 | 1,818,209 |
| Cash equivalents | 8,957,000 | 8,957,000 | 104,380,000 |
| Total investments | \$392,368,188 | \$434,441,140 | \$294,676,462 |

Investment Summary (Continued) Year Ended December 31, 1993

January 1, 1993

| | | pout f |
|-----------------------------|---|---|
| Book Value | Market Value | Purchases |
| 100.001 | alion costs | |
| \$ 81,576,545 30,152,768 | \$ 92,394,666 33,050,414 | \$ 74,948,607 5,015,050 |
| 111,729,313 | | 79,963,657 |
| 175,371,680 | 206,072,120 | 131,188,402 |
| 49,270,251 | 43,188.020 | 1,619,029 |
| 12,870,000 | 12,870,000 | 103,782,000 \$316,553,088 |
| | Book Value \$ 81,576,545 30,152,768 111,729,313 175,371,680 49,270,251 | Book Value Market Value \$ 81,576,545 \$ 92,394,666 30,152,768 33,050,414 111,729,313 125,445,080 175,371,680 206,072,120 49,270,251 43,188,020 12,870,000 12,870,000 |

Schedule 4 Investment Summary (Continued) Year Ended December 31, 1994

December 31, 1994

| Sales and | | | % of Total |
|---------------|---------------|---------------|--------------|
| Redemptions | Book Value | Market Value | Market Value |
| | | | |
| \$ 41,027,839 | \$114,534,128 | \$113,227,495 | 25% |
| 0 | 21,022,026 | 20,952,633 | 5 |
| 41,027,839 | 135,556,154 | 134,180,128 | 30% |
| 112,237,519 | 236,865,105 | 251,468,924 | 56% |
| 0 | 48,021,033 | 42,196,008 | 10% |
| 95,715,000 | 17,622,000 | 17,622,000 | 4% |
| \$248,980,358 | \$438,064,292 | \$445,467,060 | 100% |

Investment Summary (Continued) Year Ended December 31, 1993

| December 31, 1993 | | | | | |
|-----------------------------|-----------------------------|-----------------------------|----------------------------|--|--|
| Sales and Redemptions | Book Value | Market Value | % of Total Market Value | | |
| | | | | | |
| \$ 53,017,938 14,145,792 | \$103,507,214 21,022,026 | \$116,383,328 23,761,968 | 27% 5 | | |
| 67,163,730 | 124,529,240 | 140,145,296 | 32% | | |
| 93,880,958 | 212,679,124 | 243,861,584 | 56% | | |
| 4,686,456 | 46,202,824 | 41,477,260 | 10% | | |
| 107,695,000 | 8,957,000 | 8,957,000 | 2% | | |
| \$273,426,144 | \$392,368,188 | \$434,441,140 | 100% | | |

Senedule3

Kast Beded Degember 21: 1994

December & Less

% of Total

Anveshment skienmann (Consoned Men: Skied December 21, 1983

Celebra be decine age C

| aroonal haropathenes | | |
|----------------------|--|--|

ACTUARIAL SECTION

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- Membership Data Active Members Retired Members
- Summary of Accrued and Unfunded Accrued Liabilities
- Solvency Test
- Schedule of Contribution Requirements vs. Actual Contributions
- Analysis of Financial Experience

Actuary's Certification Letter

THE SEGAL COMPANY

April 25, 1995

PENNSYLVANIA MUNICIPAL RETIREMENT SYSTEM

1920 N Street, N.W. Suite 500 Washington, DC 20036-1601 202-833-6400 FAX: 202-833-6490

Certificate of Actuarial Valuation

This is to certify that we have prepared an annual actuarial valuation of the entire System as of January 1, 1994, in accordance with generally accepted actuarial principles and practices.

This certificate includes the following attached exhibits:

| EXHIBIT | Ι | - | Pension Benefit Obligation |
|---------|----|----|--|
| EXHIBIT | п | - | Actuarial Present Value of Accumulated Plan Benefits |
| EXHIBIT | ш | | Actuarial Assumptions |
| EXHIBIT | IV | ×- | Actuarial Methods |

Individual municipality actuarial valuation results as of January 1, 1994, have been provided separately for 16 plans sponsored by distressed municipalities and 4 plans sponsored by counties which are required to redetermine contribution levels as of January 1, 1994 under applicable Commonwealth Statutes (Act 205 and Act 293). We have calculated (1) the unfunded liability; (2) the amortization required; and (3) the normal cost as a percentage of payroll. State law delegates to the governing authority the determination of payroll which is to be applied to the normal cost percentage. Other municipalities have been included in the actuarial results reported in this certificate, but individual plan funding requirements were not redetermined; contribution requirements for such municipalities are determined on a biennial basis, most recently as of January 1, 1993.

The valuation was based on information supplied by the System's auditor with respect to assets, and by the System's administrative staff with respect to reserve accounts; age, service and compensation of employees; and age, benefit form and amount for inactive participants and pensioners. We have not verified and customarily would not verify such information, but we have examined the data for reasonableness and have no reason to doubt its substantial accuracy. The actuarial assumptions employed in this valuation were adopted by the Pennsylvania Municipal Retirement Board with the recommendation of the actuary.

To the best of my knowledge, the information supplied in this actuarial certificate is complete and accurate, and in my opinion the assumptions used in the aggregate are reasonably related to the experience of the various plans and to reasonable expectations of anticipated experience.

Eli Greenblum, A.S.A., M.A.A.A. Vice President & Actuary Enrolled Actuary No. 93-3636

EG:vm Attachments

Atlanta Boston Chicago Cleveland Denver Edmonton Hartford Houston Los Angeles Minneapolis New Orleans New York Phoenix San Francisco Seattle Toronto Washington, D.C. West Palm Beach



Multinational Group of Actuaries and Consultants Antwerp Hamburg London Lausanne Osio Paris

Actuary's Certification Letter (Continued)

Exhibit I Pension Benefit Obligation

The value of the pension benefit obligation required for disclosure by Statement No. 5 of the Governmental Accounting Standards Board is shown below as of January 1, 1994 and, for comparative purposes, as of January 1, 1993.

| | Benefit Info | rmation Date |
|--|-----------------|-----------------|
| Pension benefit obligation: | January 1, 1994 | January 1, 1993 |
| Participants currently receiving benefits and terminated employees not yet receiving benefits | \$128,996,500 | \$115,232,000 |
| Current employees | | |
| Accumulated employee contributions including allocated investment income | 89,611,100 | 84,581,000 |
| Employer-financed vested | 133,820,300 | 128,253,600 |
| Employer-financed nonvested | 26,210,600 | 25,025,500 |
| Total pension benefit obligation | \$378,638,500 | \$353,092,100 |

The actuarial assumptions are shown in Exhibit III. The above information was derived from the following membership data, as provided by PMRS, regarding 531 defined benefit plans and 55 defined contribution-only plans as of January 1, 1994:

| a. Retirees currently receiving benefits | |
|--|---|
| b. Beneficiaries currently receiving benefits | |
| c. Terminated vested employees entitled to | future benefits - defined benefit plans 152 |
| d. Terminated nonvested employees entitle | d to contribution refunds - defined benefit plans |
| e. Active employees in defined benefit plan | s with aggregate salary of \$198,826,000 |
| i. vested | |
| ii. nonvested | |
| f. Participants in defined contribution-only p | plans with aggregate salary of \$6,750,600 |
| i. active vested | |
| ii. inactive vested | |

Actuary's Certification Letter (Continued)

Exhibit II

Actuarial Present Value of Accumulated Plan Benefits

The actuarial present value of accumulated Plan benefits, calculated in conformance with FASB Statement No. 35, is shown below as of January 1, 1994 and, for comparative purposes, as of January 1, 1993.

| | Benefit Infor | mation Date |
|--|-----------------|-----------------|
| | January 1, 1994 | January 1, 1993 |
| Actuarial present value of accrued vested benefits: | | |
| Participants currently receiving benefits | \$121,495,600 | \$108,435,700 |
| Other vested benefits | 162,910,400 | 156,380,800 |
| Total vested benefits | \$284,406,000 | \$264,816,500 |
| Actuarial present value of nonvested accumulated plan benefits | 18,814,600 | 17,883,500 |
| Total actuarial present value of accumulated plan benefits | \$303,220,600 | \$282,700,000 |

The amounts shown above have been calculated in accordance with Interpretations 1 and 2 promulgated by the Actuarial Standards Board for calculating such values. The actuarial assumptions used are as shown in Exhibit III.

The factors which affected the change in the actuarial present value of accumulated Plan benefits from the preceding to the current benefit information date are as follows:

| Factor | Change in Actuarial Present Value of Accumulated Plan Benefits |
|--|--|
| Withdrawn municipalities | \$ (2,535,100) |
| Newly entered municipalities | 3,197,900 |
| Benefits accumulated, net experience gain or loss, changes in data, upgrades | 16,182,700 |
| Benefits paid (including contribution refunds) | (15,441,000) |
| Interest | 19,116,100 |
| Total | \$20,520,600 |

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Actuary's Certification Letter (Continued)

Exhibit III Actuarial Assumptions

The following actuarial assumptions were first adopted by the Board (upon advice of the actuary) for the January 1, 1987 actuarial valuation:

Mortality rates: 1971 Group Annuity Mortality Table for Males, with ages set back 6 years for females

Disability mortality: Mortality under stipulated table for a healthy life 5 years older

The following chart presents life expectancies that result from the application of the 1971 Group Annuity Mortality Table for Males for healthy lives aged 55 to 75.

| Age | | Years | A | ge | Years |
|------|-------------|-------|------|--------|---------------|
| Male | Male Female | | Male | Female | ring 2.2 pint |
| 55 | 61 | 22.7 | 66 | 72 | 14.4 |
| 56 | 62 | 21.9 | 67 | 73 | 13.8 |
| 57 | 63 | 21.1 | 68 | 74 | 13.1 |
| 58 | 64 | 20.3 | 69 | 75 | 12.5 |
| 59 | 65 | 19.5 | 70 | 76 | 11.9 |
| 60 | 66 | 18.8 | 71 | 77 | 11.3 |
| 61 | 67 | 18.0 | 72 | 78 | 10.8 |
| 62 | 68 | 17.3 | 73 | 79 | 10.3 |
| 63 | 69 | 16.5 | 74 | 80 | 9.7 |
| 64 | 70 | 15.8 | 75 | 81 | 9.2 |
| 65 | 71 | 15.1 | | | |

Expected Number of Years of Life Remaining

Termination rates before retirement: For municipal plans with 50 or more active members, the termination rates indicated below were used; for municipalities with between 11 and 49 members, a percentage of the indicated rates was used where such percentage equalled 100 percent less 2.5 percent times (50 – number of members); for municipalities with 10 or fewer members, no terminations were assumed.

| | reminatio | And the second se | | |
|--------------------------------|-------------------|---|------------------------------------|--|
| and the second second second | Ra | te of Termination (%) | er testnisten og herholdet setet i | |
| | Uniformed Members | Municipal Members | | |
| Years of Service | Male and Female | Male | Female | |
| fewer than 1 | 15.0% | 18.0% | 24.0% | |
| 1 but fewer than 2 | 15.0 | 13.0 | 18.0 | |
| 2 but fewer than 3 | 15.0 | 11.0 | 17.0 | |
| 3 but fewer than 4 | 15.0 | 10.0 | 16.0 | |
| 4 but fewer than 5 | 15.0 | 9.0 | 15.0 | |
| 5 but fewer than 6 | 12.0 | 8.0 | 13.0 | |
| 6 but fewer than 7 | 10.0 | 7.0 | 11.0 | |
| 7 but fewer than 8 | 7.0 | 6.0 | 9.0 | |
| 8 but fewer than 9 | 5.0 | 5.0 | 7.0 | |
| ⁹ but fewer than 10 | 3.0 | 4.0 | 5.0 | |
| 10 or more | 0.0 | 0.0 | 0.0 | |

Termination Rates Before Retirement

Actuary's Certification Letter (Continued)

Disability rates: Rates are equal to 50 percent of the rates set forth in the 1964 OASDI (Social Security) Experience for Males. Sample rates are as follows:

| Age | Rate of Disablement |
|-----|---------------------|
| 25 | 0.043% |
| 35 | 0.074 |
| 45 | 0.180 |
| 55 | 0.504 |
| 65 | 1.160 |

| | isability | Rate As | sumptions |
|---|-----------|---------------------------------------|-----------|
| - | Sabill | I I I I I I I I I I I I I I I I I I I | Sumptions |

Salary scale: 5.5 percent per year (5.0 percent inflation and 0.5 percent merit/seniority)

Retirement age: Members are assumed to retire no earlier than the age at which unreduced benefits are available. Specific assumptions regarding retirement age are as follows:

| Uniforme | ed Members | Municipal Members ⁽¹⁾ | | | |
|--------------------------------------|---|----------------------------------|--|--|--|
| age first eligible ⁽²⁾ | projected age, if retirement age eligible ⁽²⁾ | | projected rate of normal retirement | | |
| 56 (or younger) | 3 years after first eligible | 60 (and younger) | 5.0% | | |
| 57-59 | 60 | 61-63 | 7.5% | | |
| 60 (or older) | at first eligibility | 64-69 | 30.0% | | |
| Contraction of Accession | to toornam (SE) sants atsten | 70 | 100.00% | | |

Retirement Age Assumptions

(1) Members are assumed to retire over a range of ages. The probability that a member retires at a given age (if still active and eligible for unreduced benefits at that age) is shown in the chart.

(2) Rates apply only if member is eligible for unreduced benefits (no early retirement assumed).

(3) Rates indicated are adjusted by adding 5 percent for the year in which the member is first eligible for normal retirement.

Post-retirement cost-of-living increases*: 5 percent per annum until maximum is reached (optional in contracts)

Marital status and spouse's age*: 85 percent of members married at time of retirement; wives 4 years younger than their husbands

- Social Security*: (a) The Social Security Taxable Wage Base will increase by 5.5 percent compounded annually.
 - (b) The Consumer Price Index will increase by 5 percent compounded annually.
 - (c) The average total wages of all workers will increase by 5.5 percent compounded annually.

Net investment return: 6.5 percent compounded annually (net of investment and certain administration expenses) for funding purposes; 7.0 percent compounded annually (net of investment expenses) for calculation of values intended to comply with GASB Statement No. 5 and FASB Statement No. 35.

* If applicable

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Actuary's Certification Letter (Continued)

Exhibit IV Actuarial Methods

Contribution requirements are individually determined for each participating municipality on an actuarial basis at least biannually as described below. The frequency of actuarial valuation is determined by applicable Commonwealth statute (Act 205 and Act 293). The following actuarial methods were adopted effective January 1, 1985, unless indicated otherwise.

Actuarial Value of Assets (adopted effective January 1, 1985; modified January 1, 1991)

The actuarial value of assets is the sum of all audited reserve accounts as of the valuation date including member, municipal, retired, and disability reserves, and a one-year administration expense reserve, *plus* the portion of any additional investment income (beyond the "regular" rate of 6.5 percent) to be distributed as "excess interest." The actuarial value can never be less than 90 percent of market value.

Each year, municipalities may receive an excess interest allocation derived as a portion of new surplus created during the year. "Surplus" refers to the excess of market value over the actuarial value of assets. Once the preliminary actuarial asset value has been determined, a formula⁽¹⁾ is used to allocate the new surplus based on the prior year's investment experience. Generally, depending on the relative size of surplus to market value, between 10 percent and 90 percent of new surplus will become excess interest. For the year ended December 31, 1993, the portion of new surplus allocated to excess interest was 66.33 percent, resulting in an excess interest allocation of 3.93 percent of eligible reserve accounts.

Actuarial Cost Method — Entry Age Normal Actuarial Cost Method

Entry age is defined as attained age less credited service. The normal cost rate is derived as a level percent of future compensation of current employees, on an individual basis. This rate is applied to the projected payroll, and projected employee contributions are deducted. Actuarial gains (or losses), including the effect of contributions greater or less than the previously determined actuarial level, are reflected by decreases (or increases) in the unfunded actuarial accrued liability. Under Act 205, the unfunded actuarial accrued liability is amortized as a level dollar amount⁽²⁾ over the lesser of:

(a) i. 30 years, with respect to the initial liability as of January 1, 1985 (or first valuation);

- ii. 20 years, with respect to changes due to plan provisions and actuarial assumptions;
- iii. 10 years, with respect to changes in benefits for currently retired members;

iv. 15 years, with respect to actuarial gains and losses; or

(b) the average assumed working lifetime of active employees as of the date the liability was established.

With the two exceptions which follow, the funding method is applied individually to each municipality:

Retired and disabled members are paid monthly benefits from the System's Retired Members' Reserve Account, which at the time of retirement receives a transfer from the municipal and member accounts in an amount actuarially determined to be sufficient to pay all future benefits for the member (and, if applicable, a surviving beneficiary). Thus, postretirement experience is pooled within the System. (However, this procedure does not apply to the legislated ad hoc adjustments which became effective January 1, 1989 for a segment of the retirees.)

A disabled member's pension is met in part from the amount that can be provided by the member's own accumulated contributions and from the amount that can be provided by the value of that portion of the member's accrued benefit attributable to municipal contributions, with the balance of the pension being provided by the appropriate transfer from the Disability Reserve Account. The amount of annual transfer from accumulated municipal contributions to the Disability Reserve Account is determined on the one year term cost basis (i.e., the expected cost of disabilities in the coming year).

⁽¹⁾ The portion of investment income to be distributed as excess interest is based on a complicated algebraic formula adopted by the Board with the advice of the System's actuary effective January 1, 1985.

⁽²⁾ In certain instances, distressed municipalities may use "level percent of payroll" amortization of the initial liability, where the assumed annual payroll increase is 4 percent.

Schedule of Active Member Valuation Data for Last 10 Years

| Valuation Date 1/1 | Number of Active Members | Percentage Change in Membership | Number of Participating Employers* | Percentage Increase in Number of Participating Employers | Total Annual Payroll | Percentage Increase in Payroll | Average Annual Salary | Percentage Increase in Average Annual Salary |
|-----------------------|--------------------------------|---------------------------------------|--|--|----------------------------|--------------------------------------|-----------------------------|--|
| 1994 | 7,329 | (2.1)% | 531 | 3.9% | \$198,826,000 | 2.6% | \$27,129 | 4.8% |
| 1993 | 7,487 | 2.0 | 511 | 4.9 | 193,837,800 | 9.1 | 25,890 | 6.9 |
| 1992 | 7,337 | 2.4 | 487 | 3.6 | 177,713,900 | 7.3 | 24,222 | 4.8 |
| 1991 | 7,165 | 4.6 | 470 | 2.6 | 165,660,300 | 9.4 | 23,121 | 4.6 |
| 1990 | 6,850 | (1.8) | 458 | 1.3 | 151,429,600 | 3.5 | 22,107 | 5.5 |
| 1989 | 6,979 | 1.3 | 452 | 4.2 | 146,262,900 | 5.8 | 20,958 | 4.4 |
| 1988 | 6,887 | 0.6 | 434 | 1.6 | 138,269,100 | 4.7 | 20,077 | 4.1 |
| 1987 | 6,847 | 3.1 | 427 | 1.9 | 132,103,400 | 8.9 | 19,294 | 5.6 |
| 1986 | 6,640 | 0.4 | 419 | - | 121,313,600 | 5.9 | 18,270 | 5.4 |
| 1985 | 6,612 | 6.7 | o anti — quante | a da - da un | 114,557,100 | 12.7 | 17,326 | 5.7 |

Defined Benefit Plans

* Information prior to 1986 is incomplete.

Defined Contribution Plans*

| Valuation Date 1/1 | Number of Active Members | Percentage Change in Membership | Number of Participating Employers | Percentage Increase in Number of Participating Employers | Total Annual Payroll | Percentage Increase in Payroll | Average Annual Salary | Percentage Increase in Average Annual Salary |
|-----------------------|--------------------------------|---------------------------------------|---|--|-------------------------|--------------------------------------|-----------------------------|--|
| 1994 | 319 | 16.4% | 55 | 10.0% | \$6,750,600 | 18.8% | \$21,162 | 2.0% |
| 1993 | 274 | 0.4 | 50 | 13.6 | 5,682,500 | 6.0 | 20,739 | 5.6 |
| 1992 | 273 | 44.4 | 44 | 37.5 | 5,363,235 | 44.5 | 19,646 | 0.0 |
| 1991 | 189 | 12.5 | 32 | 10.3 | 3,710,993 | 25.3 | 19,635 | 11.3 |
| 1990 | 168 | 23.5 | 29 | 26.1 | 2,962,834 | 21.1 | 17,636 | (2.0) |
| 1989 | 136 | 44.7 | 23 | 43.8 | 2,446,636 | 46.8 | 17,990 | 1.5 |
| 1988 | 94 | 80.8 | 16 | 60.0 | 1,666,178 | 92.3 | 17,726 | 6.4 |
| 1987 | 52 | 23.8 | 10 | 25.0 | 866,203 | 34.5 | 16,658 | 8.6 |
| 1986 | 42 | 200.0 | 8 | 100.0 | 644,044 | 293.9 | 15,334 | 31.3 |
| 1985 | 14 | | 4 | _ | 163,524 | _ | 11,680 | - |

* Prior to 1985, the System did not have defined contribution plans.

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Schedule of Retirees and Beneficiaries Added to and Removed from Rolls for Last 10 Years

| Valuation Date 1/1 | Added to Roll | Deleted from Roll | Number on Roll | Annual Annuities | Percentage Increase in Annuities | Average Annual Annuities | Percentage Increase in Average Annual Annuities |
|-----------------------|---------------------|-------------------------|----------------------|---------------------|---|--------------------------------|---|
| 1994 | 191 | 99 | 2,203 | \$13,057,600 | 12.0% | \$5,927 | 7.3% |
| 1993 | 211 | 171 | 2,111 | 11,659,400 | 11.5 | 5,523 | 9.4 |
| 1992 | 237 | 112 | 2,071 | 10,456,600 | 15.0 | 5,049 | 8.1 |
| 1991 | 167 | 85 | 1,946 | 9,091,927 | 12.7 | 4,672 | 8.0 |
| 1990 | 184 | 137 | 1,864 | 8,065,204 | 11.1 | 4,327 | 8.4 |
| 1989 | 137 | 59 | 1,817 | 7,255,404 | 9.0 | 3,993 | 4.3 |
| 1988 | 159 | 112 | 1,739 | 6,655,980 | 18.0 | 3,827 | 14.8 |
| 1987 | 133 | 54 | 1,692 | 5,639,460 | 7.8 | 3,333 | 2.8 |
| 1986* | 158 | 78 | 1,613 | 5,229,240 | 70.4 | 3,242 | 27.6 |
| 1985* | 468 | 23 | 1,533 | 3,068,138 | 21.4 | 2,540 | 9.3 |

Figures reflect the System's administration of the City of Harrisburg, Plan A retiree benefits, which began December 1984. Harrisburg, Plan A had 323 pensioners in 1986 and 325 in 1985. It officially joined the System in 1987; therefore, these figures are not included in the actuarial valuations.

Summary of Accrued and Unfunded Accrued Liabilities⁽¹⁾

When a new employer joins the System and credits prior service or an employer adopts a higher level of benefit, unfunded actuarial liabilities are often created. Under the Pennsylvania statutes (Act 205 of 1984, Municipal Pension Plan Funding Standard and Recovery Act), these additional liabilities, determined under the Entry Age Normal Actuarial Cost Method, must be financed over a period of future years.

Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Assets as a percentage of actuarial accrued liabilities provide a clearer picture of a plan's financial soundness. The larger the ratio of assets to actuarial accrued liabilities, the stronger the plan is. For purposes of the table below, both the assets and the actuarial liability exclude amounts applicable to retirees. The System's plans are at various stages of funding their actuarial liabilities. As of January 1, 1993, 247 of the defined benefit plans have completely funded the liability.

A distribution of the funding percentages is shown as of January 1, 1993.⁽²⁾ This calculation will only be available every two years. Therefore, the table below was presented in the System's 1993 report. Figures will change on January 1, 1995 and will appear in the 1995 Comprehensive Annual Financial Report.

Distribution of Plans Based on Assets as a Percentage of Accrued Liabilities⁽³⁾

| Assets as a % of Accrued Liability | Number of Municipalities with an Unfunded Accrued Liability (UAL) | Assets as a % of Accrued Liability | Number of Overfunded Municipalities |
|---------------------------------------|---|---------------------------------------|--|
| 0- 10% | 10 | 100 - 110% | 49 |
| 10 - 20 | 4 | 110 - 120 | 31 |
| 20 - 30 | 8 | 120 - 130 | 31 |
| 30 - 40 | 7 | 130 - 140 | 15 |
| 40 - 50 | 17 | 140 - 150 | 21 |
| 50 - 60 | 23 | 150 - 160 | 12 |
| 60 - 70 | 28 | 160 - 180 | 21 |
| 70 - 80 | 38 | 180 - 200 | 10 |
| 80 - 90 | 44 | 200 - 250 | 16 |
| 90 - 100 | 53 | 250 - 300 | 10 |
| | Total 232 | 300 - 400 | 7 |
| | | 400 - 500 | 7 |
| | | 500 - 600 | 3 |
| | | 600 - 700 | 3 |
| | | 700 - 800 | 2 |
| | | 800 - 1,000 | 5 |
| | | 1,000 or higher | 4 |
| | | | Total 247 |

⁽¹⁾ Due to the unique nature of the System and wide range of funding for member municipalities, it would be misleading to present the Summary of Accrued and Unfunded Accrued Liabilities for the System as a whole. The System's plans are at various stages of funding their individual actuarial liabilities. Therefore, to give a true picture of the System, the summary would need to include each individual municipality's aggregate accrued liabilities, valuation assets, unfunded accrued liabilities, etcetera. Grouping all plans together would create a skewed picture.

(2) Thirty-two municipalities are not included in the table because they (a) do not have an actuarial accrued liability, (b) are new plans and therefore have no assets, or (c) have a negative asset balance as a result of transfers to the Retired Members' Reserve Account.

⁽³⁾ "Accrued liabilities" refers to actuarial accrued liabilities computed under the Entry Age Normal Actuarial Cost Method.

Solvency Test

A short term solvency test, which is one means of determining a system's progress under its funding program, compares the plan's present assets with

1. active member contributions on deposit,

- 2 the liabilities for future benefits to present retired lives⁽¹⁾, and
- 3. the pension benefit obligation for service already rendered by active members.

In a system that has been following the level percent of payroll financing discipline, the obligation for active member contributions on deposit (Item A) and the liabilities for future benefits to present retired lives⁽¹⁾ (Item B) will be fully covered by present assets with the exception of rare circumstances. The obligation for service already rendered by active members (Item C) will be partially covered by the remainder of present assets. If the system has been using level cost financing, the funded portion of Item C usually will increase over a period of time. Item C being fully funded is rare.

| | | Aggregate Pensio | on Benefit Obligation | ı | | | |
|---|--------------|---|-----------------------|---|------|------|------|
| Valuation Member and Date 1/1 Contributions Beneficiaries | | ctive Retirees (Employer ember and Financed Valuation | | Portion of Pension Benefit Obligation Covered by Assets | | | |
| | | | | | (A) | (B) | (C) |
| 1994 | \$89,611,100 | \$128,996,500 | \$160,030,900 | \$406,894,000 | 100% | 100% | 100% |
| 1993 | 84,581,000 | 115,232,000 | 153,279,100 | 361,937,000 | 100 | 100 | 100 |
| 1992 | 73,417,500 | 101,258,300 | 132,215,600 | 328,344,000 | 100 | 100 | 100 |
| 1991 | 67,933,000 | 86,809,100 | 122,100,200 | 285,794,000 | 100 | 100 | 100 |
| 1990 | 56,830,900 | 77,511,000 | 108,618,000 | 261,602,000 | 100 | 100 | 100 |
| 1989 | 53,066,400 | 71,471,600 | 103,369,400 | 222,990,182 | 100 | 100 | 95 |
| 1988 | 50,170,000 | 64,173,400 | 112,858,400 | 199,861,934 | 100 | 100 | 76 |
| 1987 ⁽³⁾ | 45,417,700 | 54,469,200 | 108,262,700 | 172,797,162 | 100 | 100 | 67 |

[®]Includes terminated employees not yet receiving benefits

[®]Includes allocated excess investment monies which potentially could create an additional pension benefit obligation (Amount is approximately \$15.0 million at January 1, 1994.)

[®] Information prior to 1987 unavailable

Schedule of Contribution Requirements vs. Actual Contributions

The Pennsylvania Municipal Retirement System is an agent multiple-employer system with separate rates of contribution for each employer. Therefore, it is not practical to include a Schedule of Recommended vs. Actual Contributions. Because of the multitude of plans and required contributions ranging from 0 percent to above 100 percent of covered payroll, we list the ranges of total employer contribution requirements upon which the defined benefit plans were billed for 1994, based on individual plan actuarial valuations conducted as of January 1, 1991.

| Percentage of Payroll | Number of Employers |
|-----------------------|------------------------|
| 0 - 5% | 113 |
| 5-10 | 207 |
| 10 - 15 | 131 |
| 15 - 20 | 56 |
| 20 - 30 | 15 |
| 30 - 40 | 1 |
| 40 - 50 | 3 |
| 50 - 100 | 4 |
| above 100 | 1 |
| | Total 531 |

Range of Total Employer Contribution Requirements

Under Pennsylvania law (Act 205 of 1984 as amended) the required funding levels are jointly determined by the actuary of the System and the plan's governing board prior to the beginning of each plan year, based on the most recently completed actuarial valuation. The process involves the governing body applying the prior year's projected payroll times the actuarially determined normal cost percentage and adding the projected administrative costs and amortization payments toward the unfunded actuarial liability, required under a legislatively pre-established amortization schedule. Credit is given for 10 percent of the amount of any actuarial surplus. The aggregate employer funding required for defined benefit plans in 1994 was \$15,786,187. The actual funding received for 1994 was \$20,803,673. Differences between the municipalities' required and actual contributions are due to (1) the municipalities transferring state aid money to the System as required under the Municipal Pension Plan Funding Standard and Recovery Act of 1984 (Act 205) in amounts either more or less than anticipated, (2) the addition or deletion of new plans during the year, and/ or (3) plan sponsors seeking to reduce their unfunded liabilities over a shorter period of time than required under the amortization schedule.

Analysis of Financial Experience

The System does not conduct an extensive experience study by individual plan because the magnitude of any change in plans of average size becomes misleading and irrelevant. A comprehensive experience study is performed once every five years on the overall assumptions used by the System, but this data is not relevant to individual plan experience.

STATISTICAL SECTION

• Financial

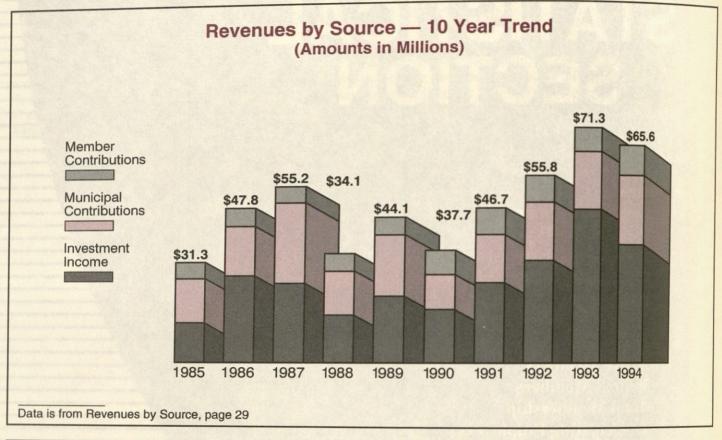
Revenues by Source Expenses by Type Revenues vs. Expenses Components of Total Revenues and Expenses Total Assets

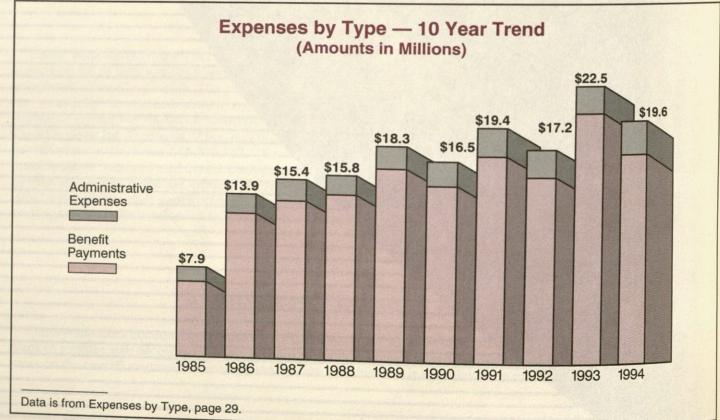
• Membership

Active Members Retired Members Total Membership Participating Employers

Statistical Section

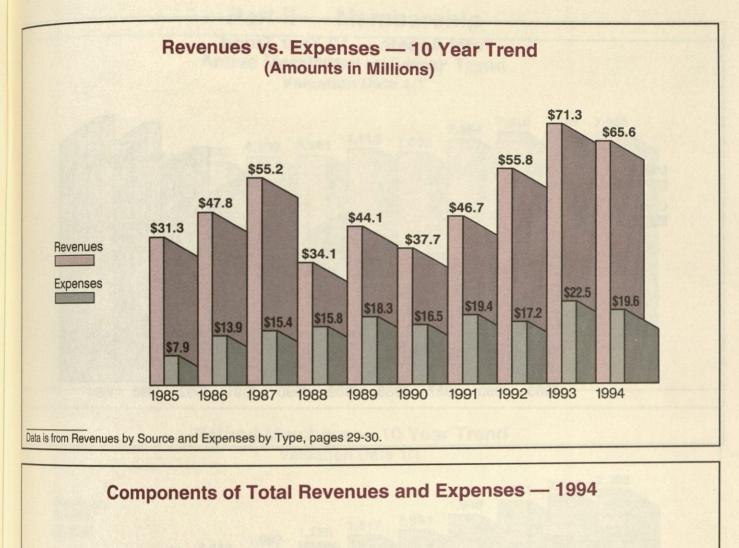
Part I — Financial

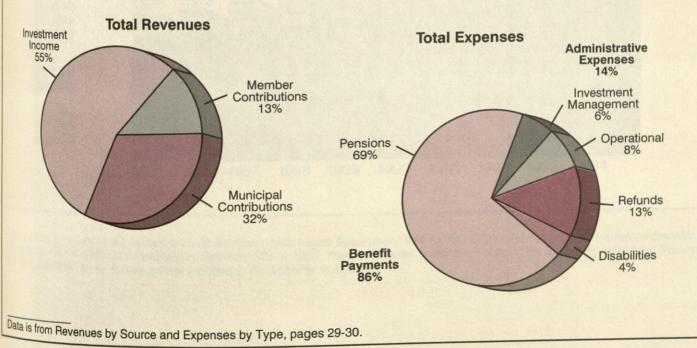




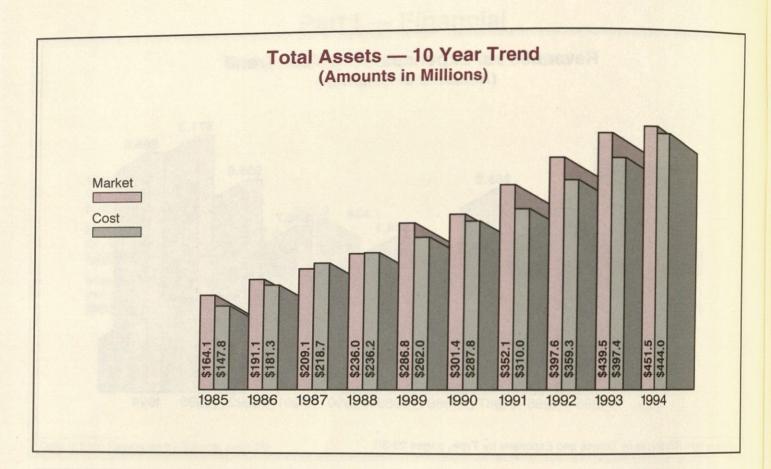
48

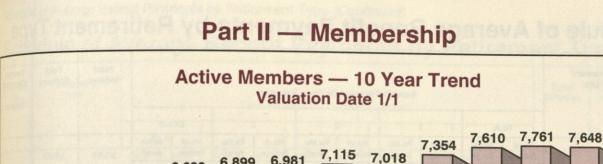
PMRS



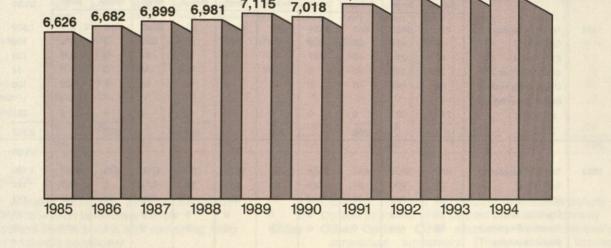


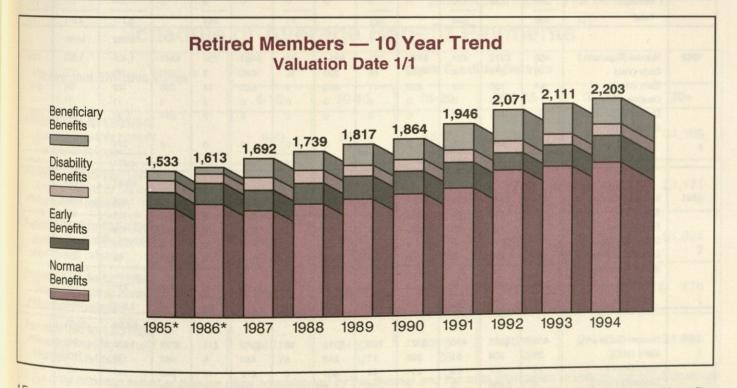
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Figures include costs of the System's administration which began December 1984 for the City of Harrisburg, Plan A retiree benefits. Harrisburg, Plan A had 323 pensioners in 1986 and 325 in 1985. These are listed under normal benefits. It officially joined the System in 1987; therefore, these figures are not included in the actuarial valuations.

Schedule of Average Benefit Payments by Retirement Type

| Valuation Date* 1/1 | Retirement Type | | | Tren | Benefi | t Paymen | t Options | Selected | yill o I | ¢c:iv | | Total Retirees | Total Retirees | 9 Incre (Decre 0 Retir |
|---------------------------|---|--------------------|--------------------|---------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|-------------------|-------------------|------------------------------------|
| | | s | LA | | 1 | | 2 | | 3 | 0 | ther | | | |
| | 100 | No. of Retirees | Av. Mo. Benefit | No. of Fletinees | Av. Mo. Benefit | No. of Retirees | Av. Mo. Benefit | No. of Retirees | Av. Mo. Benefit | No. of Retirees | Av. Mo. Benefit | 1/1/94 | 1/1/93 | |
| 1994 | Normal (Superann.) | 456 | \$428 | 461 | \$454 | 262 | \$460 | 87 | \$565 | 263 | \$ 970 | 1,529 | 1,468 | 4.2 |
| 1994 | Early (Vol.) | 49 | 411 | 59 | 339 | 21 | 389 | 11 | 624 | 6 | 1,015 | 146 | 144 | 1.4 |
| | Early (Invol.) | 47 | 219 | 46 | 247 | 15 | 274 | 2 | 441 | 13 | 627 | 123 | 117 | 5.1 |
| | Disability (Serv.) | 14 | 1,159 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 14 | 14 | 1 (|
| | Disability (Nonserv.) Benef. receiving | 96 | 486 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 838 | 100 | 99 | 1.(|
| | annuities | 291 | 331 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 291 | 269 | 8. |
| | Total | 953 | | 566 | 1.32.30 | 298 | | 100 | 1332 8 | 286 | 1388 | 2,203 | 2,111 | 4.4 |
| | | | | | | | | | | 1. Sec. | | 1/1/93 | 1/1/92 | |
| 1993 | Normal (Superann.) | 463 | \$405 | 445 | \$424 | 237 | \$418 | 80 | \$516 | 243 | \$905 | 1,468 | 1,425 | 3.0 |
| | Early (Vol.) | 46 | 400 | 61 | 329 | 21 | 361 | 10 | 628 | 6 | 887 | 144 | 145 | (.7 |
| | Early (Invol.) | 47 | 211 | 44 | 242 | 13 | 293 | 1 | 773 | 12 | 657 | 117 | 122 | (4.1 |
| | Disability (Serv.) | 14 | 1,029 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 14 | 11 | 27.3 |
| | Disability (Nonserv.) Benef. receiving | 96 | 454 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 627 | 99 | 97 | 2.1 |
| | annuities | 269 | 312 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 269 | 271 | (.7 |
| | Total | 935 | | 550 | | 271 | | 91 | | 264 | | 2,111 | 2,071 | 1.9 |
| | | | line in | and the second | | ever . | - | Acres | 1 5 5 | - Share | | 1/1/92 | 1/1/91 | |
| 1992 | Normal (Superann.) | 462 | \$372 | 434 | \$370 | 221 | \$354 | 73 | \$483 | 235 | \$843 | 1,425 | 1,328 | 7.3 |
| | Early (Vol.) | 45 | 371 | 64 | 314 | 18 | 309 | 10 | 620 | 8 | 780 | 145 | 135 | 7.4 |
| | Early (Invol.) | 48 | 190 | 48 | 239 | 11 | 304 | 2 | 695 | 13 | 598 | 122 | 125 | (2.4 |
| | Disability (Serv.) | 11 | 1,026 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 11 | 11 | 0 |
| | Disability (Nonserv.) | 93 | 403 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 624 | 97 | 99 | (2.0 |
| | Benef. receiving | | | | | 1100 | 1 | | | 12003 | | | | |
| | annuities | 271 | 298 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 271 | 248 | 9.3 |
| | Total | 930 | | 546 | | 250 | | 85 | | 260 | 122 | 2,071 | 1,946 | 6.4 |
| 991 | Normal (Superann.) | 428 | \$343 | 420 | \$004 | 107 | | | | | | 1/1/91 | 1/1/90 | |
| | Early (Vol.) | 41 | 316 | 63 | \$334 298 | 197 15 | \$325 296 | 69 | \$494 | 214 | \$798 | 1,328 | 1,286 108 | 3.3° 25.0 |
| | Early (Invol.) | 48 | 191 | 49 | 228 | 13 | 301 | 8 | 595 695 | 8 13 | 780 585 | 135 125 | 123 | 1.6 |
| | Disability (Serv.) | 11 | 1,011 | 0 | 0 | 0 | 0 | 0 | 095 | 0 | 0 | 11 | 6 | 83.3 |
| | Disability (Nonserv.) | 94 | 372 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 597 | 99 | 104 | (4.8) |
| | Benef. receiving | | | | | | | 1.19 | | | | | and the second | |
| | annuities | 248 | 289 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 248 | 237 | 4.6 |
| | Total | 870 | | 532 | _ | 225 | | 79 | | 240 | | 1,946 | 1,864 | 4.49 |
| | 14 Mar 2 | | ec: | reer | 000 | 6.8 | N | IGH I | | BBB | 11 000 | 1/1/90 | 1/1/89 | |
| 990 | Normal (Superann.) | 403 | \$325 | 410 | \$321 | 193 | \$319 | 68 | \$463 | 212 | \$779 | 1,286 | 1,249 | 3.09 |
| | Early (Vol.) | 35 | 288 | 51 | 236 | 11 | 249 | 6 | 480 | 5 | 468 | 108 | 103 | 4.8 |
| | Early (Invol.) Disability (Serv.) | 45 | 188 | 49 | 231 | 12 | 306 | 2 | 677 | 15 | 610 | 123 | 127 | (3.2) |
| | Disability (Serv.) Disability (Nonserv.) | 6 99 | 1,066 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6 | 7 | 14.3 |
| | Benef. receiving | 59 | 367 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 597 | 104 | 104 | 0 |
| | annuities | 236 | 289 | 0 | 0 | 0 | 0 | 1 | 369 | 0 | 0 | 237 | 227 | 4.4 |
| | Total | 824 | | 510 | | 216 | 1 1 1 1 | 77 | | 237 | | 1,864 | 1,817 | 2.6% |

Annualized data was not calculated prior to 1989.

Continued on next page

PMRS

Schedule of Average Benefit Payments by Retirement Type (Continued)

Schedule of Average Benefit Payments by Retirement Type (Cont.)

| Valuation Date 1/1 | Retirement Type | Benefit Payment Options Selected | | | | | | Total Retirees | Total Retirees | % Increase (Decrease) of Retirees | | | | |
|--------------------------|-----------------------|----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---|--------------------|--------|--------|------|
| | 100 | SI | LA | | 1 | | 2 | | 3 | Ot | her | | | Noor |
| | | No. of Retirees | Av. Mo. Benefit | No. of Retirees | Av. Mo. Benefit | No. of Retirees | Av. Mo. Benefit | No. of Retirees | Av. Mo. Benefit | No. of Retirees | Av. Mo. Benefit | 1/1/89 | 1/1/88 | |
| 1989 | Normal (Superann.) | 334 | \$246 | 390 | \$227 | 194 | \$284 | 62 | \$373 | 269 | \$651 | 1,249 | 1,206 | 3.5% |
| | Early (Vol.) | 34 | 247 | 48 | 191 | 11 | 409 | 5 | 402 | 5 | 496 | 103 | 113 | 9.7 |
| | Early (Invol.) | 47 | 160 | 51 | 212 | 12 | 253 | 1 | 715 | 16 | 459 | 127 | 97 | .9 |
| - | Disability (Serv.) | 7 | 947 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7 | 6 | 16.7 |
| | Disability (Nonserv.) | 104 | 331 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 104 | 104 | 0 |
| | Benef. receiving | | | | | 1.1.16 | Sh St | | 271 | | - | | | ener |
| | annuities | 227 | 260 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 227 | 214 | 6.6 |
| | Total | 753 | | 489 | | 217 | | 68 | | 290 | | 1,817 | 1,739 | 4.5% |

LEGEND

PMRS

Benefit Payment Options:

- SLA- Single Life Annuity: Continual income throughout annuitant's lifetime with no beneficiary benefit
- 1- Option 1: Reduced lifetime benefit with remaining lump sum value of account to beneficiary
- 2- Option 2: Joint and 100 percent survivorship annuity
- 3- Option 3: Joint and 50 percent survivorship annuity
- Other Other Option: Other alternative from municipality's contractual agreement (These include spouse's pension option chosen by the municipality.)

Schedule of Average Benefit Payments⁽¹⁾

| Retirement Effective Dates ⁽²⁾ | Town any service of | Years Credited Service | | | | | | | |
|--|---------------------|------------------------|-------------|---------------------------|--------------|--------------|--|--|--|
| | 5-10 | 10-15 | 15-20 | 20-25 | 25-30 | 30+ | | | |
| Period 1/1/94 to 12/31/94 Average monthly benefit Number of retirees | 929 38 | \$687 36 | \$877 32 | \$665 18 | \$1,082 9 | \$1,105 4 | | | |
| Period 1/1/93 to 12/31/93 Average monthly benefit Number of retirees | \$933 33 | \$630 34 | \$619 30 | \$7 <mark>03</mark> 30 | \$ 956 10 | \$1,171 6 | | | |
| Average monthly benefit Number of retirees | \$661 34 | \$590 33 | \$623 34 | \$672 35 | \$ 824 28 | \$1,024 7 | | | |
| Average monthly benefit Number of retirees | \$687 11 | \$587 35 | \$489 21 | \$502 24 | \$ 946 21 | \$ 178 1 | | | |
| Average monthly benefit Number of retirees | \$401 17 | \$450 33 | \$379 28 | \$539 18 | \$ 674 23 | \$1,626 1 | | | |

(1) Due to the numerous individual pension plans administered by the System and the wide divergence in specific benefit accruals as well as the yearly crediting of excess investment monies option which has no bearing on a time/benefit accrual basis (See B under Notes to Financial Statements), an historical schedule of average benefit payments would be misleading. However, in order to provide some insight to benefit awards, a four-year schedule is presented to show the range of average benefit payments by years of credited service. This schedule will dilute some but not all of the distortions which could be caused by the granting of excess investment bonus to retired and active members. Because of over 250 different plan structures, it is not meaningful to calculate an average final salary.

(2) Prior to 1990, benefit payments were not calculated by years of credited service.

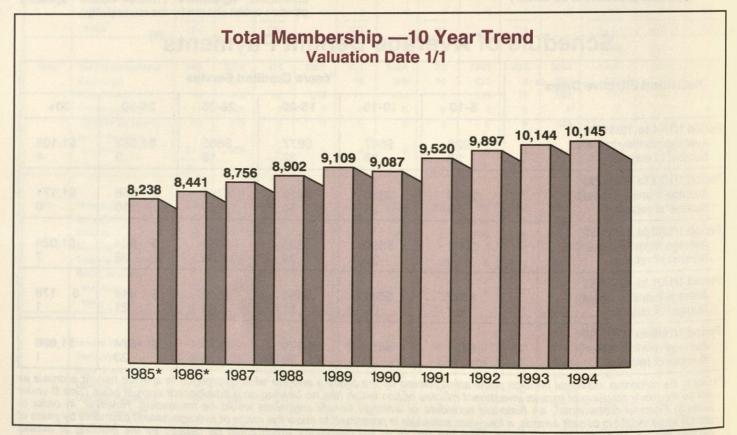
Schedule of Total Membership-10 Year Trend

| Valuation Date 1/1 | Active Members Defined Benefit Plans | Active Members Defined Contribution Plans | Retirees | Beneficiaries | Deferred Pensions | Inactive Members (2) | Total |
|---------------------|--|---|----------|---------------|----------------------|----------------------------|--------|
| 1994 | 7,329 | 319 | 1,912 | 291 | 169 | 125 | 10,145 |
| 1993 | 7,487 | 274 | 1,842 | 269 | 150 | 122 | 10,144 |
| 1992 | 7,337 | 273 | 1,800 | 271 | 128 | 88 | 9,897 |
| 1991 | 7,165 | 189 | 1,698 | 248 | 102 | 118 | 9,520 |
| 1990 | 6,850 | 168 | 1,627 | 237 | 95 | 110 | 9,087 |
| 1989 | 6,979 | 136 | 1,590 | 227 | 91 | 86 | 9,109 |
| 1988 | 6,887 | 94 | 1,526 | 213 | 91 | 91 | 8,902 |
| 1987 | 6,847 | 52 | 1,469 | 223 | 77 | 88 | 8,756 |
| 1986 ⁽³⁾ | 6,640 | 42 | 1,527 | 86 | 57 | 89 | 8,441 |
| 1985 ⁽³⁾ | 6,612 | 14 | 1,453 | 80 | 37 | 42 | 8,238 |

(1) Inactive participants with rights to deferred pension (vested)

(2) Inactive participants with rights to return of contributions (nonvested)

(3) Figures include costs of the System's administration which began December 1984 for the City of Harrisburg, Plan A retiree benefits. Harrisburg, Plan A had 323 pensioners in 1986 and 325 in 1985. It officially joined the System in 1987; therefore, these figures are not included in the actuarial valuations.



* Figures include costs of the System's administration which began December 1984 for the City of Harrisburg, Plan A retiree benefits. Harrisburg, Plan A had 323 pensioners in 1986 and 325 in 1985. It officially joined the System in 1987; therefore, these figures are not included in the actuarial valuations.

Statistical Section

Schedule of Participating Employers as of December 31, 1994

Adams

PMRS

Counties Forest

Jefferson

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Adda - The

Cities

Boroughs

Allentown (Lehigh) Bethlehem (Northampton) Clairton (Allegheny) Connellsville (Fayette) DuBois (Clearfield) Easton (Northampton) Franklin (Venango) Greensburg (Westmoreland) Harrisburg, Plan A (Dauphin) Harrisburg, Plan B (Dauphin) Hazleton (Luzerne) Hermitage (Mercer) Jeannette (Westmoreland) Lebanon (Lebanon)

Lower Burrell (Westmoreland) New Kensington (Westmoreland) New Kensington, Plan B (Westmoreland) Sharon (Mercer) Sunbury (Northumberland) Uniontown (Fayette)

Ashland (Schuylkill) Bally (Berks) Bangor (Northampton) Bedford (Bedford) Bellefonte (Centre) Bellwood (Blair) Bentleyville (Washington) Berlin (Somerset) Big Beaver (Beaver) Bloomfield (Perry) Brackenridge (Allegheny) Bridgeville (Allegheny) Brockway (Jefferson) Brookville (Jefferson) California (Washington) Cambridge Springs (Crawford) Camp Hill (Cumberland) Carnegie (Allegheny) Carroll Valley (Adams) Castle Shannon (Allegheny) Central City (Somerset) Charleroi (Washington) Cheswick (Allegheny) Clymer (Indiana) Cochranton (Crawford) Collegeville (Montgomery) Collingdale (Delaware) Conneautville (Crawford) Conshohocken (Montgomery) Conway (Beaver) Coopersburg (Lehigh)

County names are in parentheses.

Cressona (Schuylkill) Delmont (Westmoreland) Doylestown (Bucks) Duboistown (Lycoming) Duncannon (Perry) East Stroudsburg (Monroe) East Washington (Washington) Emporium (Cameron) Etna (Allegheny) Everett (Bedford) Falls Creek (Jefferson) Ferndale (Cambria) Fountain Hill (Lehigh) Franklin (Cambria) Freeburg (Snyder) Freeland (Luzerne) Greenville (Mercer) Hatfield (Montgomery) Hollidaysburg (Blair) Homer City (Indiana) Hummelstown (Dauphin) Huntingdon (Huntingdon) Hyndman (Bedford) Jim Thorpe (Carbon) Johnsonburg (Elk) Kenhorst (Berks) Kennett Square (Chester) Kittanning (Armstrong) Kulpmont (Northumberland) Kutztown (Berks) Latrobe (Westmoreland)

Lehighton (Carbon) Lewistown (Mifflin) Lykens (Dauphin) Marcus Hook (Delaware) Matamoras (Pike) Mercer (Mercer) Meyersdale (Somerset) Middleburg (Snyder) Middletown (Dauphin) Millersburg (Dauphin) Millerstown (Perry) Minersville (Schuylkill) Monaca (Beaver) Monroeville Municipality (Allegheny) Moosic (Lackawanna) Morrisville (Bucks) Mount Gretna (Lebanon) Mount Jewett (McKean) Mount Pleasant (Westmoreland) Mount Union (Huntingdon) Nanty Glo (Cambria) Narberth (Montgomery) Nesquehoning (Carbon) New Eagle (Washington) New Stanton (Westmoreland) Newport (Perry) Norristown (Montgomery) North East (Erie) Northumberland (Northumberland) Orwigsburg (Schuylkill) Palmerton (Carbon)

Statistical Section

Schedule of Participating Employers (Continued)

Boroughs (Continued)

Pennsburg (Montgomery) Perkasie (Bucks) Pine Grove (Schuylkill) Pottstown (Montgomery) Prospect Park (Delaware) Richland (Lebanon) Ridley Park (Delaware) Roaring Spring (Blair) Royersford (Montgomery) Rural Valley (Armstrong) Salisbury (Somerset) Saxton (Bedford) Schuylkill Haven (Schuylkill) Selinsgrove (Snyder) Sellersville (Bucks)

Butler (Butler)

Caln (Chester)

Collier (Allegheny)

Hanover (Luzerne)

Antrim (Franklin)

Bald Eagle (Clinton)

Bedminster (Bucks)

Bell (Westmoreland)

Black Creek (Luzerne)

Bloomfield (Crawford)

Brecknock (Lancaster)

Buckingham (Bucks)

Caernarvon (Lancaster)

Brighton (Beaver)

Brown (Mifflin)

Burrell (Indiana)

Center (Greene)

Center (Indiana)

Clarion (Clarion)

Concord (Delaware)

Corydon (McKean)

Derry (Westmoreland)

Donegal (Westmoreland)

Douglass (Montgomery)

East Allen (Northampton)

Cambria (Cambria)

Crescent (Allegheny)

East Deer (Allegheny) Elizabeth (Allegheny)

Allegheny (Westmoreland)

Shamokin Dam (Snyder) Sharpsburg (Allegheny) Sharpsville (Mercer)

Shenandoah (Schuylkill) Slippery Rock (Butler) Souderton (Montgomery) Southmont (Cambria) Springdale (Allegheny) Stroudsburg (Monroe) Summit Hill (Carbon) Tarentum (Allegheny) Telford (Montgomery) Topton (Berks) Trainer (Delaware) Turbotville (Northumberland)

Townships of the First Class

Harrison (Allegheny) Hopewell (Beaver) Leet (Allegheny) North Huntingdon (Westmoreland) North Versailles (Allegheny) Ridley (Delaware) Rochester (Beaver)

Townships of the Second Class

East Coventry (Chester) East Fallowfield (Chester) East Hanover (Dauphin) East Huntingdon (Westmoreland) East Manchester (York) East Marlborough (Chester) Elk Creek (Erie) Fairview (Erie) Farmington (Clarion) Forks (Northampton) Forward (Allegheny) Franklin (Carbon) Franklin (Greene) Glade (Warren) Granville (Mifflin) Greene (Beaver) Greenfield (Blair) Greenfield (Erie) Hamilton (Monroe) Hemlock (Columbia) Hilltown (Bucks) Hopewell (Cumberland) Horsham (Montgomery)

Turtle Creek (Allegheny) Verona (Allegheny) Versailles (Allegheny) Waynesburg (Greene) West Conshohocken (Montgomery) West Grove (Chester) West Newton (Westmoreland) Wheatland (Mercer) White Haven (Luzerne) Williamstown (Dauphin) Williamstown (Dauphin)

Salisbury (Lehigh) Springdale (Allegheny) Swatara (Dauphin) Upper Moreland (Montgomery) Whitehall (Lehigh) Wilkins (Allegheny) York (York)

Huntington (Luzerne) Jackson (Lebanon) Jenner (Somerset) Keating (McKean) Kennett (Chester) Lancaster (Lancaster) LeBoeuf (Erie) Lehman (Philadelphia) Liberty (McKean) Mahoning (Montour) Manchester (York) Mead (Warren) Middle Smithfield (Monroe) Middlesex (Cumberland) Milford (Bucks) Millcreek (Lebanon) Monongahela (Greene) Mount Joy (Lancaster) Mount Pleasant (Westmoreland) New Garden (Chester) Nockamixon (Bucks) North Coventry (Chester) North Strabane (Washington)

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schedule of Participating Employers (Continued)

Townships of the Second Class (Continued)

Notingham (Washington) Ohio (Allegheny) Oil Creek (Crawford) Old Lycoming (Lycoming) Paradise (Monroe) Pransbury (Chester) Pike (Berks) Pine Grove (Schuylkill) Pleasant (Warren) Plum Creek (Armstrong) Plumstead (Bucks) Proopson (Chester) Point (Northumberland) Prmatuning (Mercer) Raccoon (Beaver) Richhill (Greene) Ridgway (Elk) Scott (Columbia) Sewickley (Westmoreland) Shade (Somerset) Solebury (Bucks) South Abington (Lackawanna) South Huntingdon (Westmoreland) South Manheim (Schuylkill) Tinicum (Bucks) Tredyffrin (Chester) Unity (Westmoreland) Wallace (Chester)

Warwick (Lancaster) Washington (Berks) Washington (Dauphin) Washington (Greene) West Bradford (Chester) West Caln (Chester) West Carroll (Cambria) West Rockhill (Bucks) Whiteley (Greene) Wiconisco (Dauphin) Windsor (York) Wright (Luzerne)

Authorities and Other Units

Allegheny Valley Joint Sewer Authority (Allegheny) Ambridge Borough Municipal Authority (Beaver) Avonmore Borough Municipal Authority (Westmoreland) BARTA (Berks) Bedford Borough Water Authority (Bedford) Bedford Municipal Authority (Bedford) Belle Vernon Municipal Authority (Fayette) Bensalem Township Authority (Bucks) Bethlehem Authority (Northampton) Bethlehem City Redevelopment Authority (Northampton) Bloomfield Township Sewer Authority (Crawford) Bradford City Water Authority (McKean) Bradford Regional Airport Authority (McKean) Brighton Township Municipal Authority (Beaver) Brighton Township Sewer Authority (Beaver) Bristol Township Authority (Bucks) Brockway Borough Municipal Authority (Jefferson) Bucks County Redevelopment Authority (Bucks) Bucks County Water & Sewer Authority (Bucks) Butler Area Public Library (Butler) Cambria Township Sewer Authority (Cambria) Cambria Township Water Authority (Cambria) Carbon County Conservation District (Carbon) Carlisle Suburban Authority (Cumberland) Carmichaels-Cumberland Joint Sewer Authority (Greene) Carroll Township Authority (Washington) Centerville Borough Sanitary Authority (Washington) Centre County Library & Historical Museum (Centre) Coaldale-Lansford Summit Hill Sewer Authority (Carbon) Columbia County Conservation District (Columbia) Conneaut Lake Borough Municipal Authority (Crawford) Connellsville Municipal Authority (Fayette) Conshohocken Borough Authority (Montgomery) Coplay-Whitehall Sewer Authority (Lehigh) Crescent South Heights Municipal Authority (Allegheny) Creswell Heights Joint Authority (Beaver)

Derry Township Municipal (Westmoreland) DuBois City Redevelopment Authority (Clearfield) East Norriton-Plymouth Joint Sewer Authority (Montgomery) Eastern Snyder County Regional Authority (Snyder) Easton Area Joint Sewer Authority (Northampton) Elizabeth Borough Municipal Authority (Allegheny) Erie County Housing Authority (Erie) Falls Township Authority (Bucks) Fawn-Frazer Joint Water Authority (Allegheny) Forward Township Municipal Authority (Allegheny) Franklin City Housing Authority (Venango) Franklin Township Sewer Authority (Greene) Freeland Borough Municipal Authority (Luzerne) Greater Lebanon Refuse Authority (Lebanon) Guilford Township Authority (Franklin) Guilford Water Authority (Franklin) Harrison Township Water Authority (Allegheny) Hazleton Transit Authority (Luzerne) Hellertown Borough Authority (Northampton) Horsham Township Sewer Authority (Montgomery) Indiana County Conservation District (Indiana) Jeannette Municipal Authority (Westmoreland) Johnsonburg Municipal Authority (Elk) Juniata County Conservation District (Juniata) Kiskiminetas Township Municipal Authority (Armstrong) Kulpmont-Marion Heights Joint Municipal Authority (Northumberland) Lancaster City Parking Authority (Lancaster) Lansford Coaldale Joint Water Authority (Carbon) Lebanon Community Library (Lebanon) Leetsdale Borough Municipal Authority (Allegheny) Lehigh County Authority (Lehigh)

Lehighton Water Authority (Carbon) Lower Bucks County Joint Municipal Authority (Bucks) Lower Bucks County Joint Municipal Authority Supervisors (Bucks)

Schedule of Participating Employers (Continued)

Authorities and Other Units (Continued)

Lykens Borough Authority (Dauphin) Mahanoy Township Authority (Schuylkill) Maidencreek Authority (Berks) Manor Township Joint Municipal Authority (Armstrong) Mary Meuser Memorial Library (Monroe) Matamoras Borough Municipal Authority (Pike) McKean County Solid Waste Authority (McKean) Mercer County Regional Planning Commission (Mercer) Mid Mon Valley Water Authority (Washington) Middletown Township Sewer Authority (Delaware) Mifflin County Regional (Mifflin) Mifflintown Municipal Authority (Juniata) Millersburg Area Authority (Dauphin) Mon Valley Sewage Authority (Washington) Monroe County Control Center (Monroe) Montgomery County Sewer Authority (Montgomery) Montour County Conservation District (Montour) Moon Township Municipal Authority (Allegheny) Morrisville Borough Municipal Authority (Bucks) Mount Jewett Borough Authority (McKean) Mount Lebanon Parking Authority (Allegheny) Myerstown Borough Water Authority (Lebanon) Myerstown Community Library (Lebanon) Nanty Glo Water Authority (Cambria) Nesquehoning Borough Authority (Carbon) New Kensington Municipal Sanitary Authority (Westmoreland) Newport Borough Water Authority (Perry) North & South Shenango Joint Municipal Authority (Crawford) North Coventry Municipal Authority (Chester) North Huntingdon Township Municipal Authority (Westmoreland) North Strabane Township Municipal Authority (Washington) Northern Lancaster County Authority (Lancaster) Northern York County Regional (York) Oil City Housing Authority (Venango) PA League of Cities (Dauphin) Parks Township Municipal Authority (Armstrong) Pennridge Regional (Bucks) Pennridge Waste Treatment Authority (Bucks) Perkasie Borough Authority (Bucks)

Peters Creek Sanitary Authority (Washington) Portage Area Sewer Authority (Cambria) Portage Borough Municipal Authority (Cambria) Robesonia-Wernersville Municipal Authority (Berks) Robinson Township Municipal Authority (Allegheny) Rochester Area Joint Sewer Authority (Beaver) Rostraver Township Sewer Authority (Westmoreland) St. Marys Area Joint Water Authority (Elk) Shamokin City Redevelopment Authority (Northumberland) Sheffield Township Municipal Authority (Warren) Slippery Rock Municipal Authority (Butler) South Fayette Township Municipal Authority (Allegheny) Southwestern PA Water Authority (Greene) Susquehanna Township Authority (Dauphin) Tower City Borough Authority (Schuylkill) Tri-County Joint Municipal Authority (Washington) Upper Allegheny Joint Sanitation Authority (Allegheny) Upper Montgomery Joint Authority (Montgomery) Upper Southampton Municipal Authority (Bucks) Upper Southampton Sewer Authority (Bucks) Vanport Township Municipal Authority (Beaver) Warren County Housing Authority (Warren) Warren County Solid Waste Authority (Warren) Warrington Township Municipal Authority (Bucks) Warwick Township Municipal Authority (Lancaster) Washington Area Council of Governments (Washington) Washington Township Municipal Authority (Berks) Washington Township Municipal Authority (Fayette) Waterford Borough Municipal Authority (Erie) Wayne County Redevelopment Authority (Wayne) Wernersville Municipal Authority (Berks) West Mead Township Authority (Crawford) Western Butler County Authority (Butler) Western Clinton County Municipal Authority (Clinton) Western Westmoreland Municipal Authority (Westmoreland) Westmoreland-Fayette Municipal Sewer Authority (Westmoreland)

White Haven Municipal Authority (Luzerne) White Run Regional Municipal Authority (Adams) Whitehall Township Authority (Lehigh) Williamstown Borough Authority (Dauphin) Womelsdorf-Robesonia Joint Authority (Berks) York County Planning Commission (York)

Ashley Borough (Luzerne) Bally Borough (Berks) Barrett Township (Monroe) Bedminster Township (Bucks) Bellwood Borough (Blair)

Police

Bensalem Township (Bucks) Bentleyville Borough (Washington) Birmingham Township (Chester) Blair Township (Blair) Brockway Borough (Jefferson)

Buckingham Township (Bucks) California Borough (Washington) Cambria Township (Cambria) Cambridge Springs Borough (Crawford) Camp Hill Borough (Cumberland)

Schedule of Participating Employers (Continued)

Police (Continued)

(arroll Valley Borough (Adams) Central City Borough (Somerset) Clairton City (Allegheny) Colebrookdale Township (Berks) Conneaut Lake (Crawford) Coopersburg Borough (Lehigh) (rescent Township (Allegheny) Danville Borough (Montour) Delmont Borough (Westmoreland) Douglass Township (Berks) Douglass Township (Montgomery) Dravosburg Borough (Allegheny) Dublin Borough (Bucks) Duboistown Borough (Lycoming) Dunbar Borough (Fayette) Duncannon Borough (Perry) East Bangor Borough (Northampton) East Coventry Township (Chester) East Deer Township (Allegheny) East Earl Township (Lancaster) East Fallowfield Township (Chester) East Pennsboro Township (Cumberland) East Washington Borough (Washington) Easton City (Northampton) Elizabeth Township (Allegheny) Everett Borough (Bedford) Factoryville Borough (Wyoming) Fairview Borough (Erie) Falls Creek Borough (Jefferson) Forward Township (Allegheny) Franklin Borough (Cambria) Freedom-Greenfield Township (Blair) Gilpin Township (Armstrong) Greenville Borough (Mercer) Harrisburg, Plan A (Dauphin) Harrisburg, Plan B (Dauphin) Harveys Lake Borough (Luzerne) Heidelberg Township (York) Hemlock Township (Columbia) Hilltown Township (Bucks) Hummelstown Borough (Dauphin) Hyndman Borough (Bedford) Independence Township (Beaver) Jenner Township (Somerset)

Johnsonburg Borough (Elk) Lancaster Township (Butler) Larksville Borough (Luzerne) Leet Township (Allegheny) Locust Township (Columbia) Lower Windsor Township (York) Lower Yoder Township (Cambria) Lykens Borough (Dauphin) Mahoning Township (Montour) Manor Borough (Westmoreland) Marcus Hook Borough (Delaware) Mead Township (Warren) Mercer Borough (Mercer) Middleburg Borough (Snyder) Middlesex Township (Cumberland) Millersburg Borough (Dauphin) Montour Township (Columbia) Moore Township (Northampton) Moosic Borough (Lackawanna) Morrisville Borough (Bucks) Moscow Borough (Lackawanna) Mount Jewett Borough (McKean) Mount Pleasant Borough (Westmoreland) South Waverly Borough (Bradford) Mount Union Borough (Huntingdon) New Garden Township (Chester) New Wilmington Borough (Lawrence) Newport Borough (Perry) Nockamixon Township (Bucks) North Coventry Township (Chester) North Huntingdon Township (Westmoreland)

North Middleton Township (Cumberland) Northeastern Berks Regional (Berks) Northeastern Regional (York) Northern Lancaster County Regional (Lancaster) Northumberland Borough

(Northumberland) Ohio Township (Allegheny) Old Lycoming Township (Lycoming) Orangeville Borough (Columbia) Orwigsburg Borough (Schuylkill) Paxtang Borough (Dauphin) Penbrook Borough (Dauphin)

Pennridge Regional (Bucks) Perkasie Borough (Bucks) Pine Grove Borough (Schuylkill) Plumstead Township (Bucks) Point Township (Northumberland) Pulaski Township (Lawrence) Pymatuning Township (Mercer) Red Lion (York) Richland Borough (Lebanon) Roaring Spring Borough (Blair) Rochester Township (Beaver) Rye Township (Perry) Saxton Borough (Bedford) Schuylkill Township (Schuylkill) Schwenksville Borough (Montgomery) Scott Township (Columbia) Scottdale Borough (Westmoreland) Selinsgrove Borough (Snyder) Shade Township (Somerset) Shamokin Dam Borough (Snyder) Shippingport Borough (Beaver) Shiremanstown Borough (Cumberland) Summit Hill Borough (Carbon) Telford Borough (Montgomery) Tinicum Township (Bucks) Trainer Borough (Delaware) Tunkhannock Township (Wyoming) Upper Uwchlan Township (Chester) Versailles Borough (Allegheny) West Conshohocken Borough (Montgomery)

West Grove Borough (Chester) West Lampeter Township (Lancaster) West Middlesex Borough (Mercer) West Pottsgrove Township (Montgomery) White Haven Borough (Luzerne) Williamstown Borough (Dauphin) Windsor Borough (York) Windsor Township (York) Wormleysburg Borough (Cumberland) Wrightstown Township (Bucks) Youngwood Borough (Westmoreland)

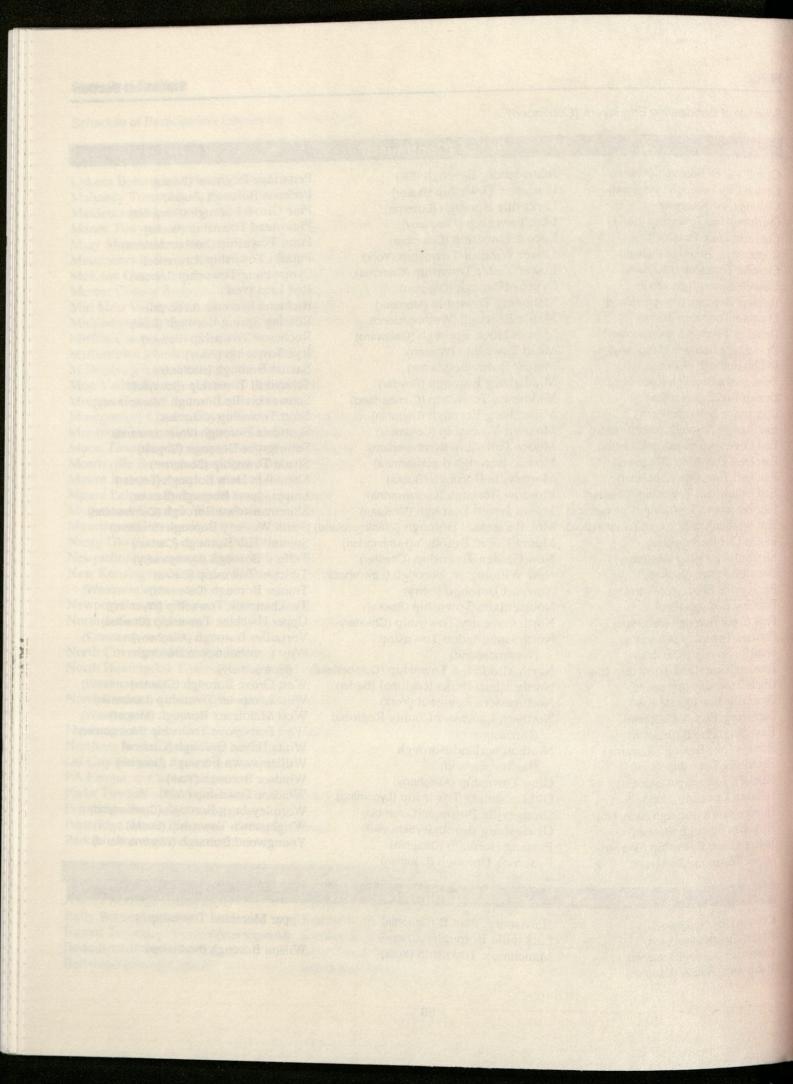
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Clairton City (Allegheny) Easton City (Northampton) Greenville Borough (Mercer) Harrisburg, Plan A (Dauphin)

Harrisburg, Plan B (Dauphin) Larksville Borough (Luzerne) Manchester Township (York)

Upper Moreland Township (Montgomery) Wilson Borough (Northampton)

Firefighters



INVESTMENT SECTION

- Investment Performance Portfolio Distribution
- Asset Allocation

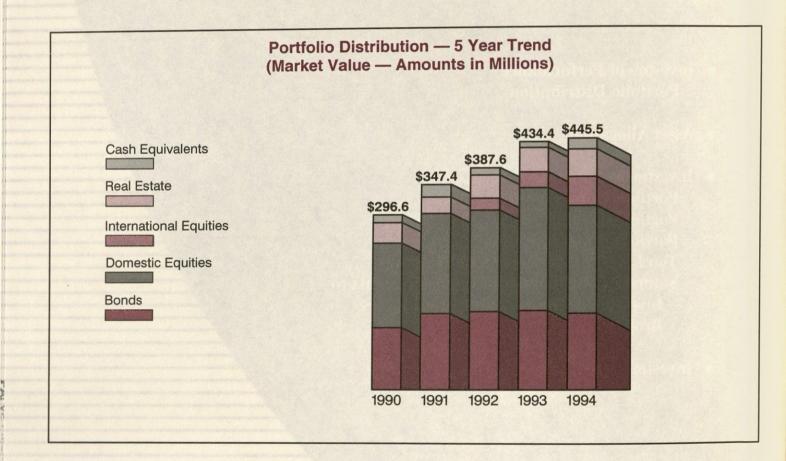
 Investment Summary Portfolio Summary Portfolio Quality Portfolio Rates of Return Ten Largest Common Stock Holdings Summary of Commissions and Payments to Investment Advisors and Consultants Brokers

• Investment Guidelines

Investment Performance

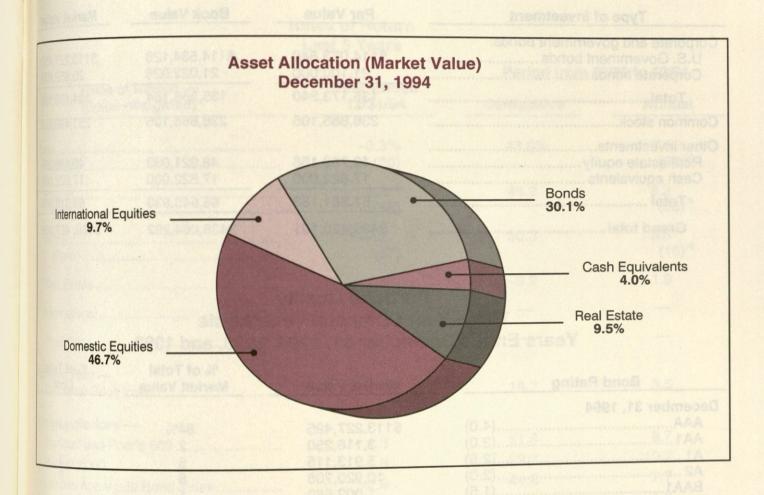
On December 31, 1994, the System's investment assets were valued at \$445,467,060, an increase in value of \$11,025,920 over the December 31, 1993 valuation of \$434,441,140.

During the last five years, the System has grown from \$296.6 million to \$445.5 million. Net contributions added \$29.9 million, and net investment returns added \$119.0 million. The following graph shows the System's five year trend of investment assets at market value.



Asset Allocation

The System's asset allocation as of December 31, 1994 was \$208.2 million committed to domestic equities, \$43.3 million to international equities, \$134.2 million to bonds, \$42.2 million to real estate, and \$17.6 million to cash mivalents. The percentage distribution is illustrated below.



The time-weighted rate of return for the System's investments during the fiscal year ended December 31, 1994 was regative 0.3 percent ranking well above the median in the 20th percentile of all balanced funds as measured by the CDA miverse. This performance level was 1.9 percent above the median balanced fund's return of negative 2.2 percent. The mulative five year return for December 1989 through December 1994 of 43.6 percent (7.5 percent per year) ranked in the 64th percentile.

For the year ended December 31, 1994, equities lost 2.3 percent. That return ranked in the 58th percentile and lagged ¹⁶ percent behind the Standard and Poor's 500 return of 1.3 percent. For the last five years, the System's stock return of ¹⁶ Percent (8.2 percent per year) ranked in the 58th percentile, 0.5 percent per year behind the S&P 500 for the same ¹⁶ percent (8.2 percent per year) ranked in the 58th percentile, 0.5 percent per year behind the S&P 500 for the same ¹⁶ percent (8.2 percent per year) ranked in the 58th percentile, 0.5 percent per year behind the S&P 500 for the same ¹⁶ percent (8.2 percent per year) ranked in the 58th percentile, 0.5 percent per year behind the S&P 500 for the same ¹⁶ percent (8.2 percent per year) ranked in the 58th percentile, 0.5 percent per year behind the S&P 500 for the same ¹⁶ percent (8.2 percent per year) ranked in the 58th percentile, 0.5 percent per year behind the S&P 500 for the same ¹⁶ percent (8.2 percent per year) ranked in the 58th percentile, 0.5 percent per year behind the S&P 500 for the same ¹⁶ percent percent per year) ranked percent per year behind the S&P 500 for the same ¹⁶ percent percent percent per year) percent per year behind the S&P 500 for the same ¹⁶ percent p

Bonds returned negative 2.2 percent, ranking in the 37th percentile, 0.7 percent above the Lehman Aggregate bond index. For the five year period, the cumulative return of 50.3 percent (8.5 percent per year) ranked well above the median in the 16th percentile, 0.8 percent per year above the market index for the same time period.

The real estate segment of the portfolio earned 7.4 percent for the fiscal year and for the last five years has lost 9.2 percent, or 1.9 percent annualized

PMRS

Investment Summary

Portfolio Summary As of December 31, 1994

| Type of Investment | Par Value | Book Value | Market Value |
|--|---------------|---------------|----------------|
| Corporate and government bonds: U.S. Government bonds | \$114,073,840 | \$114,534,128 | \$113,227,495 |
| Corporate bonds | 21,100,000 | 21,022,026 | 20,952,633 |
| Total | 135,173,840 | 135,556,154 | 134,180,128 |
| Common stock | 236,865,105 | 236,865,105 | 251,468,924 |
| Other investments | | | |
| Real estate equity | 49,759,156 | 48,021,033 | 42,196,008 |
| Cash equivalents | 17,622,000 | 17,622,000 | 17,622,000 |
| Total | 67,381,156 | 65,643,033 | 59,818,008 |
| Grand total | \$439,420,101 | \$438,064,292 | \$445, 467,060 |

Portfolio Quality Three-Year Comparative Analysis Years Ended December 31, 1994, 1993, and 1992

| Bond Rating | | Market Value | % of Total Market Value | % of Total Cost |
|-------------------|-------|---------------|------------------------------|--------------------|
| December 31, 1994 | | | | |
| AAA | (4.0) | \$113,227,495 | 84% | 84% |
| AA1 | | 3,116,250 | 2 | 2 |
| A1 | | 5,913,115 | 5 | 5 |
| A2 | (2.0) | 10,920,708 | 8 | 8 |
| BAA1 | (1.5) | 1,002,560 | 1 | 1 |
| Total bonds | | \$134,180,128 | 100% | 100% |
| December 31, 1993 | | | | |
| AAA | (4.0) | \$119,885,828 | 85% | 85% |
| AA | (3.0) | 1,148,760 | 1 | 1 |
| A1 | | 18,032,928 | 13 | 13 |
| Α | (2.0) | 1,077,780 | a Passansher | state 2011 |
| Total bonds | | \$140,145,296 | 100% | 100% |
| December 31, 1992 | | | | |
| AAA | (4.0) | \$106,206,576 | 85% | 84% |
| AA | (3.0) | 1,872,677 | 1 | 2 |
| A1 | (2.5) | 16,334,937 | 13 | 14 |
| Α | (2.0) | 1,030,890 | as allotting 1 at the second | 0 |
| Total bonds | | \$125,445,080 | 100% | 100% |

mestment Summary (Continued)

Portfolio Rates of Return⁽¹⁾

The following table compares rates of return for the System's total investment portfolio with standard indexes. The stem's returns have been competitive with other professionally managed funds.

| | ates of Return Last 5 Years | | | | |
|---|--------------------------------|----------------------------|-----------------------------|--|--|
| Rates of Return — | Year Ended | Period from 12/89 to 12/94 | | | |
| (Dollar-Weighted) | 12/31/94 | Cumulative | Annual | | |
| Total (Rank) | -0.3% (20) | 43.6% | 7.5% (64) ⁽²⁾ | | |
| Equities | -2.3 (58) | 48.2 | 8.2 (58) ⁽³⁾ | | |
| Bonds (Rank) | -2.2 (37) | 50.3 | 8.5 (16) ⁽⁴⁾ | | |
| Real Estate | 7.4 | -9.2 | -1.9 | | |
| International | 6.4 | +vostme | - | | |
| Small Cap | 4.2 | <u> </u> | - | | |
| Inflation Rate — Consumer Price Index | 2.7 | 18.7 | 3.5 | | |
| Market Indicators — | | | 13 | | |
| Standard and Poor's 500 | 1.3 | 51.8 | 8.7 | | |
| Russell 2,000 | -1.8 | 62.7 | 10.2 | | |
| Lehman Aggregate Bond Index | -2.9 | 44.8 | 7.7 | | |
| EAFE (international) | 8.0 | 9.3 | 1.8 | | |
| Russell NCREIF Property Index | 6.7 | 4.0 | 0.8 5.2 | | |
| 90-Day Treasury Bills | 4.1 | 28.9 | | | |
| Dow Jones Industrial Average | 5.0 | 63.1 | 10.3 | | |
| CDA Universe ⁽⁵⁾ Median Rate of Return — | | | | | |
| (Time-Weighted) | -2.2 | 47.4 | 8.1 | | |

(1) Rate of return is a mathematical measure of the rate of change in the asset value of a fund. All rates of return are based on the market value of the rate of change in the asset value of a fund. All rates of return are based on the Market value of the assets. Rates of return reflect both realized and unrealized capital gains and losses as well as total earnings from interest and dividends received.

(2) Ranked against balanced funds

(3) Ranked against equity oriented funds

(4) Ranked against fixed income oriented funds

The CDA universe contains the returns of 1,699 portfolios with an aggregate asset value in excess of \$880 billion. This universe provides as accurate any available through any service in the country. provides as accurate a standard for evaluating a manager's performance as any available through any service in the country.

Investment Summary (Continued)

Ten Largest Common Stock Holdings (by Market Value) As of December 31,1994

| Stock | Shares | Market Value | % of Stock Portfolio |
|---------------------------|--------|--------------|-------------------------|
| Atlantic Richfield Co | 31,100 | \$3,164,425 | 1.86% |
| Goodyear Tire & Rubber Co | 87,400 | 2,938,825 | 1.73 |
| United Technologies Corp | 45,200 | 2,841,950 | 1.67 |
| Baxter International Inc | 98,100 | 2,771,325 | 1.63 |
| Nynex Corp | 73,100 | 2,686,425 | 1.58 |
| Chevron Corp | 55,200 | 2,463,300 | 1.45 |
| International Paper Co | 32,000 | 2,412,000 | 1.42 |
| Tenneco Inc | 51,900 | 2,205,750 | 1.30 |
| Ford Motor Co | 79,100 | 2,204,913 | 1.30 |
| Dow Chemical Co | 31,400 | 2,111,650 | 1.24 |
| | | | |

Summary of Commissions and Payments to Investment Advisors and Consultants Comparative Two-Year Schedule Years Ended December 31, 1994 and 1993

| | | mmissions Paid crued) |
|---|-------------|--------------------------|
| Firm Name | 1994 | 1993 |
| Bond, Procope Capital Management | \$ 18,380 | \$ 39,901 |
| Chase Investment Counsel Corp | 228,911 | 220,576 |
| CIGNA Investment Management Real Estate | 108,271 | 101,309 |
| Dahab Associates, Inc | 37,000 | 33,250 |
| Ernst & Young LLP | 20,000 | 20,000 |
| First Fidelity Bank, N.A. | 269,108 | 272,411 |
| Globalt, Inc | 7,995 | 0 |
| Newbold's Asset Management, Inc | 229,075 | 229,728 |
| Prudential Real Estate Investors (PRISA) | 26,167 | 20,029 |
| The Putnam Companies, Inc | 300,198 | 256,933 |
| The Segal Company | 192,260 | 201,481 |
| State Street Global Advisors | 96,744 | 94,092 |
| Treasury Dept — Security Movement & Control Program | 10,429 | 9,735 |
| Total | \$1,544,538 | \$1,499,445 |

mestment Summary (Continued)

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Summary of Commissions Paid to Brokers Comparative Two-Year Schedule Years Ended December 31, 1994 and 1993

| Broker Name | Commission Paid (Cash Basis) 1994 1993 | |
|---|--|--------|
| ems Cohen Secs | \$ 0 | \$ 980 |
| ans control coco minimum and a second s | 662 | 1,960 |
| er Coleman & Co Inc | 1,092 | 0 |
| ser Coleman & Commercial Services | 159 | 0 |
| Narrage Capital COIP | 435 | 3,186 |
| er Brown & Sons Inc | 2,183 | 320 |
| taret | | 588 |
| id Robert W & Co Inc | 368 | |
| ar Stearns & Co | 2,912 | 1,253 |
| a William & Co | 0 | 502 |
| rt Elis & Loewi | 0 | 903 |
| dord J C & Co | 0 | 1,050 |
| tge Trading | 49 | 1,008 |
| nberg & Co | 600 | 0 |
| atcort Capital Corp | 1,850 | 2,011 |
| nor Fitzgerald & Co Inc | 924 | 305 |
| stal Institutional Servs Inc | 0 | 308 |
| cago Corporation | 522 | 0 |
| the Group/Faulty & Munic | 360 | |
| ation Group/Equity & Munis | | 0 |
| ay Gull & Reiland | 0 | 231 |
| respondent Services Corp | 653 | 3,661 |
| ny Natwest Sec Corp USA | 1,329 | 390 |
| ien & Co | 600 | 210 |
| Hirst Boston Corp | 31,937 | 6,378 |
| Bosworth Inc | 0 | 175 |
| is Mendel & Regenstein Inc | 258 | 475 |
| multer neyroids inc | 835 | 1,561 |
| M Read & Co Inc | 608 | 0 |
| At Access Brokerage Svc Corp | 0 | 1,050 |
| aldson Lufkin & Jenrette Inc | 2,812 | |
| ards A G & Sone Inc | | 371 |
| iards A G & Sons Inc | 1,370 | 2,220 |
| | 0 | 180 |
| | 138 | 0 |
| | 25,676 | 25,662 |
| set Data Systems Inc | 175 | 1,266 |
| restock & Co Inc | 0 | 315 |
| Abany Copital Markets | 336 | 0 |
| Abany Corp | 0 | 1,120 |
| Pit Kelton Inc nan Selz Mager Dietz & Birney | Ő | 140 |
| ran Selz Mager Dietz & Birney ard Klauer Mattison & Co | 203 | 0 |
| Kauer Mattison & O. | 203 | |
| man Sachs & Co | ALL TO A UK DOLLAR AND DATES OF THE DATE OF THE OF TH | 1,008 |
| ton Haskett | 11,802 | 9,562 |
| Wecht & Ouiet | 126 | 1,717 |
| Ng Maine Gody July 1 | 0 | 1,140 |
| | 1,239 | 0 |
| Helle Obecon I | 2,185 | 2,732 |
| | 0 | 3,102 |
| Some To the State | 133 | 0 |
| ment Performance Svc | 3,304 | 1,359 |
| | 156 | |
| merage Inc/BCC Clearing | | 0 |
| | 70 | 0 |
| and ge Inc/BCC Clearing | 460 | 1,067 |
| , | 42 | 0 |

armary of Commissions is continued on the next page.

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Investment Summary (Continued)

Summary of Commissions Paid to Brokers (Continued) Comparative Two-Year Schedule Years Ended December 31, 1994 and 1993

| Broker Name | Commission Paid (Cash Basis) 1994 1993 | |
|--|---|-----------|
| Jefferies & Co | 6,394 | 11,129 |
| Jones & Assoc Calf | 0 | 10 |
| Josephthal Lyon & Ross | 0 | 1,850 |
| Kankaku Securities (America) Inc | 2,261 | 0 |
| Kankaku Securities (America) inc | 133 | 0 |
| Kemper Clearing Corp | 414 | 686 |
| Kemper Secs Group | 2,222 | 2,600 |
| Kidder Peabody & Co Inc | 4,106 | 1,498 |
| Lehman Brothers Inc | 80,656 | 29,311 |
| Lynch Jones & Ryan | 2,492 | 29,511 |
| Mabon Nugent & Co | | |
| Merrill Lynch Pierce Fenner & Smith | 3,469 | 7,859 |
| Moness Crespi | 558 | 2,109 |
| Montgomery Securities | 0 | 467 |
| Morgan J P Securities Corp | 96 | 1,242 |
| Morgan Keegan & Company Inc | 0 | 448 |
| Morgan Stanley & Co Inc | 2,028 | 6,318 |
| National Financial Services Corp | 0 | 210 |
| Neuberger & Berman | 11,705 | 21,547 |
| Newbridge Securities Inc | 0 | 1,388 |
| Oppenheimer & Co Inc | 2,298 | 6,187 |
| Paine Webber Jackson & Curtis | 2,765 | 4,146 |
| Pershing Div of DLJ | 0 | 4,358 |
| | 144 | 105 |
| Piper Jaffray & Hopwood Inc Private Ledger of Linsco Financial Serv | 324 | 798 |
| | 1,790 | 2,069 |
| Prudential Securities Inc | 1,750 | 2,000 |
| Quantitative Analysis | | 266 |
| Regional Clearing Corp | 0 | 126 |
| Repex & Co | 0 | 630 |
| Robertson Stephens & Co | 0 | |
| Robinson-Humphrey Co Inc | 1,617 | 1,125 |
| Rochdale Securities Corp | 60 | 0 |
| Salomon Brothers Inc | 7,554 | 8,565 |
| Sanford C Bernstein & Co | 4,605 | 1,052 |
| S E I Financial Services Co | 0 | 910 |
| S E I Funds Evaluation | 0 | 238 |
| Smith Barney Harris Upham | 1,074 | 4,690 |
| Smith Barney/Shearson Inc | 9,519 | 18,124 |
| Standard & Poors Securities | 1,371 | 700 |
| State Street Bank & Trust | 0 | 42 |
| Tucker Anthony & RL Day Inc | 0 | 785 |
| Warburg (SG) & Company Inc | 654 | 738 |
| Weeden & Co | | 26,837 |
| Wertheim Schroder | 22,264 | 0 |
| Wessels Arnold & Henderson | 2,010 | 105 |
| Wessels Arnold & Henderson | 0 | 105 |
| Wheat First Securities Inc | 330 | 77 |
| Wood Gundy Corp | 0 | 77 |
| Yaeger Securities | 0 | 420 |
| Total Brokerage Commissions Paid | ¢075 010 | \$253,231 |
| | \$275,018 | Arooleo. |

Investment Guidelines

Introduction

The following represents highlights from the Board's investment guidelines adopted on September 22, 1994. These midelines, which set forth the Board's expectations, restrictions, and policy decisions, were developed to assist the vistem's staff and consultants in the day-to-day management of the System's assets.

Background

The System is currently experiencing a positive cash flow and expects no change in this posture for the foreseeable intre. The System assumes that all benefit payouts can be made from incoming revenue as opposed to any depletion of mested assets.

Philosophy

The Board considers itself a conservative fiduciary, placing greatest emphasis on quality of investments and consistency in return. Despite this conservative posture, the Board still believes that the five-year rate of return on mestments should exceed the recognized market indices for the various asset vehicles.

Objective

The Board's investment objective is to benefit our member municipalities by adding value to their assets. Recognizing that inflation can erode value, the Board's goal is to have the fund earn at least 2 percent more annually than the average annual inflation rate over a long period of time. While this is the System-wide goal, individual investment advisors' performance measurements rely on other characteristics which are specifically spelled out in the individual investment guidelines for the investment advisor.

Portfolio Construction

Short term considerations — It is the Board's desire to remain as fully invested as possible. Therefore, any advisor in a cash or cash equivalent position must either invest in vehicles authorized by the System or utilize the System's depository relationship with the State Treasurer who will in turn invest all cash on a daily basis. No management fee will be paid by the System for any portion of a manager's average assets in excess of 5 percent remaining in cash equivalents at Treasury after end of any given quarter.

Fixed income considerations — The Board seeks to bring income and stability to the overall portfolio through fixed income vehicles. The bond portfolio must be invested in quality vehicles, and it is expected to be diversified from a geographic and industrial standpoint. No single holding of an investment advisor other than a U.S. government bond is to account for more than 5 percent of the market value of an investment advisor's bond portfolio. The System shall not hold a assets more than 10 percent of any one bond issue nor more than 5 percent of the bonds of any one issuing agent. Corporate bonds of any given industry are not to account for more than 25 percent of the market value of the bond portfolio.

Equity investment policy — The System's equity portfolio reflects the Board's desire to include growth through market appreciation. The Board requires an equity portfolio with diversification, quality issuance, growth potential, and market appreciation. The Board requires an equity portfolio with diversification, quality issuance, growth potential, and market appreciation. No single equity holding may account for more than 7.5 percent of the market value of the System's equity portfolio, nor are the securities of any single industry to account for more than 20 percent of the value of an individual manager's portfolio. No more than 1 percent of the capitalization of any company is to be held by the System. The cumulative holdings of a manager for all of that manager's clients shall account for no more than 5 percent of the custanding voting common stock of the corporation.

Real estate policy — The Board believes that diversification in investment vehicles should enhance the potential return on investments without significantly altering the overall risk of the portfolio. Investment decisions regarding the real estate portfolio shall be guided by the objectives to preserve capital, maximize cash distributions and income, achieve a total return competitive with the other asset classes, and maintain a broad diversification of assets and managers. Real estate vehicles may be both direct equity participation and participation in commingled funds that involve equity

stment Guidelines (Continued)

cipation with consideration given to types of properties and geographic location. The investment process and specific ations shall be detailed in each real estate advisor's contract.

hibited Transactions

the Board prohibits (1) purchasing of commodities, mineral rights, and warrants except those previously authorized, hort selling and the purchasing of securities on margin, and (3) selling or buying options or futures contracts on either lincome or equity instruments.

cution and Operation

he System utilizes Provident National Bank as a master custodian and the Pennsylvania State Treasurer as the sitory. Provident National Bank is authorized to engage in security lending. It is not expected that this operation will an impact on the discretion of the investment advisors.

vestment advisors are directed to execute orders on the best net price basis. Transactional costs and the rate of over will be monitored. Active equity advisors are expected to execute trades on the auction market at a rate close to execution-only cost (currently near 0.3 cents per share).

the investment advisors may enter into agreements with certain brokerage houses in order to participate in a recapture ram whereby a designated percentage of the System's trades handled by these brokerage firms will be returned as cash e System and be treated as new income for the benefit of the membership. It is expected that under such an gement, the average execution cost of all trades will approximate the execution-only price.

the Board assumes full responsibility for exercising the voting privilege contained in proxy solicitations and has ted specific guidelines for staff guidance. These guidelines as adopted and hereafter amended are an integral part of system's investment guidelines.

nmunications

e Board expects an open and constant line of communication between the System's staff and investment advisors, rts required of investment advisors to the Board and staff include a timely confirmation of all transactions, a monthly hary of transactions, a quarterly statement of asset values at cost and market, any explanation of contemplated major in investment strategy or manager style before implementation, and an explanation of major changes in organization personnel associated with the System's account. In addition to written reports, the investment advisors are obligated ke periodic personal appearances before the Board as specifically spelled out in the investment advisor's contract vestment advisors' fees will be paid in hard dollars. The cost for each investment advisor will be based on the market of the firm's assets in the System's portfolio at the end of each quarter.

itoring

e System will monitor the performance of its investment advisors through direct involvement of the Board, the m's staff, and any consultant hired for this purpose by the Board.



| DATE DUE | | | | |
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