PMRS

Pennsylvania Municipal Retirement System

Comprehensive Annual Financial Report 2003

For the Year Ended
December 31, 2003

Our Mission

The Pennsylvania Municipal Retirement System seeks to help Pennsylvania's local governments, regardless of size or resources, secure the future retirement of their employees by providing comprehensive, cost efficient and professional pension administration services through a pension plan tailored to the participants' and sponsor's requirements.

Our Vision

To be Pennsylvania local governements' pension administrator ***of choice.***

On the Cover: Commonwealth, a 17' 8", 3 ton, gilded bronze statue, was originally placed on the dome of the capitol Building on May 25, 1905. She is the "symbolic embodiment of the Commonwealth of Pennsylvania". The statue's right arm is outstretched in the symbol of mercy, and her left arm is raised and grasping a ribbon-garland staff, the symbol of justice surmounted by a traditional Federal eagle.

Excerpt from the Department of General Services website

Pennsylvania Municipal Retirement System

Comprehensive Annual Financial Report For the Year Ended December 31, 2003

Douglas K. Bowen
Chairman
Pennsylvania Municipal Retirement Board

James B. Allen
Secretary
Pennsylvania Municipal Retirement System

Report prepared by the Pennsylvania Municipal Retirement System staff

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Letter of Transmittal

Pennsylvania Municipal Retirement System
Commonwealth of Pennsylvania
P.O. Box 1165, Harrisburg PA 17108-1165
Phone: (717) 787-2065 (800) 622-7968
Fax: (717) 783-8363
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July 31, 2004

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

As part of our continuing commitment to full financial reporting for the Pennsylvania Municipal Retirement System (the System), we are honored to submit the System's Comprehensive Annual Financial Report for the fiscal year ended December 31, 2003. Consistent with the requirements of the Pennsylvania Municipal Retirement Law, Act of 1974, P.L. 34, No. 15 (the Act) as amended, the System distributes the Comprehensive Annual Financial Report to our governing board, to the members of the General Assembly of Pennsylvania, to each participating municipal employer, and to all other interested parties upon request.

The System is solely responsible for the accuracy of the data in this report. As the two individuals responsible for the System's financial record as of December 31, 2003, we offer our assurances that we have made every effort to present a comprehensive report. To the best of our knowledge, the enclosed information is accurate in all material respects.

Overview of the System

The Pennsylvania Municipal Retirement System, which is an agent multiple-employer system, is headquartered in Harrisburg, Pennsylvania. The System is a state retirement agency created by the Pennsylvania General Assembly in 1974. Responsibility for the organization and administration of the System is vested in the eleven-member Pennsylvania Municipal Retirement Board (the Board).

The System administers sound, cost-effective pension plans on a contracted basis for local government employees throughout the Commonwealth. Our services include accounting services, actuarial valuations, employee consultation and record keeping, and asset management. Any Pennsylvania county, city, town, township, borough, municipal authority, or institution supported and maintained by a municipality may participate. All participating plans as of December 31, 2003 are listed in the Statistical Section of this report.

The System offers various plan designs: defined benefit, defined contribution, and hybrid. The annual benefit is dependent upon the individual municipality's contracted benefit package because each pension plan is designed based on each municipality's individual needs. Benefits provided to participants in the System are typically dependent upon both age and service requirements. In addition to standard monthly pension benefits, plans routinely include provision for vesting, disability benefits, survivor benefits, and death benefits. The plan cost is determined by individual plan characteristics. The

Letter of Transmittal *(Continued)*

System's individual plans may have a municipal contribution and an employee contribution or just an employer charge. Municipal contributions typically range from 4% to 12% of projected payroll for municipal employees and from 12% to 20% for police and firefighters. The employee contribution is determined by plan contract. In 2003, plan requirements ranged from no employee contribution to as high as 7.5% of earnings.

2003 CAFR

The 2003 Comprehensive Annual Financial Report (CAFR) format follows the required Governmental Accounting Standards Board (GASB) Statement No. 25. The annual report is presented in five sections: introductory, financial, investment, actuarial, and statistical. The Introductory Section contains this Letter of Transmittal, the System's administrative organization, the Chairman's Report, and a summary of plan provisions; the Financial Section presents the opinion of the System's independent auditors, Clifton Gunderson LLP, and the financial statements of the System with accompanying notes and schedules, including management discussion and analysis (MD&A) on page 17, which describes the financial performance of the plan; the Investment Section contains an overview of the System's investment activities and policies and an overview of the System's revenues by source, expenses by type, administrative expenses, and investments; the Actuarial Section presents the opinion of the System's independent actuarial firm, The Segal Company, and the results of its annual actuarial valuation; and the Statistical Section includes significant financial and demographic data presented on a multi-year basis and the Schedule of Participating Employers.

Economic Environment

The economic environment in the United States during 2003 can be divided into two distinct phases. The year began with uncertainty due to the military build-up in Iraq, the United States politicians debating a tax cut proposal, and the Federal Reserve Board sending mixed messages about "deflation". By mid year however, much of the ambiguity had been resolved and the economy was off and running. The economy expanded in 2003, its growth spurred by a quick and decisive victory over Baghdad, the Federal Reserve Board lowered the Federal funds rate to 1.0% (indicating that it would remain there for the foreseeable future), and a significant Federal tax cut was adopted.

The gradual change that overtook the markets can be likened to that of a reluctant pessimist being converted to a devout optimist. For the first time in three years the equity markets saw positive returns. In the United States, the S&P finished the year up 28.7% and the broad market (the Russell 3000), was up 31.0%. International equities produced even stronger returns; the Solomon Broad Market Index saw over a 36.0% return for the year. Bonds also added to the positive tone since the fixed income sector, as measured by the Lehman Aggregate Bond Index, was up 4.1% for the year. Overall, strong numbers made believers out of investors.

Financial Information

The system's financial statements were prepared in accordance with generally accepted accounting principles of government accounting and reporting as adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The financial statements and the required supplementary information in the report have been prepared in accordance with the standards for disclosure following GASB Statement No. 25, 34, and 37 guidelines. The accrual basis of accounting is used to record all financial transactions including assets, liabilities, revenues, and expenses. Gains and losses on sales and exchanges of investments are recognized on the transaction date. Significant accounting policies are detailed in the Financial Section under "Notes to Financial Statements."

Letter of Transmittal *(Continued)*

The System's net assets totaled $1,112,540,619 as of December 31, 2003. In 2003, the System's net assets increased by $195,866,940. Investment-related gains increased the portfolio by $208,542,292 and contributions added an additional $29,726,673. Benefit payments and administrative expenses reduced the total assets by $42,402,025. Additional information on the System's assets is detailed in the Financial Section ("Statements of Plan Net Assets" and "Statements of Changes in Plan Net Assets").

The System has established internal computerized control policies and procedures for the review and verification of all receipts and payments made to and from the fund. In addition, the System's staff prepares a yearly budget which must be adopted by the Board. The budget is also presented to and reviewed by the Local Government Committees of the Pennsylvania House and Senate at least two months prior to the beginning of the fiscal year. The committees can approve the budget, reject it, or take no action by the end of the year in which case the proposed budget becomes final. Budgetary controls include monthly review and presentation by management with bimonthly Board reviews. The 2003 administrative budget was adopted in September 2002 and set at $2.787 million exclusive of investment fees. Expenditures (exclusive of investment fees and depreciation) in 2003 amounted to $2,532,817. More information on the System's expenses are included in the Financial Section of this report ("Schedule 3 - Administrative Expenses").

Revenues

The System was established by law to pay pension benefits when due. It accumulates sufficient funds to pay benefits through employee contributions, employer contributions, and investment earnings. The following schedule presents a summary of revenues for the fiscal year ended December 31, 2003, and also shows the amount and percentage of increases and decreases in relation to December 31, 2002 revenues.

Additions to Plan Net Assets	2003 Amount	Percent of Total	2002 Amount	Increase (Decrease) from 2002	Percent of Increase (Decrease)
Member Contributions	$ 14,760,323	6.20%	$13,639,485	$1,120,838	8.22%
Municipal Contributions	14,696,210	6.07	28,836,362	(14,140,152)	(49.04)
Assessments	270,140	0.11	260,020	10,120	3.89
Investment Income	208,542,292	87.52	(82,539,550)	291,081,842	(352.66)
Total	**$ 238,268,965**	**100.00%**	**$(39,803,683)**	**$278,072,648**	

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 vary according to the type of pension plan. Under Articles II and III of the Act, members are required to contribute 3% to 8% 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.

Investment revenues are a combination of earnings from bonds, equities, real estate, and a short-term cash management fund. During the 2003 fiscal year, the fair value of the System's investment portfolio increased from $946,930,404 to $1,167,065,973. The largest portions of the investment revenue increase came from domestic and international equities.

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. Any fluctuation in assessments is caused by the number of

Letter of Transmittal *(Continued)*

members per municipality and can be affected by employee turnover or new plans being added or plans leaving the System in previous years.

Six-year historical trend information listing the System's revenues by source is presented in Part I of the Statistical 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, 2003, and shows the percentage of increases and decreases in relation to December 31, 2002 amounts.

Deductions from Plan Net Assets	2003 Amount	Percent of Total	2002 Amount	Increase (Decrease) From 2002	Percent of Increase (Decrease)
Annuity benefits	$ 31,239,450	73.67%	$28,674,963	$2,564,487	8.94%
Disability benefits	972,741	2.29	900,762	71,979	7.99
Terminations	7,578,995	17.88	8,502,709	(923,714)	(10.86)
Administrative	2,610,839	6.16	2,406,732	204,107	8.48
Total	**$42,402,025**	**100.00%**	**$40,485,166**	**$1,916,859**	

The major expense-related items for 2003 were payment of benefits, refunds of withdrawing plans, refunds of contributions due to termination or death, and administrative expenses. The System processed three plan withdrawals with returns of over $2.9 million.

A breakdown of the System's expenses including six-year historical trend information is presented in Part I of the Statistical Section of this report.

Investment Highlights

The PMRS Board was pleased and relieved to see the financial markets turn in a positive performance for the year 2003. Seeking to add value to the plans enrolled in the System, the Board adopted a diversified investment strategy that combines discipline and integrity. The success of this approach was measured in a return on investments of 23.7% for the year. The investment portfolio totaled $939,913,747 when the year began but ended at a market value of $1,165,574,132, exclusive of short-term assets held by the System's Master Custodian, the Treasurer of the Commonwealth. This return placed the fund in the top 28.0% of all funds measured by the Independent Consultants Cooperative (ICC) Universe. The ICC Universe measures and compares the returns of over 14,000 pension portfolios. The five-year return, as measured by the System's investment consultant, Dahab Associates was 5.0% per annum, which placed the fund in the top 33.0% of the ICC Universe.

The Board made no changes in asset managers, investment consultants, or asset allocation policy during 2003. Additional information concerning 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

Letter of Transmittal *(Continued)*

operating income for the 2003 fiscal year was $195,866,940. This represents an increase in the fund balance of 21.7% over the 2002 fund balance.

To comply with GASB Statement No. 25 disclosure requirements, the "Schedule of Funding Progress" was calculated based on the most recent actuarial valuation dated January 1, 2003. As illustrated in the schedules under "Required Supplementary Information," the System's funded ratio in relation to the System's current actuarial value of assets is adequate to fund the System's actuarial accrued liabilities. Additional information on the System's actuarial value, liabilities, and funding progress can be found in the Actuarial and Financial Sections of this report.

As an agent multiple-employer Public Employee Retirement System (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. Detailed information on the System's plan funding can be found in the Financial Section (Schedules 1 and 2) and the Actuarial Section of this report under Exhibit I.

Major Initiatives

In 2003 the System's trustees made significant progress on implementing a series of reforms that were initiated through a management review of the agency in 2002. The most visible enterprise was the adoption of organizational Mission and Vision Statements. This effort allowed the agency to refocus the Board and staff's attention on fulfilling the agency's fundamental purpose, "To be Pennsylvania local governments' pension administrator of choice." Efforts to fulfill this goal were evidenced in the expansion of staff, a concentration on the timely delivery of the System's product, and continuing re-evaluation of processes and procedures. The effort was made slightly more difficult due to the retirement of two of the agency's key management team. As the year ended, however, a revitalized and attentive staff was in place and striving to deliver the agency's promise.

A second initiative which occupied a significant portion of the trustees 2003 business agenda, related to what the Board has come to call "transparency in trading." The Board's preoccupation with ensuring best execution when trading securities at the least cost was actually ahead of what was to become a major news story by year-end 2003; trading abuses in the financial markets. The System deliberated on numerous aspects of the "back-room" operations of the fund's managers. While not identifying "timing abuses," the trustees attacked trading integrity, soft dollar expenditures, and explored ways to reduce transactional expenses. The year ended with many questions left unanswered which has caused the Board to develop one very clear mandate; bring transparency to any activity involving the fund's trading costs.

Professional Services

The financial information in this report has been audited by the independent accounting firm of Clifton Gunderson LLP, which is completing year two of a three-year contract. The actuarial information was prepared with the help of E. Greenblum, consulting actuary from The Segal Company. The Segal Company is in year three of a five-year competitively bid contract. The investment information was prepared with the cooperation of the System's independent investment consultant, R. Dahab of Dahab Associates. This firm is completing year four of a five-year contract that was competitively bid. The Board and staff sincerely appreciate the cooperation and commitment of these three advisors in providing information for the preparation of this report.

Acknowledgments

We must recognize and express our sincere appreciation to the individuals who are so instrumental to the operations of the System. First and foremost, we salute our Board members for their dedicated service to the System. Their dependability,

Letter of Transmittal *(Continued)*

commitment to serving the System's members, dedication, and guidance are most appreciated. Board members serve the System without financial remuneration other than travel expenses for Board meetings, seminars, and conferences.

We also thank the System's staff for providing materials and information needed to compile this financial report. The staff is commended for its teamwork and concerted efforts to meet deadlines without detracting from the quality or accuracy of the report.

The third and most important thank you goes to our individual plan members, contact persons, and governing boards. We appreciate your continued support and trust. Thank you for the privilege of administering your pension needs.

Respectfully submitted,

Reynold E Witmer
Reynold E. Witmer
Chief of Accounting

James B. Allen
James B. Allen
Secretary

GFOA 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, 2002

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Administrative Organization
Pennsylvania Municipal Retirement Board
as of December 31, 2003

Douglas K. Bowen
Chairman
Represents Pennsylvania municipal authorities

Robert T. Umstead
Vice-Chairman
Represents Pennsylvania boroughs

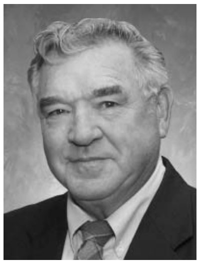
Pedro A. Cortés
Secretary of the Commonwealth (ex-officio) represented by Andrew Sislo, Chief of Staff

Barbara Hafer
State Treasurer (ex-officio) represented by Joseph Jardine

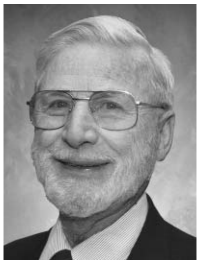
John A. Haiko
Represents Pennsylvania State Association of Township Supervisors

Dawn C. Knapp
Represents Pennsylvania State Firefighters Association

Linda L. Lingle
Represents Pennsylvania League of Cities



Paul S. McMillen
Represents Pennsylvania State Association of County Commissioners



Anthony Spagnolo
Represents First Class Township Commissioners

Vacant: represents Pennsylvania Municipal Retirement System retired members

Vacant: represents Pennsylvania police officers

Administrative Staff
as of December 31, 2003

James B. Allen
Secretary

Kristine M. Gibboney
Assistant Secretary

Reynold E. Witmer
Accounting
Division Chief

Benjamin F. Mader
Membership Services
Division Chief

Michael G. Mortimer
Chief Technology
Officer

Lee Hughey
Municipal Services
Division Chief

Cynthia L. Davis
Operations
Division Chief

Professional Consultants
as of December 31, 2003

Actuary
The Segal Company
Washington, DC
Eli Greenblum
FSA, MAAA, EA

Auditor
Clifton Gunderson LLP
Timonium, MD
Independent Auditors
William F. Blair

Comptroller
Commonwealth of Pennsylvania
Harrisburg, PA
Central Services
Shirley McCormick

Investment Consultant
Dahab Associates, Inc.
Bay Shore, NY
Richard E. Dahab, C.F.A.
President

Legal Counsel
Commonwealth of Pennsylvania
Harrisburg, PA
Gerald Gornish
Chief Counsel

Master Custodian
Mellon Bank Corporation
Pittsburgh, PA

Investment Advisors

Black Rock Financial Management, Inc.
Philadelphia, PA
Wayne Archambo, Managing Director

The Boston Company Asset Management, Inc.
Boston, MA
Paul Lehy, Vice President

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

CIGNA Investment Management
Hartford, CT
William Carlson, Senior Managing Director

Emerald Advisers, Inc.
Lancaster, PA
Kenneth G. Mertz II, President

Forest Investment Associates, Inc.
Atlanta, GA
L. Richard Doelling, Director of Client Relations

Heitman Capital Management
Chicago, IL
Mary Ludgin, President

Mercator Asset Management, L.P.
Boca Raton, FL
James E. Chaney, President, JXC Corp.

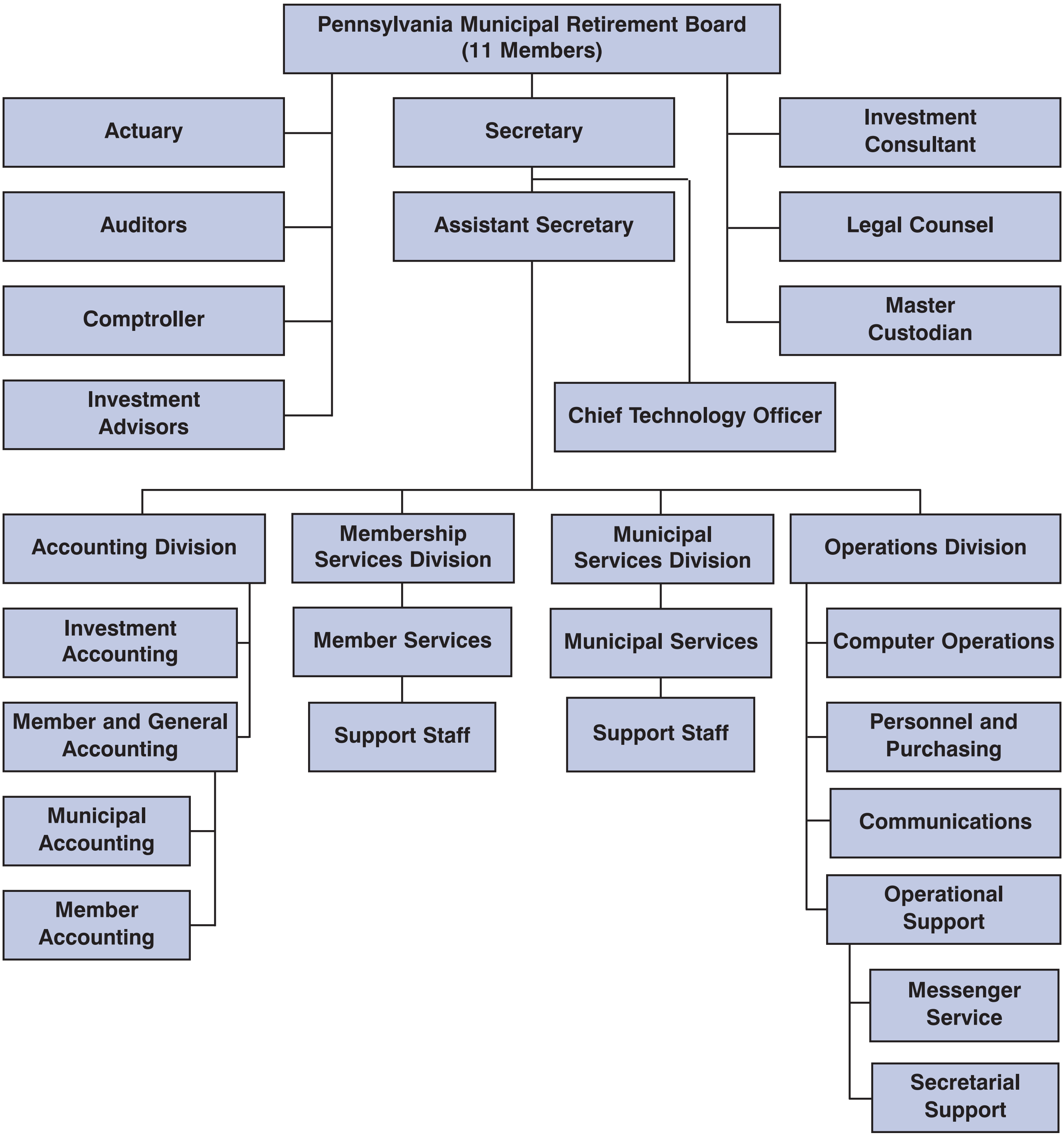
Prudential Real Estate Investors (PRISA)
Parsippany, NJ
Lester F. Lockwood, President

Seix Investment Advisors
Woodcliff Lake, NJ
Christina Seix, Chairman

State Street Global Advisors
Boston, MA
James Thorsen, CFA

Wadell & Reed Investment Management Corp.
Overland Park, KS
Thomas Mingel, Senior Vice President

Organization Chart



Chairman's Report

Pennsylvania Municipal Retirement System
Commonwealth of Pennsylvania
P.O. Box 1165, Harrisburg PA 17108-1165
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July 31, 2004

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

Dear PMRS Members:

I am pleased to share with you the System's 2003 Comprehensive Annual Financial Report. The Board's commitment to providing comprehensive disclosure of the System's financial activities is evidenced in this document. The enclosed is intended to capture the System's complete 2003 financial history.

In the 2002 report, it was observed that "…the turn around in the equity markets at the end of 2002 portend nothing but good news." Despite 2003's tumultuous beginning due to the war in Iraq, the threat of SARS, and a very sluggish job growth, these observations proved to be right on the mark. The financial markets continued to build strength. The System's assets were $900 million on December 31, 2002, and increased to $1.1 billion by December 31, 2003. The System's portfolio out-performed 87.0% of the U.S. public pension funds by yielding a 23.7% annual return. Much of the System's investment success came about due to the Board's commitment to a long-term, diversified asset allocation process.

Our strength in providing professional, cost-effective pension management was measured and tested in 2003 by an independent management review of the System's operations. While there were several suggestions offered to strengthen the efforts of the management team, the initial recommendation was to focus and unite the Board and the staff by adopting both a Mission and a Vision Statement. The successful completion of this charge produced a renewed pledge to customer service.

The year also brought the appointment of two new Board members to fill long vacant positions. The newest Board members are Ms. Linda L. Lingle who represents Pennsylvania cities and Mr. John A. Haiko, representing townships of the second class. In addition, we welcome Mr. Pedro A. Cortés as Pennsylvania's newest Secretary of the Commonwealth and Board member.

On behalf of all the Board and staff, I thank the many municipal officials, their staffs, and all individual plan members for your continued support of PMRS. We appreciate the opportunity you have given us to serve you.

Sincerely,

Douglas K. Bowen
Chairman

Summary of Plan Provisions[1]

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 service-connected 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 annuity of 50% of the disabled individual's final average salary offset by worker's compensation, and (2) a nonservice disability with a minimum of 10 years' service and a 30% 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 leave the member's accumulated contributions in the System and defer receipt of benefits until normal retirement age. Then when the member receives the vested benefits, checks will include the member contributions and the municipal contributions.

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% survivorship annuity
- **Option 3:** Joint and 50% survivorship annuity

[1] Descriptions are not identical to those in the audit report. Information has been rewritten for ease of understanding.

Continued on next page

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 the accumulated deductions and interest earned at the regular rate of interest, currently 6.5%. 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 the service credits unimpaired to the new municipal employer.

Financial Section

- Report of Independent Auditors
- Management's Discussion and Analysis
- Basic Financial Statements
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  - Statements of Changes in Plan Net Assets
  - Notes to Financial Statements
- Required Supplementary Information
  - Schedule of Funding Progress
  - Schedule of Required Employer Contributions
  - Notes to Required Supplementary Schedules
- Supplemental Schedules
  - Administrative Expenses
  - Investment Expenses
  - Payment to Consultants

Report of Independent Auditors

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Board of Directors
Pennsylvania Municipal Retirement System
Harrisburg, Pennsylvania

We have audited the accompanying basic financial statements of the Pennsylvania Municipal Retirement System (the System) as of and for the years ended December 31, 2003 and 2002, as listed in the table of contents. 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 auditing standards generally accepted in the United States of America. 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 System's plan net assets as of December 31, 2003 and 2002, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and Supplemental Schedules of Funding Progress and Required Employer Contributions (Schedules 1 and 2) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory, Investment, Actuarial and Statistical sections, as well as Supplemental Schedules 3 through 5, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Supplemental Schedules 3 through 5 have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are presented fairly, in all material respects, in relation to the basic financial statements taken as a whole. The Introductory, Investment, Actuarial and Statistical sections have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Baltimore, Maryland
June 10, 2004

Management’s Discussion and Analysis

This section presents management's discussion and analysis of the Pennsylvania Municipal Retirement System's (PMRS, the System) financial performance for the fiscal years ended December 31, 2003 and 2002. It is presented as required supplemental information to the financial statements.

Overview of Financial Statements

PMRS administers sound, cost-effective pension plans on a contracted basis for local government employers throughout the Commonwealth. Any Pennsylvania county, city, town, township, borough, municipal authority, or institution supported and maintained by a municipality may participate.

The Statements of Plan Net Assets provide a snapshot of the financial position of PMRS at December 31, 2003, including comparative amounts for the prior year.

The Statements of Changes in Plan Net Assets summarize PMRS' financial activities that occurred during the fiscal period from January 1, 2003 to December 31, 2003, including comparative amounts for the prior year.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements.

The Required Supplementary Information immediately following the Notes to Financial Statements provide two schedules showing historical information concerning the funded status of PMRS and the employers' contributions.

The remaining supplementary schedules provide additional detailed information concerning the operating expenses, investment expenses, and payments to noninvestment consultants. All of this supplemental information is considered useful in understanding and evaluating the financial activities of PMRS.

Financial Highlights

- PMRS' plan net assets increased by $195 million from $917 million at December 31, 2002 to $1,112 million at December 31, 2003. The increase is primarily attributable to a net gain on investments.
- The funded ratio as of the latest actuarial valuation dated January 1, 2003 decreased from 118.1% to 113.6%. The decrease is due to actuarial experience losses.
- The rate of return for the year ended December 31, 2003 was a net gain of 23.7% compared to the year ended December 31, 2002 which was a net loss of (8.9%).
- Total employee and employer contributions decreased from $43 million in 2002 to $30 million in 2003.
- Total pension plan benefit payouts increased by 4.5% from $38.1 million during 2002 to $39.8 million during 2003.
- Administrative expenses increased by 8% from $2.4 million during 2002 to $2.6 million during 2003 and were within PMRS' budgeted amounts for both years.

Funded Status

PMRS uses an actuarial reserve of funding that is financed by member contributions, employer contributions, and earnings from invested assets. An independent actuarial valuation of PMRS' actuarial assets and liabilities is performed bi-annually. As part of this valuation, the progress toward funding pension obligations of the retirement system is measured by comparing the actuarial value of assets to the actuarial accrued liability. This measurement is referred to as the funded ratio or funded status. PMRS is 100% funded, which is one indicator of the financial soundness of the plan. The most recent actuarial valuation reports that PMRS is 113.6% funded as of January 1, 2003. The results of operations for 2002 and 2001 are reflected in the actuarial valuation as of January 1, 2003.

Management's Discussion and Analysis *(Continued)*

Summary of Plan Net Assets
as of December 31, 2003 and 2002

Analysis of Plan Assets

	2003	2002	Change
		(In Thousands)	
Assets			
Receivables	$ 9,153	$ 12,277	$ (3,124)
Investments	1,114,676	915,096	199,580
Securities Lending Collateral Pool	52,390	31,834	20,556
Capital assets	351	393	(42)
Total assets	1,176,570	959,600	216,970
Liabilities	64,029	42,926	21,103
Total plan assets	**$1,112,541**	**$916,674**	**$195,867**

Summary of Changes in Plan Net Assets

	2003	2002	Change
		(In Thousands)	
Additions:			
Contributions	$ 29,727	$ 42,736	$(13,009)
Net investment gain (loss)	208,542	(82,540)	291,082
Total additions	238,269	(39,804)	278,073
Deductions:			
Benefit payments and terminations	39,791	38,078	1,713
Administrative expenses	2,611	2,407	204
Total deductions	42,402	40,485	1,917
Total changes in plan net assets	$195,867	$(80,289)	$276,156

See accompanying notes to financial statements.

Management's Discussion and Analysis *(Continued)*

Investments

PMRS is a long-term investor and the Board manages the Fund with long-term objectives in mind. A primary element of PMRS' investment philosophy is that diversification among various asset classes is the best way to achieve its goals. PMRS makes estimates of future long-term market returns and establishes an asset allocation plan taking into account the risk associated with each asset class as well as the financial objectives of the Fund.

For 2003, PMRS' rate of return on investments was a net gain of 23.7%, which is primarily attributable to the positive returns in the domestic and international equity markets. The annualized rate of return over the past three and five years ended December 31, 2003 was 2.7% and 5.0%, respectively. The Fund's long-term actuarial investment return assumption is 6.5%.

The asset distribution of PMRS' investment portfolio at December 31, 2003 and 2002, at fair market value was:

Asset Class	2003	%	2002	%
		(In Thousands)		
Short term	$ 26,827	2.4%	$ 32,730	3.5%
Fixed income	247,674	22.2	237,785	26.0
Common and preferred stock	559,160	50.2	450,588	49.3
International stock	172,786	15.5	88,565	9.7
Real estate equity	108,229	9.7	105,428	11.5
Total	**$1,114,676**	**100.0%**	**$915,096**	**100.0%**

Fixed Income

Fixed income increased approximately $10 million from December 31, 2002 to December 31, 2003, primarily due to income earned during 2003.

Common and Preferred Stock

Common and preferred stock including international stock increased approximately $193 million from December 31, 2002 to December 31, 2003, primarily due to appreciation in the domestic and international equity markets.

Real Estate Equity

Real estate equity increased approximately $3 million from December 31, 2002 to December 31, 2003 due to the market appreciation in fair value in 2003.

Contributions and Investment Income

During 2003, contributions from employers and members total $29.7 million compared to $42.7 million during 2002. Net investment gaines during 2003 were $209 million compared to net investment losses of $(83) million during 2002. Investment gains were primarily attributable to appreciation in fair values in the domestic and international equity markets during the last year. Investment expenses also offset net investment gains as a deduction. See the "Pension Plan Benefits and Expenses" section that follows for an analysis of investment expenses.

Management's Discussion and Analysis *(Continued)*

Pension Plan Benefits and Expenses

The primary source of expense during 2003 was for payment of pension benefits totaling $39.8 million compared to $38.1 million during 2002. Pension benefits increased $1.7 million due to new annuitants receiving greater monthly benefits. Investment expenses increased $.2 million from $2.4 million during 2002 to $2.6 million during 2003 due to the increase in fair value of investments under management. Administrative expenses totaled $2.6 million during 2003 as compared to $2.4 million during 2002.

Financial Contact

The System's financial statements are designed to present users with a general overview of the System's finances and to demonstrate the trustee's accountability. If you have any questions about the report or need additional information, contact the Chief, Accounting Division of Commonwealth of Pennsylvania, Pennsylvania Municipal Retirement System at P. O. Box 1165, Harrisburg, PA 17108-1165.

STATEMENTS OF PLAN NET ASSETS

December 31, 2003 and 2002

	2003	2002
ASSETS		
Receivables:		
Plan members	$ 2,105,944	$ 1,843,145
Municipal employers	101,601	1,863,530
Accrued investment income	2,671,270	2,489,980
Investment sales receivable	4,274,617	6,080,017
Total receivables	**9,153,432**	**12,276,672**
Investments, at fair value:		
Short-term and other investments	26,826,684	32,729,664
U.S. Government bonds	158,218,589	153,066,556
Corporate bonds	89,455,108	84,718,668
Common and preferred stocks	559,160,076	450,588,043
Real estate equity	108,228,964	105,427,871
International equities	172,786,415	88,564,928
Total investments	**1,114,675,836**	**915,095,730**
Securities lending collateral pool	52,390,137	31,834,674
Capital assets, (net of accumulated depreciation of $658,031 ands $580,009, respectively)	350,702	392,956
Total assets	**1,176,570,107**	**959,600,032**
LIABILITIES		
Accounts payable and accrued expenses	1,177,467	896,762
Investment purchases payable	10,461,884	10,194,917
Collateral held under securities lending program	52,390,137	31,834,674
Total liabilities	**64,029,488**	**42,926,353**
Net Assets Held in Trust For Pension Benefits	**$1,112,540,619**	**$916,673,679**

(A schedule of funding progress is presented in the Required Supplementary Information section.)

These financial statements should be read only in connection with the accompanying notes to financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

Years Ended December 31, 2003 and 2002

	2003	2002
Additions		
Contributions:		
Plan members	$ 14,760,323	$ 13,639,485
Municipal employers	14,696,210	28,836,362
Assessments	270,140	260,020
Total contributions	**29,726,673**	**42,735,867**
Investments income:		
Net appreciation (depreciation) in fair value of investments	173,076,063	(51,069,123)
Short-term and other investments	655,601	960,504
U.S. Government bonds	8,507,501	4,247,329
Corporate bonds	3,382,192	3,314,126
Common and preferred stocks	17,779,153	(41,426,967)
Real estate equity	6,371,010	6,955,318
International equities	734,074	(3,665,121)
Securities lending collateral pool	613,074	564,458
Less investment expenses	(2,576,376)	(2,420,074)
Net investment income (loss)	208,542,292	(82,539,550)
Total additions	**238,268,965**	**(39,803,683)**
Deductions		
Annuity benefits	31,239,450	28,674,963
Disability benefits	972,741	900,762
Terminations	7,578,995	8,502,709
Administrative expenses	2,610,839	2,406,732
Total deductions	**42,402,025**	**40,485,166**
Net increase (decrease)	**195,866,940**	**(80,288,849)**
Net assets held in trust for pension benefits:		
Balance, beginning of year	**916,673,679**	**996,962,528**
Balance, end of year	**$1,112,540,619**	**$916,673,679**

(A schedule of funding progress is presented in the Required Supplementary Information section.)

These financial statements should be read only in connection with the accompanying notes to financial statements.

Notes to Financial Statements
as of December 31, 2003

(1)
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). Under the Act, each individual municipality has authority to establish or amend its respective benefits and employee contribution rates subject to Board approval. Employer contributions are actuarially determined by the System's actuary.

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. As of January 1, 2003, there were 656 municipalities with defined benefits and 163 with defined contributions. Membership consisted of:

Participating Local Government Employees

	Defined Benefits	Defined Contributions
Counties	4	0
Cities	17	0
Boroughs	145	22
Townships of the First Class	19	1
Townships of the Second Class	137	89
Authorities and Other Units	157	42
Police	168	9
Firefighters	9	0
Total	**656**	**163**

Notes to Financial Statements *(Continued)*

Individual Membership

Active Members	
Defined Benefit Plans:	
Municipal	7,265
Police	711
Firefighters	166
Total	**8,142**
Defined Contribution Plans:	
Municipal	786
Police	11
Firefighters	0
Total	**797**
Total active members	**8,939**
Retirees and Beneficiaries	
Retirees	2,534
Beneficiaries	393
Total retirees and beneficiaries	**2,927**
Inactive participants with rights to deferred pension (vested)	
Defined benefit	473
Defined contribution	100
Total vested	**573**
Inactive participants (nonvested)	
Defined benefit	177
Defined contribution	0
Total nonvested	**177**
Total individual memberships	**12,616**

Pension 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 structures: one for municipal employees (Article II of the Act) and one for uniformed employees (police and fire fighters) (Article III of the Act). Certain elected officials are not permitted to become System members, as outlined in individual municipal ordinances. 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 that is based upon a percentage of a member's salary or compensation.

The benefit structures 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.

Automatic postretirement benefit increases are optional in plan contracts. Some plan member municipalities include the automatic increase; others occasionally grant an ad hoc cost-of-living (COLA) increase. The most common method of granting a COLA is through the System's excess interest award. (See Note 3 for an explanation of excess interest.)

Notes to Financial Statements *(Continued)*

Member municipalities interested in amending benefits contact the System's staff to discuss desired amendments and to obtain a cost study. Amendments are submitted to the System's staff, reviewed by the Chief Counsel's Office to be certain everything is in order, and submitted to the Board for formal approval.

(2) Significant Accounting Policies

Basis of Accounting

The System's financial statements are prepared on the accrual basis of accounting. Employee and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Expenses are recorded when the corresponding liabilities are incurred.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reported period. Actual results could differ from those estimates.

Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgage-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals every three years. In years for which an appraisal is not performed, real estate investments and investments that do not have an established market value are reported at estimated fair values. Purchases and sales of investments are recorded on a trade-date basis.

Capital Assets

Capital assets, primarily office furniture and equipment, are recorded at cost. Depreciation is provided on the stright-line method over the estimated useful lives of the assets, typically three to eight years.

(3) Contributions and Reserves

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% 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, 2003 consisted of the following:

	2003	2002
Municipality normal cost	$ 21,487,218	$ 21,540,832
Amortization of unfunded actuarial accrued liability	(8,830,705)	5,895,054
Total[(1)]	**$ 12,656,513**	**$ 27,435,886**

[(1)]Total does not include $20 per member administrative charges to municipalities.

Notes to Financial Statements *(Continued)*

Total contributions to the System during 2003 amounted to $29,726,673 of which $14,760,323 and $14,696,210 were made by its members and municipalities, respectively and $270,140 were from assessments.

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 annual required contributions (ARC) of plan member municipalities at rates that accumulate sufficient assets to pay benefits when due. The System's actuary used the Entry Age Normal 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% a year (net of investment and certain administrative expenses) compounded annually, (b) projected salary increases of 3.5% a year compounded annually for inflation, with an additional age-based component to reflect merit/seniority, (c) postretirement cost-of-living increases of 3.5% per annum until the maximum is reached (optional in contracts), and (d) pre- and postretirement mortality based on the 1983 Group Annuity Mortality Table for Males, set back six years for females, and an additional set forward of 10 years for disabled lives.

Reserve Descriptions

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%.

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.

Notes to Financial Statements *(Continued)*

As of December 31, 2003 and 2002, the balance in the Members' Reserve Account was $284,386,004 and $286,610,764, respectively. The account is fully funded.

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%.

As of December 31, 2003 and 2002, the balance in the Municipal Reserve Account was $538,583,165 and $521,492,641, respectively. The account is fully funded.

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' Account at the current rate of 6.5%.

As of December 31, 2003 and 2002, the balance in the Retired Members' Reserve Account was $332,988,305 and $305,822,265, respectively. The account is fully funded.

Disability Reserve Account

The Disability Reserve Account is credited with the contributions made by municipalities toward the disability retirement of member employees. The disability reserves are limited to 150% of the largest value of transfers to retired reserves over the most recent three years.

As of December 31, 2003 and 2002, the balance in the Disability Reserve Account was $760,442 and $664,884, respectively. The account is fully funded.

Undistributed Earnings Designation

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 annually 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.

The System did not distribute excess interest during 2003 and 2002. Such calculation, as described in Note 2, would have been prepared in accordance with a Board-approved formula and would have been based on the actuarial value (fair value) of the System's assets as of December 31, 2003 and 2002, respectively, and the expected cash flows of the System for 2003 and 2002 if excess interest had been distributed.

As of December 31, 2003 and 2002, the Undistributed Earnings Designation Account had a deficit of $44,177,297 and $179,916,875, respectively.

(4)
Investments

Members of the Board are trustees of the System's assets. They have exclusive responsibility for the management of such assets and have full power to invest the System's assets, subject to the term, conditions, limitations, and restrictions 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 "AA," 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.

Notes to Financial Statements *(Continued)*

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 fair 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 also invests in mortgage-backed securities such as GNMA and FNMA obligations. These securities are sensitive to prepayments by mortgagees, which may result from a drop in interest rates. The fair value of such securities, which are reported with Bonds in the System's Statements of Plan Net Assets, approximated $50.1 million at December 31, 2003 and $62.6 million at December 31, 2002.

The System's investments are categorized below to give an indication of the level of risk assumed by the System at December 31, 2003. In accordance with a contractual relationship between the Commonwealth's Treasury Department and a custodial agent, substantially all investments subject to categorization, except those subject to securities lending, 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 that 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 that are uninsured and unregistered, with the securities held by the counterparty's trust department (bank) or agent. The System has no investments that would be classified in Category 2.

Category 3 is defined as investments that are uninsured and unregistered, with the securities held by the System's master custodian (bank) or agent but not in the System's name. The System also has investments that are not in any of the three defined categories, because securities are not used as evidence of the investment. Such investments are separately identified.

The System's exposure to the risk of loss of investments due to errors and omissions on behalf of its advisors is covered by the contractual obligation for the advisors to maintain errors and omissions insurance. The investment managers also must provide proof of a fidelity bond covering the advisor, the office, and its employees.

In accordance with a contract between the Treasurer of the Commonwealth of Pennsylvania and the Treasurer's custodial agent, the System participates in a securities lending program. Under this program, the custodial agent, acting as the lending agent, lends securities (equities, fixed income, and money market instruments) to independent brokers and dealers in exchange for collateral in an amount not less than 102% of the fair value of any securities lent except equity securities of non-U.S. corporations for which 105% of the fair value is required. Collateral is marked-to-market daily. If the fair value of the collateral held falls below the minimum guidelines for securities lent, additional collateral is obtained. In lieu of securities or cash, the borrower may deliver to the lending agent irrevocable bank letters of credit, government securities, or repurchase agreements as collateral. If the collateral obtained consists in whole or in part of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by the State Treasurer.

All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in the lending agent's short-term investment pool. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the securities loans made by other entities that use the lending agent's pool, which the System cannot determine. The System cannot pledge or sell collateral securities received unless the borrower defaults.

As of December 31, 2003, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. Under the securities lending program, the lending agent provides indemnification to the Commonwealth if the borrowers fail to return the underlying securities (and the collateral

Notes to Financial Statements *(Continued)*

is inadequate to replace the securities lent) or fail to pay income distribution on them. As of December 31, 2003 and December 31, 2002, the System's carrying value and fair value of lent securities was $53,592,934 and $31,454,587, respectively. The fair value of associated collateral was $52,390,137 as of December 31, 2003 and $31,834,674 as of December 31, 2002. The System's income, net of expenses, from securities lending was $341,970 for 2003 and $96,879 for 2002. Securities lent at year-end 2003 for cash collateral are presented as unclassified in the following schedule of custodial credit risk.

The System had $52,390,137 and $31,834,674 of cash collateral invested in the custodial agent's short-term collateral investment pool as of December 31, 2003 and 2002, respectively.

		2003	
Investments (Fair Value)	**Category 1**	**Not Categorized**	**Total**
U.S. government bonds	$ 24,608,034	$ 133,610,555	$ 158,218,589
Corporate bonds	52,541,721	36,913,387	89,455,108
Common and preferred stocks	476,613,903	255,332,588	731,946,491
Real estate equity	0	108,228,964	108,228,964
State Treasury short-term investment fund	0	26,826,684	26,826,684
Grand Total	**$553,763,658**	**$560,912,178**	**$1,114,675,836**

		2002	
Investments (Fair Value)	**Category 1**	**Not Categorized**	**Total**
U.S. government bonds	$ 22,348,541	$ 130,718,015	$153,066,556
Corporate bonds	39,507,020	45,211,648	84,718,668
Common and preferred stocks	353,144,627	186,008,344	539,152,971
Real estate equity	0	105,427,871	105,427,871
State Treasury short-term investment fund	0	32,729,664	32,729,664
Grand Total	**$415,000,188**	**$500,095,542**	**$915,095,730**

Investments (other than those issued or guaranteed by the U.S. government) in any one organization that represented 5% or more of the plan's net assets at December 31, 2003 and 2002 were:

Security	**Fair Value**
2003	
State Street Index Fund	$375,376,124
2002	
State Street Index Fund	$299,320,745

(5)
Pension Plan for Employees of the System

The System contributes to the Commonwealth's State Employee's Retirement System (SERS), a cost of sharing multiple-employer defined benefit pension plan. SERS provides retirement, death, and disability benefits to plan members and beneficiaries according to Commonwealth statute. SERS issues a publicity available financial report that can be obtained by writing to SERS, 30 N. Third Street, P.O. Box 1147, Harrisburg, Pennsylvania 17108-1147.

Notes to Financial Statements *(Continued)*

The contribution requirements of plan members and the System are mandated by Commonwealth statute. Most SERS plan members are required to contribute 5.0% or 6.25% of the annual covered payroll depending upon service class. The System is required to contribute at an actuarially determined rate. The rates applied to annual covered payroll were 0.59% at July 1, 2003, 0% at July 1, 2002, and 0.61% at July 1, 2001. The System's annual required contributions to SERS for the years ending December 31, 2003, December 31, 2002 and December 31, 2001 were $4,396, $0, and $4,784 respectively.

(6)
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 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.

(7)
Litigation and Contingencies

The System is subject to various threatened and pending lawsuits that 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.

(8)
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 as of the date of receipt of the application for permission to withdraw. Liability for any continuation of retirement or disability benefits being paid from the System shall attach to the withdrawing municipality.

(9)
Risk Management

Exposure of the System through Board or staff activity is covered by various means. The System acts under the cover of sovereign immunity, participation in the Employee Liability Self-Insurance Program of the Commonwealth of Pennsylvania, the Commonwealth's fidelity bond, and the State Insurance Fund. There have been no significant reductions in insurance coverage from the prior year. Settlements did not exceed insurance coverage for the past three fiscal years.

Required Supplementary Information

Schedule 1

Schedule of Funding Progress[1]

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) --Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/03	$1,084,828,900	955,259,400	$(129,569,500)	113.6%	$293,388,800	(44.2%)
1/1/01	959,454,800	812,645,100	(146,809,700)	118.1	282,113,600	(52.0)
1/1/99	768,038,700	692,084,400	(75,954,300)	111.0	267,134,600	(28.4)
1/1/97	601,852,000	592,427,000	(9,425,000)	101.6	244,678,500	(0.9)

See accompanying notes to required supplementary schedules.

Schedule 2

Schedule of Required Employer Contributions for Last Six Years

Year Ended December 31	Annual Required Contribution (ARC)	Actual Employer Contribution	Percentage Contributed[2]
2003	$12,656,513	$14,696,210	116%
2002	27,435,886	28,836,362	105
2001	20,941,868	21,010,322	101
2000	19,033,043	22,932,542	120
1999	17,954,107	20,054,018	112
1998	19,905,096	23,003,675	116

See accompanying notes to required supplementary schedules.

(1) Historical trend information for years prior to 1997 is unavailable because of changing the reporting format from GASB Statement No. 5 to GASB Statement No. 25 in 1997. As the System has chosen to have actuarial valuations performed biannually for purposes of calculating the actuarial accrued liability as allowed by GASB Statement No. 25, no actuarial valuation was performed as of January 1, 2002, January 1, 2000 or January 1, 1998 except for 10 plans sponsored by distressed municipalities and 4 plans sponsored by counties that are required to redetermine contribution levels as of January 1, 2003 under the applicable Commonwealth statutes (Act 205 of 1984 and Act 293 of 1972).

(2) The difference between the municipalities' required contributions and the percentage contributed is due to various factors including plan takeovers and 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).

Note to Required Supplemental Schedules
as of December 31, 2003 and 2002

Actuarial Methods and Significant Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date:	January 1, 2003
Actuarial cost method:	entry age normal
Amortization method:	level dollar open
Remaining amortization period:	30 years with respect to the initial liability as of January 1, 1985 (or first valuation) 20 years with respect to changes due to plan provisions and actuarial assumptions 15 years with respect to actuarial gains and losses, or the average assumed working lifetime of active employees as of the date the liability was established 10 years with respect to changes in benefits for currently retired members
Asset valuation method:	sum of all audited reserve accounts plus any additional investment income to be distributed as excess interest
Actuarial assumptions	
Investment rate of return:	6.5% compounded annually (net of investment and certain administration expenses)
Projected salary increases:	3.5% inflation and age-related scale for merit/seniority (e.g., age 30 - 6.5%; age 40 - 5.0%; age 50 - 4.6%)
Inflation at:	3.5%
Post-retirement cost-of-living adjustments:	3.5% per annum until maximum is reached (optional in contracts)

Supplemental Schedules
Schedule 3 - Administrative Expenses
Comparative Two-Year Schedule
Years Ended December 31, 2003 and 2002

	2003	2002
Personnel costs:		
Salaries and wages	$1,273,297	$1,150,597
Social security contributions	95,235	86,967
Insurance contributions	271,833	245,923
Other employee benefits	6,686	4,386
Total personnel costs	**1,647,051**	**1,487,873**
Professional costs:		
Performance evaluation	95,000	95,000
Actuarial	278,300	282,010
Data processing	9,561	11,390
Audit	73,179	28,000
Legal	79,031	74,550
Miscellaneous professional	103,834	85,977
Total professional costs	**638,905**	**576,927**
Communication costs:		
Printing	30,722	11,646
Telephone	8,659	12,721
Postage	28,302	28,412
Travel	21,188	30,501
Advertising	3,550	2,605
Total communication costs	**92,421**	**85,885**
Other services and charges:		
Office space rental	108,225	109,263
Equipment leasing	6,937	10,933
Supplies	28,204	18,542
Maintenance	8,636	34,250
Bonding and insurance	1,046	351
Dues and subscriptions	1,392	3,030
Total other services and charges	**154,440**	**176,369**
Depreciation	78,022	79,678
Total administrative expenses	**$2,610,839**	**$2,406,732**

Supplemental Schedules *(Continued)*

Schedule 4 - Investment Expenses
Comparative Two-Year Schedule
Years Ended December 31, 2003 and 2002

	2003	2002
Investment management fees	$2,576,376	$ 2,420,074
Custodial fees (included in administration expenses for financial statement purposes)	7,025	6,954
Total investment expenses	**$2,583,401**	**$2,427,028**

Schedule 5 - Payments to Consultants
Comparative Two-Year Schedule
Years Ended December 31, 2003 and 2002

Firm Name	Nature of Service	2003	2002
Clifton Gunderson, LLP	Auditor	$ 73,179	$ 0
Dahab Associates, Inc.	Investment Consultant	95,000	95,000
Ernst & Young, LLP	Auditor	0	28,000
The Segal Company	Actuary	278,300	282,010
Total		**$446,479**	**$405,010**

Investment Section

- Report on Investment Activity
- Investment Performance
- Portfolio Distribution
- Asset Allocation
- Investment Summary
  - Portfolio Summary
  - Portfolio Quality
  - Portfolio Rates of Return
  - Ten Largest Common Stock Holdings
  - Summary of Fees Paid to Investment Advisors
  - Summary of Commissions Paid To Brokers
- Investment Guidelines

Report on Investment Activity

The information in this "Report on Investment Activity" has been reproduced in part from the December 2003 Pennsylvania Municipal Retirement Board Performance Review, a comprehensive report prepared quarterly by the System's independent investment consultant, Richard Dahab of Dahab Associates, Inc. It is used by the Board and System staff as a tool to gauge the System's investment performance and the individual efforts of the contracted money managers.

Investment Return

On December 31, 2003, the Pennsylvania Municipal Retirement Board's investment portfolio was valued at $1,110,446,976 which was an increase of $205,333,184 from the December 31, 2002 valuation of $905,113,792. The System recorded aggregate net withdrawals totaling $7,996,375 and a net investment return of $213,329,559.

During the period between January 1, 1999 and December 31, 2003, the System posted net withdrawals totaling $47.4 million and net investment returns totaling $237.6 million. If the System had earned a compound 6.5% rate of return during the cumulative period, the fund would have been worth $1,198.1 million or $87.6 million *more* than the actual value at the end of the year.

Economic Environment

The jobless recovery continued to roar along during the fourth quarter at a 4.1% estimated rate. That was well below the 8.2% rate during the third quarter, but still a respectable rate. The economy has now expanded for nine consecutive quarters. The continued expansion was fueled by record low interest rates and the very weak dollar.

The last interest rate cut in June of 2003 pushed the Federal funds rate down to 1 percent, where they remain today. While consumer spending fueled the expansion up until this summer, corporate spending has now taken over. Businesses have reduced their borrowing costs and now as business continues to improve, they are beginning to expand (or rebuild) inventories and strengthen their operations. Lower costs with higher revenues have resulted in higher profits (or smaller losses).

Corporations have been reticent to hire new workers to keep up with the greater demand. New job growth has been lagging greatly. Even though the unemployment rate last quarter fell from 6.1% to 5.7%, the decline was due almost entirely to individuals who gave up their search for work. During the month of December only 1,000 new jobs were created and they were the result of government hiring not private sector hiring.

According to the Bureau of Labor Statistics, if the number of individuals who have given up looking for work and the number who have taken part time jobs but want to work full time were added in, the unemployment rate would be just under 10%.

Currently, industrial capacity is at 74.7% up from 74.1% in June. American businesses can expand production by 10%-15% before there is any impact on efficiency. (For reference, the long-term average is 81.3%.) Therefore, any near term economic growth will tend to show up as a productivity gain as more goods and services are produced by the same number of workers in the same plants.

The U.S. dollar continued to weaken against the euro, from $1.16/euro in September down to $1.26/euro in December. That helped spur U.S. exports and hold down imports. In November exports rose to $90.8 billion and imports fell to $128.6 billion, producing a net deficit of $38 billion, well below earlier figures this year. Inflation was up 0.20% for the month of December, but on a trailing year basis remained very low at 1.9%.

Equity Market

The overall market as measured by the Russell 3000 index was up 12.4% for the quarter. Value outperformed growth, regardless of market capitalization. Large cap value rose 14.2% for the quarter, while large cap growth climbed 10.4%.

Report on Investment Activity *(Continued)*

Small cap value shot up 16.4% and small cap growth returned 12.7%. During the third quarter, the Dow Jones Industrials rose from 9,275 to 10,453, closing at the high for the quarter.

The S&P 500 had a strong quarter and year, up 12.2% and 28.7% respectfully. The Durable Consumer Goods sector was the best performing sector for the quarter, returning 24.9%. At the quarter's end, the average yield of an S&P 500 issue was 1.7%, its average growth rate was 8.7%, and it sold at a price/earnings ratio of 25.7. The p/e ratio remained higher than its historical normal range of 14x to 16x.

International Equities

Exchange rates and currency intervention were the driving factors for returns in international markets. Countries who intervened in the currency markets experienced only a slight disparity of returns whether they were calculated in their home currency or the dollar. Those that allowed the dollar to drop against their local currency had tremendous gains (examples were Germany's quarter return of 21.2% rising to 31.3% or Australia's return rising from 5.6% to 17.5%).

The international equities markets (as represented by the capitalization-weighted EAFE index) rose 17.1% for the quarter and gained 39.2% for the trailing year. On an equal-weighted basis, the EAFE index returns were even higher, rising 18.6% for the quarter and 45.7% for the trailing year.

Emerging markets again surpassed the returns for the developed markets. The MSCI Emerging Markets Free Index rose 17.8% for the quarter and rocketed 56.3% for the year. Regionally, Latin America had the strongest quarter (up 23.9%) as well as year, up 73.7%. For the quarter, Thailand led all emerging markets with a 42.2% gain for the quarter and 144.6% for the year. Turkey trailed closely, returning 40.7% for the quarter and 125.9% for the year.

Bond Market

The Lehman Brothers Aggregate Bond Index rose slightly for the fourth quarter, gaining 0.3%. For the trailing year the index was up 4.1%. Intermediate and long treasuries declined for the quarter but were up for the year. For the quarter, intermediate treasuries fell 0.3% while long treasuries lost 1.2%. For the trailing year, intermediates gained 2.1% and long treasuries rose 2.5%. The U.S. Government Index was also down for the quarter (-0.4%), but gained for the trailing year (2.4%). The Investment Grade Credit Index outperformed governments for the quarter (0.5%), and for the year (7.7%). High yield corporates (junk bonds) had equity-like returns, rising 5.9% for the quarter and 29.0% for the year. The Lehman Global ex-U.S./Euro Index gained 6.5% for the quarter and 18.2% for the trailing year.

The average maturity of the Lehman Aggregate index moved up from 7.4 years to 7.6 years during the quarter. The interest rate sensitivity (duration) rose 0.1 years from 4.4 years to 4.5 years (on an adjusted basis) and the average yield gained 0.2% to 4.2%.

Emerging market bonds were up for the quarter, rising 5.1%, as well as for the year, up 26.9%. Ecuadorian bonds were the best performing emerging market bonds for the quarter and for the trailing year, returning 23.4% and 104.0% respectively.

Cash Equivalents

Short-term yields rose marginally, but remained low during the quarter. The "risk-free" Treasury note return was 0.2%, producing a trailing 12-month total return on cash and equivalents of 1.1%.

Relative Performance

Total Fund

In the fourth quarter, the Composite portfolio returned 9.8%, which ranked above the median in the 26th percentile of the Balanced universe. Over the trailing year, the account returned 23.7%, which ranked above the median in the 28th per-

Report on Investment Activity *(Continued)*

centile. Over the cumulative five-year period covered by this report, the composite portfolio returned 27.4% (5.0% annualized), which ranked above the median in the 33rd percentile.

Equities

For the fourth quarter of 2003, the equity portion of the portfolio gained 12.8%, which ranked above the median in the 49th percentile of the Broad Equity universe, 0.6% greater than the S&P 500 (12.2%). For the trailing twelve-month period, the equity segment posted a gain of 27.0%, which ranked below the median in the 85th percentile, 1.7% less than the SUP 500's gain of 28.7%. The cumulative equity return for the last five-year period was 13.2% (2.5% annualized), which ranked below the median in the 58th percentile, 3.1% above the S&P 500's annualized return of -0.6%.

Bonds

In the fourth quarter, the bond component returned 0.2%, which ranked below the median in the 79th percentile of the Broad Fixed Income universe, 0.1% below the Lehman Aggregate (0.3%). Over the trailing twelve-month period, the bond segment returned 3.7%, which ranked below the median in the 77th percentile, and was 0.4% below the Lehman Aggregate's gain of 4.1%. The cumulative bond return for the last five-year period was 35.9%, or 6.3% annualized, which ranked below the median in the 71st percentile. For comparison, the Lehman Aggregate returned an annualized 6.6% over the same time frame.

Real Estate

For the fourth quarter of 2003, the real estate segment returned 7.0%. For the trailing year, the real estate segment posted a gain of 12.8%. During the cumulative five-year period, the real estate component returned 54.8% (9.1% annualized).

International Equities

For the fourth quarter of 2003, the international equity segment returned 17.0%, which ranked above the median in the 24th percentile of the International Equity universe, 2.8% above the Salomon World index return of 14.2%. Over the trailing four quarters, the international equity component gained 40.1%, which ranked above the median in the 31st percentile, and was 3.7% greater than the index. The cumulative international equity return for the last five-year period was -5.4%, or -1.1% annualized, which ranked below the median in the 97th percentile, 2.6% less than the benchmark's annualized return of 1.5%.

Small Cap

In the fourth quarter, the small cap component gained 15.1%, which ranked in the 44th percentile of the Small Cap universe and was 0.6% better than the Russell 2000. During the trailing four quarters, the small cap portion of the portfolio returned 49.8%, ranking in the 28th percentile. Over the cumulative five-year period, the small cap component recorded a gain of 48.9% (8.3% annualized), which ranked in the 69th percentile and was 1.2% greater than the annualized return of the index (7.1%).

Asset Allocation

On December 31, 2003, the allocation of assets was as follows:

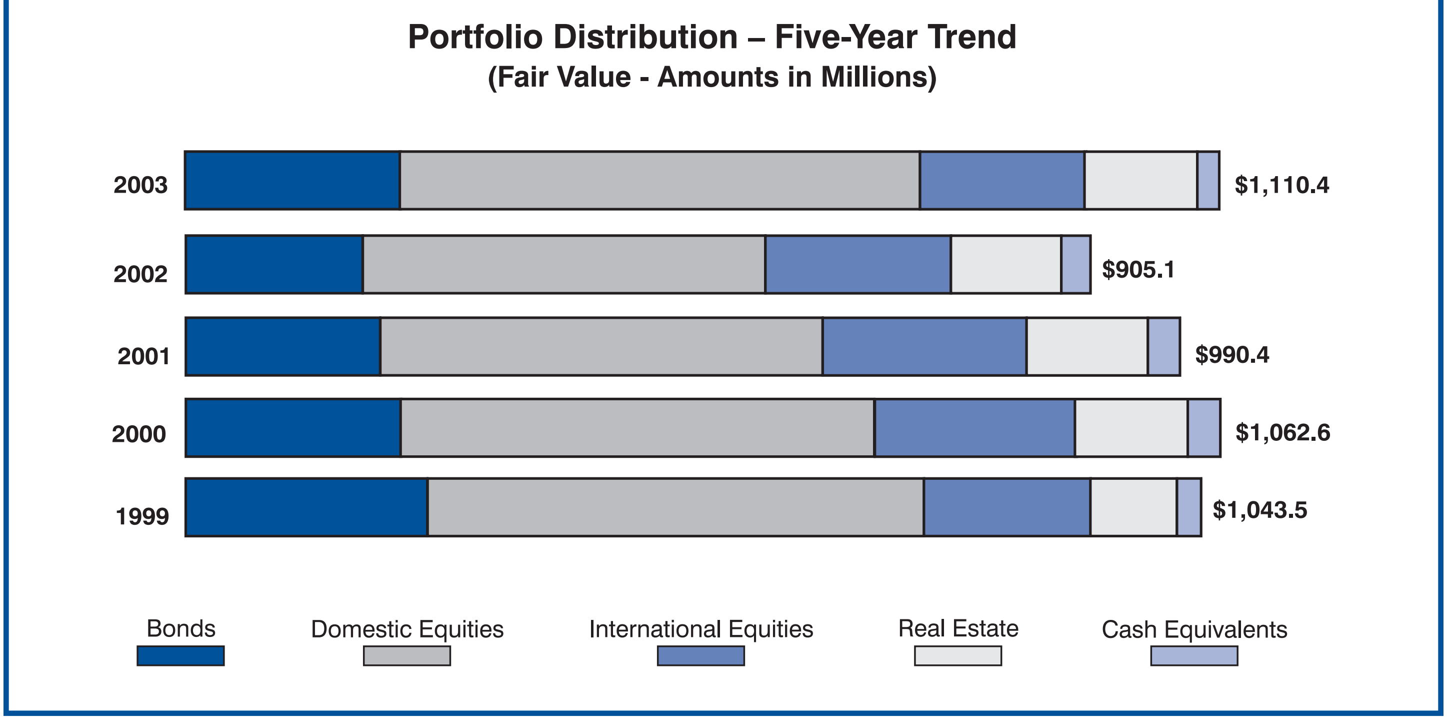
Domestic equities	34.2%	$379,682,350
Small cap equities	16.2%	$179,477,712
International equities	15.5%	$172,783,986
Total equities	66.0%	$731,944,048 (of the overall aggregate portfolio)
Fixed income	22.4%	$249,060,170
Real estate	10.1%	$111,722,746
Cash and equivalents	1.6%	$ 17,719,610

Prepared by
DAHAB ASSOCIATES, INC.

Investment Performance

On December 31, 2003, the System's investment assets were valued at $1,110,446,976,[1] an increase in value of $205,333,184 over the December 31, 2002 valuation of $905,113,792.

During the last five years, the System has increased from $1,043.5 million to $1,110.4 million. The following graph shows the System's five-year trend of investment assets at fair value.



Note: The System's investment assets reported in the Investment Section do not agree exactly with the investment on the Statements of Plan Net Assets in the Financial Section. The Investment Section includes those investments under management of advisors which are under contract by the agency and does not include pending sales and purchases. The investment consultant, Dahab Associates, oversees these investments. In addition, PMRS maintains a pool for certain short-term funds that is used to fund administrative and benefits payments. This pool is not included in the Investment Section, and it is not included in the calculation of investment performance.

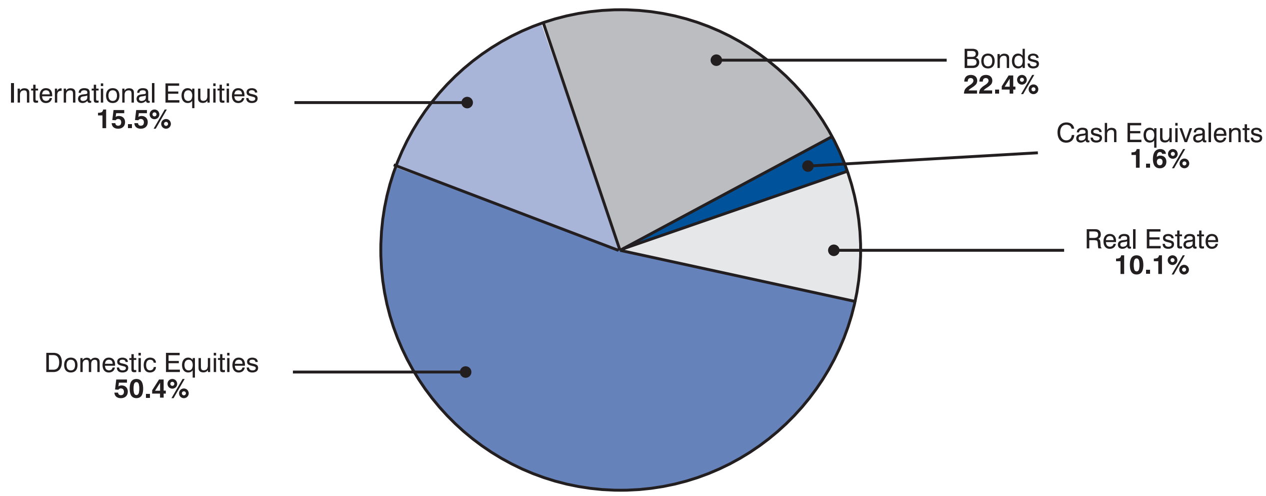
The data presented in the Investment Section by the System's independent investment consultant has been prepared in accordance with the standards of the Association of Investment Management and Research. The Investment Section includes only those investments under management of advisors which are under contract with the System. These investments are valued in a manner consistent with information presented in the Financial Section with the exception of the recognition of pending sales and purchases. The balances included in the Investment Section do not include a pool of certain short-term funds maintained directly by the System that are used to fund administrative and benefit payments. The differences noted above represent the difference between the investment balance of $1,114,675,836 presented in the Financial Section and the balance of $1,110,446,976 reported in this section.

(1) Amounts in the Investment Section do not include the securities lending collateral pool.

Asset Allocation

The System's asset allocation as of December 31, 2003 was $559.2 million committed to domestic equities, $172.8 million to international equities, $249.1 million to bonds, $111.7 million to real estate, and $17.7 million to cash equivalents. The percentage distribution is illustrated below.

Asset Allocation (Fair Value)
December 31, 2003



The time-weighted rate of return for the System's investments during the fiscal year ended December 31, 2003 was 23.7%, ranking above the median in the 28th percentile of all balanced funds as measured by the ICC (Independent Consultant Cooperative) universe. This performance level was above the median balanced fund's return of 19.19%. The cumulative five-year return for December 1998 through December 2003 of 27.4% (5.0% per year) ranked in the 33rd percentile.

For the year ended December 31, 2003, equities gained 27.0% and ranked in the 85th percentile, performing 1.7% below the Standard and Poor's 500 return of 28.7%. For the last five years, the System's stock return of 13.2% (2.5% annualized) ranked in the 58th percentile, 3.1% per year above the Standard and Poor's 500 return of -0.6% for the same time period.

Bonds returned 3.7% for the year, ranking in the 77th percentile, performing 0.4% below the Lehman Aggregate bond index return of 4.1%. For the five-year period, the cumulative bond return of 35.9% (6.3% per year) ranked in the 71st percentile, 0.3% behind the Lehman Aggregate bond index return of 6.6% for the same period.

The real estate segment of the portfolio earned 12.8% for the fiscal year. For the cumulative five-year period, the real estate portfolio earned 54.8% (9.1% per year).

Investment Summary

Portfolio Summary
As of December 31, 2003

Type of Investment	Par Value	Cost Value	Fair Value	% of Total Fair Value
Corporate and government bonds:				
U.S. Government bonds	$131,700,000	$133,500,000	$158,200,000	14%
Corporate bonds	70,500,000	77,500,000	89,500,000	8%
Total	**202,200,000**	**211,000,000**	**247,700,000**	**22%**
Common stock:				
Domestic	441,500,000	441,500,000	559,100,000	50%
International	140,300,000	140,300,000	172,800,000	16%
Total	**581,800,000**	**581,800,000**	**731,900,000**	**66%**
Other investments:				
Real estate equity	104,100,000	104,100,000	108,200,000	10%
Cash equivalents	26,800,000	26,800,000	26,800,000	2%
Total	**130,900,000**	**130,900,000**	**135,000,000**	**12%**
Grand total	**$914,900,000**	**$923,700,000**	**$1,114,600,000**	**100%**

Portfolio Quality
Two-Year Comparative Analysis
Years Ended December 31, 2003 and 2002

Bond Rating	Fair Value	% of Total Fair Value	% of Total Carrying Value
December 31, 2003			
AAA	$203,600,000	82%	80%
AA	9,300,000	4%	4%
A	34,800,000	14%	16%
Total bonds	**$247,700,000**	**100%**	**100%**
December 31, 2002			
AAA	$209,100,000	88%	87%
AA	7,400,000	3%	6%
A	21,300,000	9%	7%
Total bonds	**$237,800,000**	**100%**	**100%**

Investment Summary *(Continued)*

Portfolio Rates of Return[1]

The following table compares rates of return for the System's total investment portfolio with standard indexes for the last five years. The calculations of yields were prepared using a time weighted rate of return based on the market rate in accordance with AIMA's performance presentation standards. The System's returns have been competitive with other professionally managed funds.

Rates of Return
Last 5 Years

Rates of Return - (Dollar-Weighted)	Year Ended 12/31/03	Period From 1/1/01 to 12/31/03 (Annualized)	Period From 1/1/99 to 12/31/03 (Annualized)
Total	**23.7%**	**2.7%**	**5.0%**
(Rank)[2]	(28)	(39)	(33)
Equities	27.0	-2.5	2.5
(Rank)[3]	(85)	(55)	(58)
Bonds	3.7	7.4	6.3
(Rank)[4]	(77)	(67)	(71)
Real Estate	12.8	7.9	9.1
International	40.1	-1.5	-1.1
(Rank)	(31)	(63)	(97)
Small Cap	49.8	5.4	8.3
(Rank)	(28)	(68)	(69)
Inflation Rate -			
Consumer Price Index	1.9	2.0	2.5
Market Indicators -			
Standard and Poor's 500	28.7	-4.0	-0.6
Russell 2000	47.3	6.3	7.1
Lehman Aggregate Bond Index	4.1	7.6	6.6
Salomon World (international)	36.3	-1.8	1.5
91-Day Treasury Bills	1.0	2.2	3.5
ICC Universe[5] Median Rate of Return -			
(Time-Weighted)	23.1	2.3	4.0

(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 fair 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.
(5) The Independant Consultants Cooperative (ICC) Universe contains the returns of over 14,000 portfolios with an aggregate asset value of approximately $600 billion. This universe 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 (Fair Value) As of December 31, 2003

Stock	Shares	Fair Value	% of Stock Portfolio
Boston Scientific Corp.	200,000	7,359,352	1.32%
Countrywide Financial Corp.	92,667	7,028,792	1.26%
Cisco Systems Inc.	281,600	6,823,168	1.22%
Ebay Inc.	104,000	6,719,440	1.20%
GAP Inc.	285,500	6,626,455	1.19%
International Game Technology	176,400	6,297,480	1.13%
Lowes Companies Inc.	107,400	5,948,886	1.06%
Staples Inc.	203,300	5,550,090	0.99%
Teva Pharmaceuticals Industries	93,200	5,285,372	0.95%
Best Buy Co. Inc.	99,300	5,187,432	0.93%

A complete list of portfolio holdings can be obtained from the System.

Summary of Fees Paid to Investment Advisors Comparative Two-Year Schedule Years Ended December 31, 2003 and 2002

Firm Name	2003	2002
BlackRock	$ 258,353	$ 242,133
Boston Company Asset Management	336,773	219,691
Chase Investment Counsel Corporation	623,299	639,375
Emerald Advisors	200,374	191,577
Forest Investment Associates	187,780	198,468
Globalt Investments	-	90,084
Mercator	358,357	251,627
Seix Investment Advisors	247,963	234,487
State Street Global Advisors	53,505	122,136
Waddell & Reed	309,972	230,496
Total	**$2,576,376**	**$2,420,074**

Investment Summary *(Continued)*

Summary of Commissions Paid to Brokers
Year Ended December 31, 2003

Broker Name	Commissions Paid
A. G. Edwards & Sons Inc., St. Louis	$4,780
Abel Noser Corp, New York	195
Abn Amro Securities LLC, New York	1,149
Advest Co., Hartford	432
Auerbach & Grayson & Co., New York	442
B Trade Services LLC, New York	47,802
Baer (Julius) Securities Inc., New York	2,486
Baird, Robert W. & Co. Inc., Milwaukee	5,550
Banc of America Securities LLC, Charlotte	24,883
Banco Bilbao Vizcaya Argentaria, Lisbon	374
Banco Bilbao Vizcaya, New York	1,573
Banco Santander, New York	2,273
Banque Pictet and Cie, Geneva	2,319
Baring Securities LTD, Hong Kong	525
BBV Latinvest Securities LTD, London	174
BBV Securities Inc, New York	446
Bear Stearns & Co. Inc., New York	2,976
Bear Stearns Sec Corp., Brooklyn	29,270
Bernstein Sanford C. & Co., New York	15,251
BHF Securities Corp, New York	175
BNY Clearing Services, LLC, Milwaukee	3,231
Boston Institutional Services, Inc., Boston	670
Brean Murray Foster Inc., New York	560
Brick Securities, New York	6,355
Bridge Trading Co., St. Louis	27,636
Buckingham Research Group, Inc. Brooklyn	3,240
Burns Fry Hoare Govette Inc., New York	590
Cantor Fitzgerald & Co., New York	359
Capital Institutional Services, Dallas	19,595
Carnegie Inc., New York	5,723
Carnegie Securities Finland LTD, Finland	198
Carnegie Securities Finland LTD, Helsins	1,373
Carnegie Securities, Stockholm	1,598
Citibank NA, London	229
Citibank, Toronto	228
Citigroup Gbl Mkts Inc., New York	22,045
Citigroup Gbl Mkts/Salomon, New York	3,832
Cochran Caronia Securities LLC, Jersey City	645
Commerce Capital Markets, Jersey City	1,174
Credit Agricole Securities, New York	1,947
Credit Lyonnais Securities (USA) Intl., New York	4,614
Credit Lyonnais Securities (Asia), Hong Kong	303
Credit Lyonnais Securities Inc., New York	4,767
Credit Suisse First Boston (Europe), London	12,523
Credit Suisse First Boston Corp., New York	45,945
CSFB LTD, London	180
Dain Rauscher Inc., Minneapolis	8,692
Daiwa Securities America Inc., New York	1,099
Davidson (DA) & Co. Inc., New York	3,554
Davy Stockbrokers, New York	1,517

Continued on next page

Investment Summary *(Continued)*

Broker Name	Paid
Dean Witter Reynolds Inc., New York	1,531
Deutsche Banc Alex Brown Inc., New York	56,963
Deutsche Morgan Grenfell, New York	136
Deutsche Securities Asia LTD., Hong Kong	999
Dresdner Kleinwort Benson, New York	13,845
Dresdner Kleinwort Wasserstein, London	14,976
Enskilda Securities AB, London	1,908
Enskilda Securities, New York	4,739
Exane S A, London	281
Exane, New York	19,440
Execution Services Inc., New York	23,838
Factset Data Systems Inc., New York	1,435
Ferris Baker Watts Inc., Silver Spring	4,063
First Analysis Securities LLC, Chicago	700
First Clearing Corp., Richmond	2,010
Fortis, New York	19,187
Fox-Pitt Kelton Inc., New York	4,095
Fox-Pitt Kelton LTD, London	1,383
Fulcrum Global Partners LLC, New Jersey	5,283
Gerard Klauer Mattison & Co., New York	1,050
Goldman Sachs & Co., New York	37,262
Goldman Sachs Canada Co., Toronto (GSCI)	619
Greentree Brokerage Services, Jersey City	2,685
Gruntal & Company Inc., New York	204
Howard Weil Labouisse Friedrichs, New Orleans	2,165
ING Barings Corp/Intl Equity, New York	366
Instinet Corp., New York	13,431
Intermonte Securities CIM, Milan	5,782
Investment Technology Groups, New York	14,839
J B Were & Son Inc., New York	3,004
J P Morgan Securities LTD, London	3,389
Janney Montgomery Scott, Philadelphia	22,748
Jefferies & Co. Inc., New York	7,443
JMP Securities, San Francisco	3,251
Johnson Rice & Co., New Orleans	4,160
Jones & Associates Inc., Westlake Village	2,720
JP Morgan Securities, Singapore	1,086
Keefe Bruyette & Woods, Jersey City	3,915
King (CL) & Associates, Albany	5,696
Kleinwort Benson Securities LTD, London	2,039
Knight Securities Broadcort, Jersey City	1,330
LA Branche Financial Services HBI, New York	11,237
Lazard Freres & Company, New York	1,510
Leerink Swann & Co., Jersey City	860
Legg Mason Wood Walker, Inc., Baltimore	13,293
Lehman Bros, Inc., New York	30,206
Mainfirst Bank AG, Frankfurt	19,020
McDonald & Co., New York	5,840
Merrill Lynch Pierce Fenner Smith, Inc., New York	28,915
Merrill Lynch Pierce Fenner, Wilmington	566
Merill Lynch, New York	3,427
Midas Investments, Lisbon	523
Midwest Research Securities, Jersey City	6,023

Continued on next page

Investment Summary *(Continued)*

Broker Name	Paid
Miller Tabak & Co., Brooklyn	366
Mizuho Securities USA Inc., New York	2,565
Morgan Guaranty Tr., Brussels	823
Morgan J.P. Securities, Inc., New York	46,592
Morgan Stanley & Co. Inc., New York	34,975
Needham & Company, New York	11,722
Nesbitt Burns, Toronto (NTDT)	318
Nomura Securities International Inc., New York	944
Non-Broker Corp Actions, Boston	14
NZB Neue Zurcher Bank, Switzerland	12,683
Oppenheimer & Co. Inc., New York	5,630
Parker/Hunter Inc., Pittsburgh	624
Paulsen, Dowling Securities, Boston	2,647
PCS Securities, Inc., Brooklyn	405
Percival Financial Partners Ltd., Baltimore	276
Pershing LLC, Jersey City	1,641
Piper Jaffray & Co., Minneapolis	1,649
Princeton Securities, New York	748
Prudential Equity Group, New York	4,832
Pulse Trading LLC, Boston	10,294
Quaker Securities, Inc., Philadelphia	14,383
Raymond James & Associates Inc., St. Petersburg	10,259
RBC Dominion Securities Inc., Toronto (DOMA)	1,872
Robert Van Securities, Oakland	360
RTX Securities Corp., Brooklyn	4,081
Sanford C. Berstein & Co., New York	1,320
Schwab Charles & Co., Inc., San Francisco	595
Scotia McLeod Inc., Toronto (SCOT)	717
Scott Stringfellow, Inc., Richmond	1,370
SG Americas Securities LLC, New York	12,613
Soundview Financial Group, Stanford	560
Spear Leeds & Kellogg, New York	460
Standard & Poors Securities, Inc., New York	21,104
Stifel Nicolaus	725
Sunguard Instl Brokerage, New York	815
Suntrust Capital Markets Inc., Atlanta	2,650
Svenska Handelsbanken, New York	331
Thomas & Weisel, Inc., San Francisco	86
Toronto Dominion Securities, Toronto	1,116
UBS AG, London	27,631
UBS Financial Services Inc., Weehawken	2,665
UBS Securities LLC, New York	27,223
UBS Securities LTD, Tokyo	362
UBS Warburg Asia LTD, Hong Kong	4,229
UBS/Cust Ldn Bran Stamford	5,394
Union Bank Switzerland Securities, London	5,208
Wachovia Capital Markets LLC, Charlotte	17,563
Wachovia Securities LLC, New York	5,605
Wedbush Morgan Securities, Inc., Los Angeles	4,683
Weeden & Co., New York	542,162
Wellington & Co., New York	275
Wells Fargo Securities LLC, New York	285
Wexford Clearing Services Corp, New York	535
Whitaker Securities LLC, New York	2,485
Total Brokerage Commissions Paid	**$1,626,383**

Investment Guidelines

Introduction

The following represents highlights from the Board's investment guidelines adopted on January 24, 2002. These guidelines, which set forth the Board's expectations, restrictions, and policy decisions, were developed to assist the System'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 future. The System assumes that all benefit payouts can be made from incoming revenue as opposed to any depletion of invested assets.

Philosophy

The Board considers itself a conservative fiduciary, placing the 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 investments should exceed the recognized market indices for the various asset vehicles.

After consideration of the System's 2000 asset allocation study, the Board adopted its allocation goals as follows:

Equities (large capitalized firms)	35%
Equities (small capitalized firms)	15%
Equities (non-US domiciled firms)	15%
Fixed income	25%
Real estate	10%

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% 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 measures rely on other characteristics which are specifically spelled out in the individual contractual service aggreement.

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% remaining in cash equivalents at Treasury after the 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% of the fair value of an investment advisor's bond portfolio. The System shall not hold as assets more than 10% of any one bond issue nor more than 5% of the bonds of any one issuing agent. Corporate bonds of any given industry are not to account for more than 25% of the fair 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 potential, and underlying value. No single equity holding may account for more than 7.5% of the fair value of the System's equity portfolio, nor are the securities of any single industry to account for more than 20% of the value of an individual manager's portfolio. No more than 1% of the capitalization of any company is to be held by the System. The cumulative holdings of a manager of all of that manager's clients shall account for no more than 5% of the outstanding voting common stock of the corporation.

Investment Guidelines *(Continued)*

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

Prohibited Transactions

The Board prohibits (1) purchasing of commodities, mineral rights, and warrants except those previously authorized; (2) short selling and the purchasing of securities on margin; and (3) selling or buying options or futures contracts on either fixed income or equity instruments. Leveraged derivatives of any nature or the use of derivatives to create leverage are strictly prohibited.

Execution and Operation

The System utilizes Mellon Bank, N. A. as a master custodian and the Pennsylvania State Treasury as the depository. Mellon Bank is authorized to engage in security lending. It is not expected that this operation will have an impact on the discretion of the investment advisors.

Investment advisors are directed to execute orders on the best net execution/price basis. Transactional costs and the rate of turnover will be monitored. Active equity advisors are expected to execute trades on the auction market at a rate close to the execution-only cost (currently averaging 3 cents per share or less).

The investment advisors may enter into agreements with certain brokerage houses in order to participate in a recapture program whereby a designated percentage of the System's trades handled by these brokerage firms will be returned as cash to the System and be treated as new income for the benefit of the membership. It is expected that under such an arrangement, 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 adopted specific guidelines for staff guidance. These guidelines as adopted and hereafter amended are an integral part of the System's investment guidelines.

Communications

The Board expects an open and constant line of communication between the System's staff and investment advisors. Reports required of investment advisors to the Board and staff include a timely confirmation of all transactions, a monthly summary of transactions, a quarterly statement of asset values at cost and fair value, any explanation of contemplated major shifts in investment strategy or manager style before implementation, and an explanation of major changes in organization or the personnel associated with the System's account. In addition to written reports, the investment advisors are obligated to make periodic personal appearances before the Board as specifically spelled out in the investment advisor's contract.

Investment advisors' fees will be paid in hard dollars. The cost for each investment advisor will be based on the fair value of the firm's assets in the System's portfolio at the end of each quarter.

Monitoring

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

Actuarial Section

- Actuary's Certification Letter
  - Funded Status of Actuarial Accrued Liabilities
  - Actuarial Present Value of Accumulated Plan Benefits
  - Actuarial Assumptions
  - Actuarial Methods
- Membership Data
  - Active Members
  - Retired Members
- Analysis of Financial Experience
- Solvency Test

Actuary's Certification Letter

SEGAL

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July 22, 2004

PENNSYLVANIA MUNICIPAL RETIREMENT SYSTEM

Certificate of Actuarial Valuation

This is to certify that we have prepared an annual actuarial valuation of the System as of January 1, 2003, in accordance with generally accepted actuarial principles and practices. The actuary prepared supporting schedules included in the Actuarial Section as well as the membership data and membership trend data schedules for the Statistical Section of PMRS Comprehensive Annual Financial Report.

Individual municipality actuarial valuation results as of January 1, 2003, including detailed summaries of the financial results of the valuation and membership data used in preparing the valuation are shown in the annual Act 205 valuation report filing and have been provided separately for 652 plans, including 10 plans sponsored by distressed municipalities, that are required to redetermine contribution levels as of January 1, 2003 under the applicable Commonwealth statute (Act 205 of 1984). 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 that 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 for those plans were not required and not redetermined; contribution requirements for 4 plans sponsored by counties are determined on a biennial basis, most recently as of January 1, 2002.

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 based on our recommendations, and comply with the parameters set forth in Government Accounting Standards No. 25.

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, FSA, MAAA, EA
Senior Vice President & Actuary
Enrolled Actuary No. 02-3636

Actuary's Certification Letter *(Continued)*

Exhibit I - Funded Status of Actuarial Accrued Liabilities GASB Statement No. 25 Disclosure

Actuarial Valuation Date	Actuarial Value of Assets[1] (a)	Actuarial Accrued Liability (AAL) -- Entry Age (b)	Unfunded AAL (UAL) (b-a)	Funded Ratio (a/b)
1/1/03	$1,096,591,000	$955,259,400	$(141,331,600)	114.8%
1/1/02	242,905,700	196,473,500	(46,432,200)	123.6
1/1/01	959,454,800	812,645,100	(146,809,700)	118.1
1/1/00	202,070,300	167,273,700	(34,796,600)	120.8

The actuarial assumptions as of January 1, 2003 are shown in Exhibit III. The above information was derived from the following membership data, as provided by the System, regarding:

- 18 defined benefit plans required to redetermine contribution levels as of January 1, 1998;
- 600 defined benefit plans and 116 defined contribution-only plans as of January 1, 1999;
- 16 defined benefit plans required to redetermine contribution levels as of January 1, 2000;
- 630 defined benefit plans and 139 defined contribution-only plans as of January 1, 2001;
- 14 defined benefit plans required to redetermine contribution levels as of January 1, 2002;
- 656 defined benefit plans and 163 defined contribution-only plans as of January 1, 2003.

	As of January 1 2003	2002
a. Retirees currently receiving benefits	2,534	487
b. Beneficiaries currently receiving benefits	393	112
c. Terminated vested employees entitled to future benefits - defined benefit plans	473	73
d. Terminated nonvested employees entitled to contribution refunds - defined benefit plans	177	57
e. Active employees in defined benefit plans	8,142	1,900
i. aggregate salary	$293,388,800	$67,861,900
ii. vested	4,189	915
iii. nonvested	3,953	985
f. Participants in defined contribution-only plans	897	-
i. aggregate salary	$21,459,225	-
ii. active vested	797	-
iii. inactive vested	100	-

[1] According to method described in Exhibit IV, but excluding one-year administration expense reserve and excess interest allocation, if any, to be credited at year-end. For even-numbered year valuations of plans required to redetermine contribution requirements, excludes Disability Reserves, and Retired Reserve allocation is based on current actuarial present value.

Actuary's Certification Letter *(Continued)*

Exhibit II - Actuarial Present Value of Accumulated Plan Benefits

The actuarial present value of accumulated Plan benefits, calculated in conformity with FASB Statement No. 35, is shown below as of January 1, 2003 and, for comparative purposes, as of January 1, 2002.

	Benefit Information Date	
	January 1, 2003	**January 1, 2002**
Actuarial present value of accrued vested benefits:		
Participants currently receiving benefits	$296,136,900	$272,081,900
Other vested benefits	419,661,600	379,632,500
Total vested benefits	$715,798,500	$651,714,400
Actuarial present value of nonvested accumulated plan benefits	51,220,400	49,860,700
Total actuarial present value of accumulated plan benefits	$767,018,900	$701,575,100

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 that 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	$(507,800)
Newly entered municipalities	3,495,900
Benefits accumulated, net experience gain or loss, changes in data, upgrades	52,157,000
Benefits paid (including contribution refunds)	(37,570,600)
Interest	47,869,300
Total	**$65,443,800**

Actuary's Certification Letter *(Continued)*

Exhibit III - Actuarial Assumptions

The following actuarial assumptions were adopted by the PMRS Board in November 1999 for first use in the January 1, 1999 actuarial valuation:

Mortality rates: 1983 Group Annuity Mortality Table for Males, with ages set back 6 years for females

Disability mortality: Mortality under stipulated table for a healthy life 10 years older

Termination rates before retirement: For all plans with 25 or more active members, the termination rates indicated below were used; for municipalities with between 6 and 24 members, a percentage of the indicated rates was used where such percentage equals 100% less 5% x (25 - number of members); for municipalities with 5 or fewer members, no terminations were assumed.

Termination Rates Before Retirement

	Rate of Termination[(1)] (%)		
	Uniformed Members	Municipal Members	
Years of Service	Male and Female	Male	Female
fewer than 1	10%	12%	16%
1 but fewer than 2	8	10	14
2 but fewer than 3	8	9	12
3 but fewer than 4	7	8	10
4 but fewer than 5	6	7	9
5 but fewer than 6	5	7	8
6 but fewer than 7	4	6	7
7 but fewer than 8	3	5	6
8 but fewer than 9	3	4	5
9 but fewer than 10	2	3	4
10 or more	2	2	3

Disability rates: 50% of 1964 OASDI (Social Security) Experience for Males. Sample rates are as follows:

Disability Rate Assumptions

Age	Rate of Disablement (%)
25	0.043%
35	0.074
45	0.180
55	0.504
65	1.160

[(1)] No termination rates are applied once the employee becomes eligible for voluntary early or normal retirement.

Actuary's Certification Letter *(Continued)*

Disability rates - Uniformed plans: 100% of 1964 OASDI (Social Security) Experience for Males. Sample rates are as follows:

Disability Rate Assumptions

Age	Rate of Disablement (%)
25	0.085%
35	0.147
45	0.360
55	1.009
65	2.321

Type of disability: Municipal plans - 15% of disablements are assumed to be service related.

Uniformed plans - 50% of disablements are assumed to be service related.

Workers Compensation: Service related disability benefits payable from municipal plans are offset by 25% of final average salary.

Salary scale: 3.5% inflation and age related scale for merit/seniority. Plans that calculate benefits based on final rate of pay at time of retirement or on the final year's actual salary have an additional 6% increase applied at time of assumed retirement. Sample rates are as follows:

Sample Salary Scale Rates

Age	Total Rate (%) (including inflation)
30	6.5%
40	5.0
50	4.6
60	4.2

Retirement age: Active members are assumed to retire no earlier than the age at which unreduced benefits are available. No early retirement is assumed. Specific assumptions regarding retirement age are as follows:

(a) Uniformed Members: (i) Members first eligible to retire at age 57 or younger will defer their retirement four years; (ii) members first eligible to retire at ages 58, 59, 60, or 61 will retire at age 62; and (iii) members first eligible to retire at ages 62 or older will retire when first eligible.

(b) Municipal Members: 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 on next page:

Retirement age (continued):

Age	Rate of Normal Retirement[1]
61 and younger	10%
62	35
63-64	20
65	45
66-74	20
75	100

Inactive vested members are assumed to retire when first eligible for unreduced benefits.

[1] Rates indicated are adjusted by adding 5% for the year in which the member is first eligible for normal retirement.

Actuary's Certification Letter *(Continued)*

Marital status and spouse's age[2]: 85% of members will be married at time of retirement and wives are four years younger than their husbands.

Social Security[2]: (a) The Social Security Taxable Wage Base will increase by 4.0% compounded annually.
(b) The Consumer Price Index will increase by 3.5% compounded annually.
(c) The Average Total Wages of All Workers will increase by 4.0% compounded annually.

Post-retirement cost-of-living increases[2]: 3.5%

Net investment return: 6.5% compounded annually (net of investment and certain administration expenses) for funding purposes.

6.5% compounded annually (net of investment expenses) for calculation of values intended to comply with FASB Statement No. 35.

[2] If applicable.

Actuary's Certification Letter *(Continued)*

Exhibit IV - Actuarial Methods

Contribution requirements are individually determined for each participating municipality, on an actuarial basis as described below, at least biannually. The frequency of actuarial valuation is determined by applicable Commonwealth statute (Act 205 of 1984 and Act 293 of 1972). The following actuarial methods were adopted effective January 1, 1985, unless indicated otherwise.

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

Sum of all audited reserve accounts as of the valuation date, including Members, Municipal, Retired, and Disability Reserves, and a one-year administration expense reserve, plus the portion of any additional investment income to be distributed as "excess interest." The actuarial value can never be less than 90% of fair market value.

Each year, municipalities may receive an excess interest allocation derived as a portion of new surplus created during the prior year. "Surplus" refers to the excess of fair 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. Generally, depending on the relative size of surplus to fair market value, between 10% and 90% of new surplus will become excess interest. However, there was no excess interest allocation in 2003 because the surplus in 2002 was negative.

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 of 1984, 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(3).

With the two exceptions which follow, the funding method is applied individually with respect 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, post-retirement experience is pooled within the System. (However, this procedure does not apply to the legislated ad hoc adjustments which became effective January 1, 1989.)

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.

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(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 payroll increase is 4.0%.

(3) If there are no active employees, the unfunded actuarial liability is amortized for one year from the date that the liability was established. If a municipality attains certain levels of distressed status under applicable Commonwealth statute, part (b) will not be applied.

Actuary's Certification Letter *(Continued)*

Schedule of Active Member Valuation Data
for Last Six Years

Defined Benefit 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
2003	8,142	3.9%	656	1.9%	$293,400,000	7.9%	$36,034	3.8%
2002	7,834	(1.0)	644	2.2	272,000,000	2.9	34,720	3.9
2001	7,911	0.5	630	3.1	264,346,000	4.4	33,415	3.9
2000	7,875	(0.7)	611	1.8	253,300,000	0.4	32,163	1.1
1999	7,933	0.7	600	2.0	252,438,000	3.9	31,821	3.1
1998	7,874	1.9	588	2.6	243,012,000	4.1	30,863	2.1

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
2003	797	7.8%	163	5.8%	$21,459,000	12.2%	$26,925	4.0%
2002	739	8.2	154	10.8	19,128,300	7.7	25,884	(0.5)
2001	683	9.1	139	12.1	17,767,000	11.2	26,014	1.9
2000	626	5.2	124	6.9	15,974,000	8.7	25,518	3.3
1999	595	9.0	116	11.5	14,696,600	14.4	24,700	5.0
1998	546	12.6	104	14.3	12,846,000	15.0	23,527	2.2

Actuary's Certification Letter *(Continued)*

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls for Last Six 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
2003	199	71	2,927	$29,816,676	8.2%	$10,187	3.4%
2002	250	138	2,799	27,566,700	11.4	9,849	6.9
2001	209	100	2,687	24,748,000	17.4	9,210	12.6
2000	179	241	2,578	21,087,300	0.2	8,180	2.6
1999	185	132	2,640	21,054,200	8.5	7,975	5.9
1998	199	139	2,587	19,404,000	9.1	7,530	6.5

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.

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 actuarial accrued liability for service already rendered by active members.

In a system that has been following the entry age normal actuarial cost method 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 actuarial accrued liability for 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.

[(1)] Includes terminated employees not yet receiving benefits.

Actuary's Certification Letter *(Continued)*

Valuation	Acturial Accrued Liability (A) Active Member Contributions	(B) Retirees and Beneficiaries[1]	(C) Active Members (Employer Financed Portion)	Valuation Assets[2]	Portion of Acturial Accrued Liability Covered by Assets (A)	(B)	(C)
2003	$213,174,400	$329,766,100	$412,318,900	$1,096,591,000	100%	100%	100%
2001	201,814,300	263,171,300	347,659,500	976,868,000	100%	100%	100%
1999	170,495,100	224,089,800	297,499,500	773,062,000	100%	100%	100%

[1] Includes terminated employees not yet receiving benefits.
[2] Sum of Member, Municipal, Retirement, and Disability Reserve Accounts as shown in audited financial statements.

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
  - Pension in Payment Status by Retirement Type
  - Pension Awarded by Retirement Type
  - Total Membership
  - Participating Pension Plans

Part I - Financial
Revenues by Source and Expenses by Type
for Last Six Years

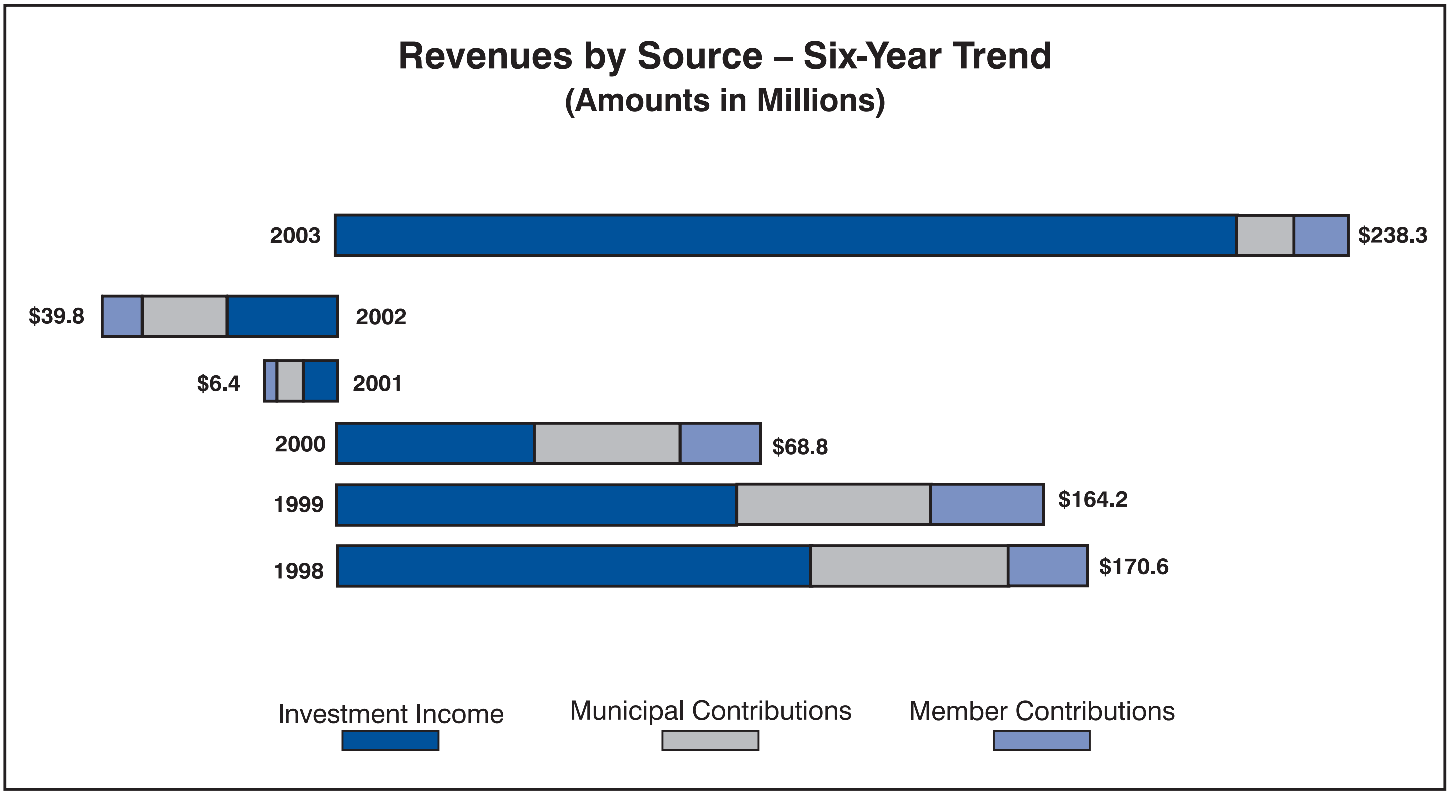
Revenues by Source

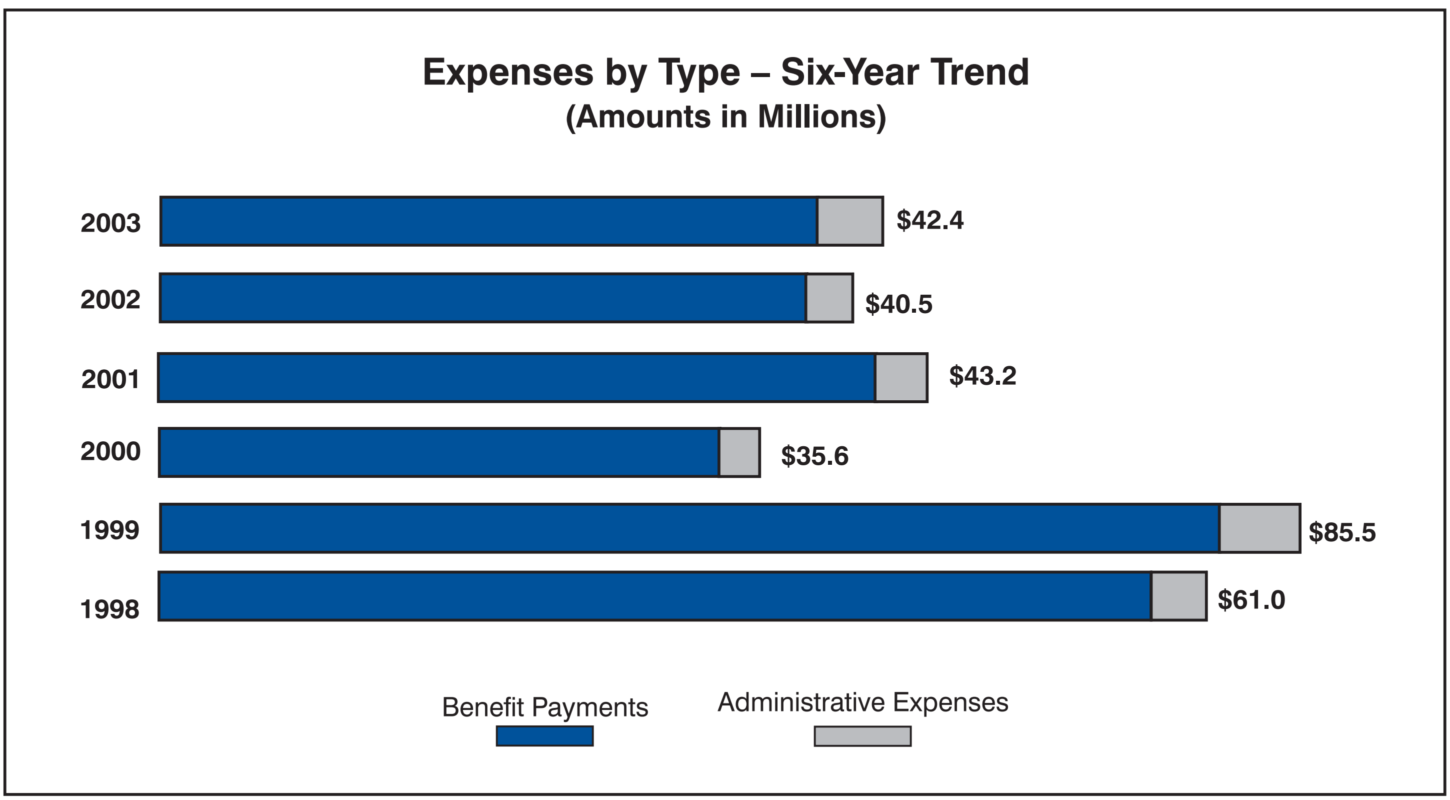
Fiscal Year	Member Contributions	Municipal Contributions[1]	Municipal Assessments[2]	Investment Income	Total Revenue
2003	$14,760,323	$14,696,210	$270,140	$208,542,292	$238,268,965
2002	13,639,485	28,836,362	260,020	(82,539,549)	(39,803,682)
2001	13,007,863	21,010,322	248,960	(40,673,724)	(6,406,579)
2000	12,180,952	22,932,542	245,740	33,429,407	68,788,641
1999	11,456,483	20,054,018	233,905	132,452,017	164,196,423
1998	11,372,676	23,003,675	240,580	136,023,868	170,640,799

Expenses by Type

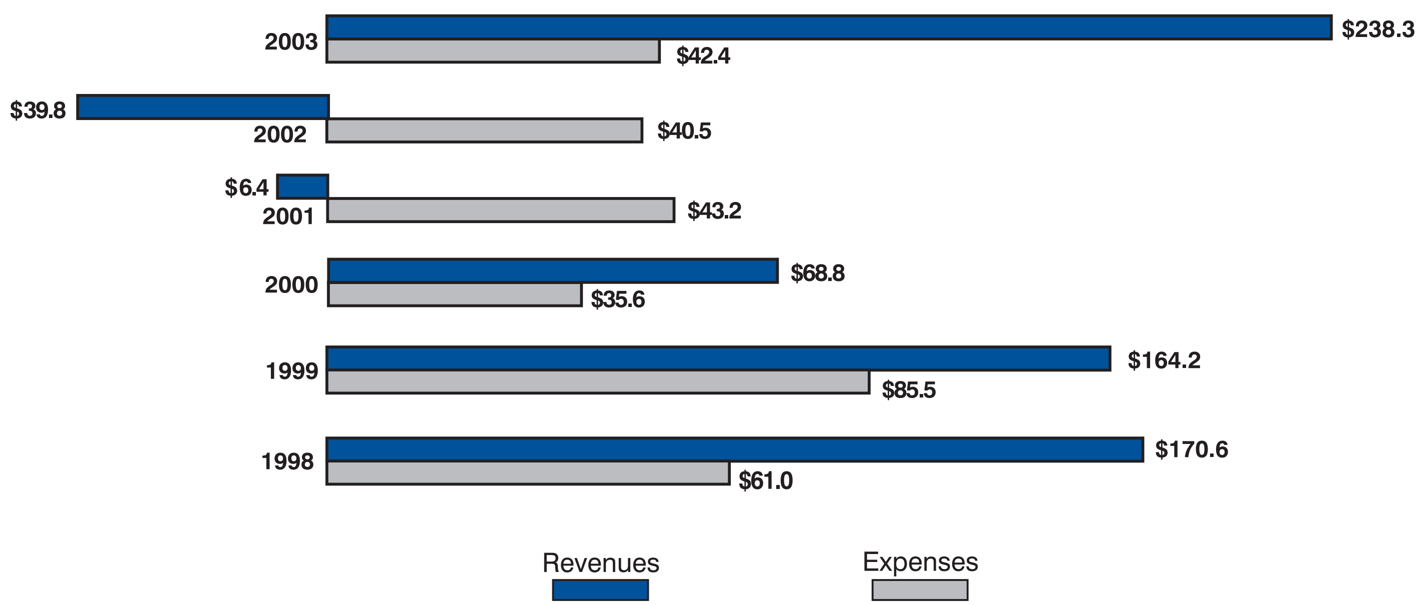
	Benefit Expenses				
Fiscal Year	Annuity	Disability	Termination	Administrative Expenses	Total Expenses
2003	$31,239,450	$972,741	$7,578,995	$2,610,839	$42,402,025
2002	28,674,963	900,762	8,502,709	2,406,732	40,485,166
2001	28,035,208	906,591	11,686,001	2,555,114	43,182,914
2000	22,617,449	905,621	9,949,213	2,134,593	35,606,876
1999	20,260,700	826,591	62,536,769	1,919,161	85,543,221
1998	19,541,577	1,031,601	38,519,546	1,861,306	60,954,030

(1) Contributions were made in accordance with actuarially determined contribution requirements.
(2) Municipal assessments are receipts but not assets of the plans.

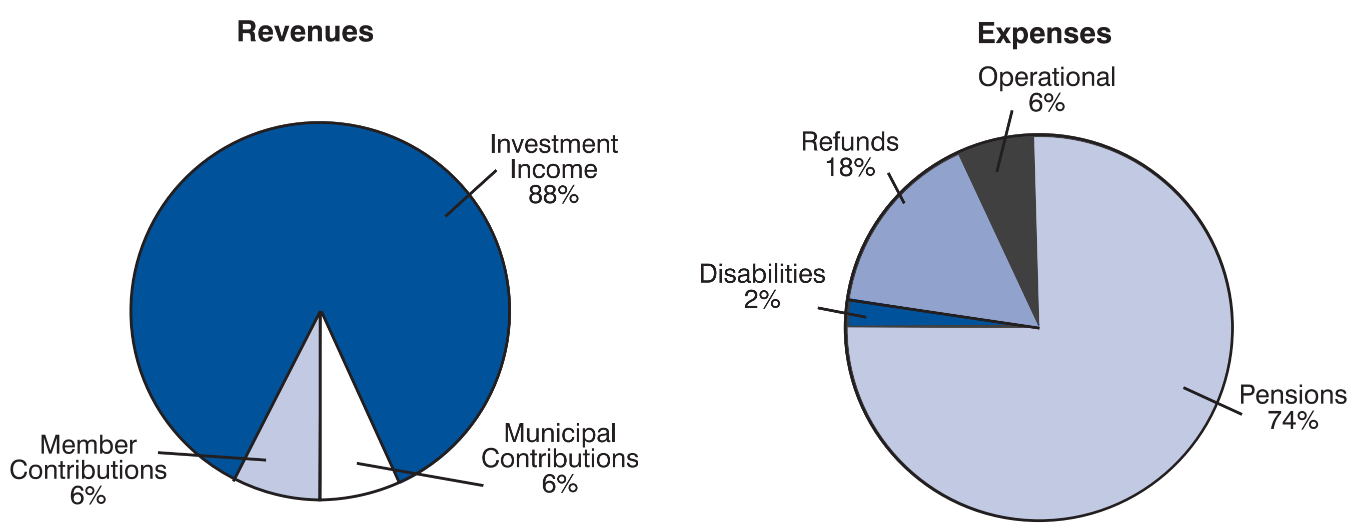

Revenues by Source – Six-Year Trend
(Amounts in Millions)
2003
$238.3
$39.8
2002
$6.4
2001
2000
$68.8
1999
$164.2
1998
$170.6
Investment Income
Municipal Contributions
Member Contributions


Expenses by Type – Six-Year Trend
(Amounts in Millions)
2003
$42.4
2002
$40.5
2001
$43.2
2000
$35.6
1999
$85.5
1998
$61.0
Benefit Payments
Administrative Expenses

Revenues vs. Expenses – Six-Year Trend
(Amounts in Millions)

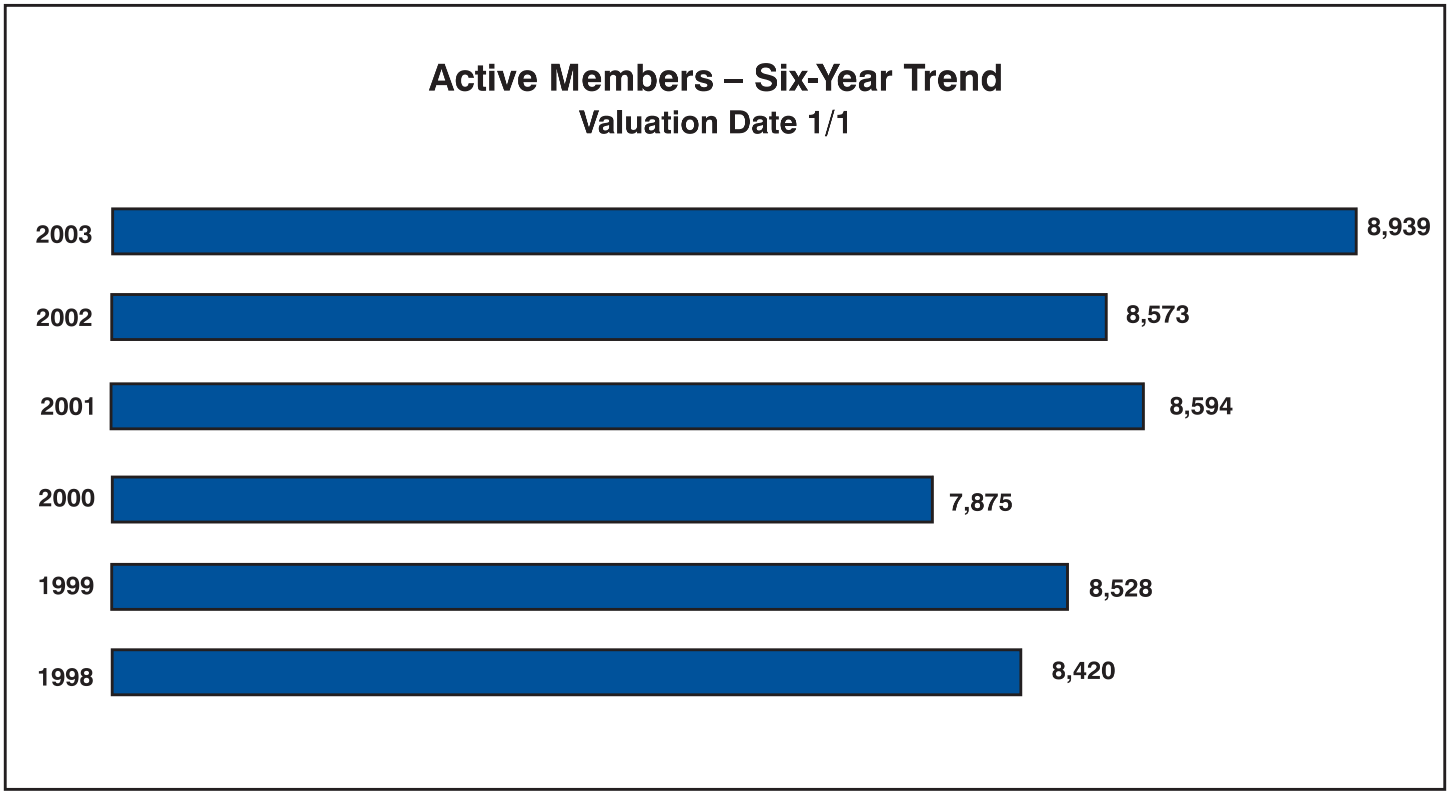


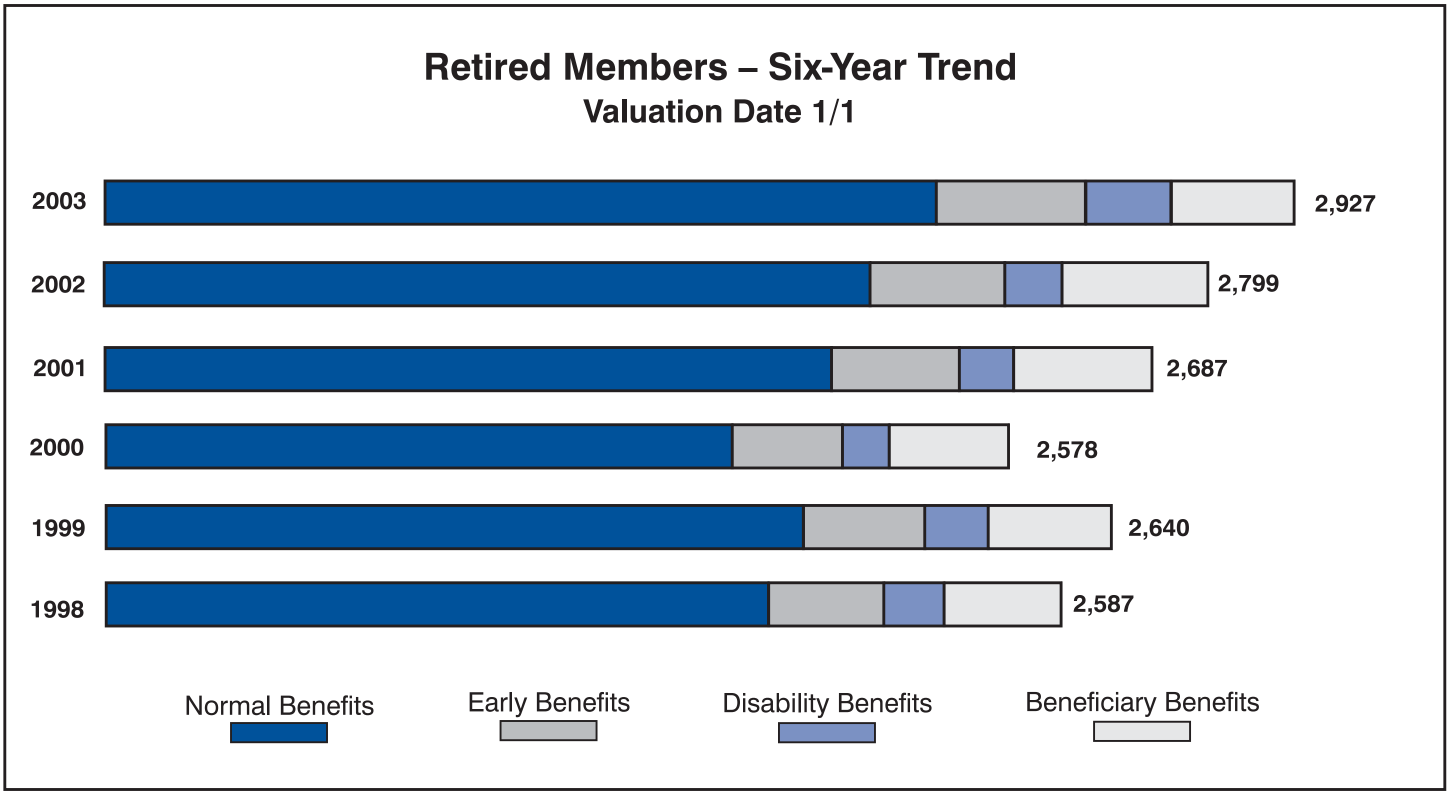
Components of Total Revenues and Expenses – 2003



Total Investments – Six-Year Trend
(Fair Value – Amounts in Millions)

Part II -- Membership





Pensions in Payment Status on January 1, 2003 by Type and by Monthly Amount

Monthly amount	Total	Type of pension				
		Normal	Involuntary early	Voluntary early	Service disability	Non-service disability
Total	2,534	2,055	248	141	20	70
Under $100	99	76	8	12	1	2
$100 - $199	172	121	18	32	1	--
200 - 299	221	171	21	26	--	3
300 - 399	201	165	20	12	1	3
400 - 499	177	138	24	8	2	5
500 - 599	191	150	23	9	1	8
600 - 699	166	129	16	11	--	10
700 - 799	158	118	22	5	--	13
800 - 899	149	113	21	4	2	9
900 - 999	135	111	13	8	2	1
1,000 - 1,199	241	195	23	7	5	11
1,200 - 1,399	152	130	16	2	1	3
1,400 - 1,599	135	123	6	3	3	--
1,600 - 1,799	78	75	2	--	1	--
1,800 - 1,999	65	60	3	--	--	2
2,000 - 2,199	53	49	4	--	--	--
2,200 - 2,399	40	37	3	--	--	--
2,400 - 2,599	25	23	2	--	--	--
2,600 - 2,799	28	27	--	1	--	--
2,800 - 2,999	14	13	1	--	--	--
3,000 - 3,499	15	13	2	--	--	--
3,500 - 3,999	11	10	--	1	--	--
4,000 and over	8	8	--	--	--	--

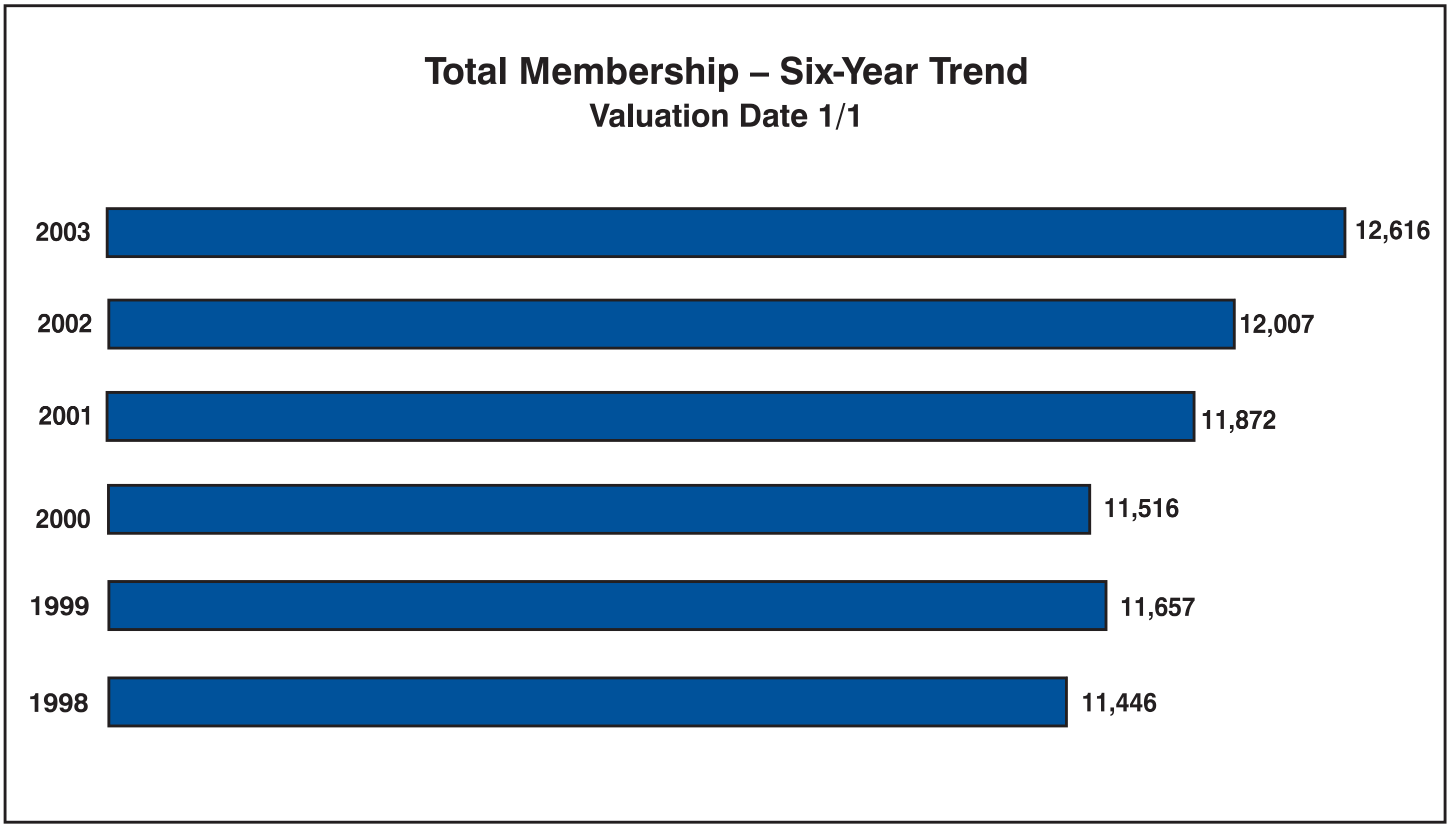
Pensions Awarded, Each of the Last Ten Years, by Type and Amount

Year ended January 1:	Total		Type of Pension							
			Normal		Involuntary early		Voluntary early		Disability	
	Number	Average monthly amount	Number	Average monthly amount	Number	Average monthly amount	Number	Average monthly amount	Number[1]	Average monthly amount
2003	199	1,087	170	1,121	17	974	5	670	7(2)	837
2002	246	1,277	206	1,346	30	957	6	945	4(0)	655
2001	185	954	147	1,028	25	736	8	423	5(1)	702
2000	179	869	152	912	22	647	3	345	2 (0)	850
1999	152	939	122	1,006	13	785	6	347	11 (2)	698
1998	169	782	142	831	10	594	9	337	8 (4)	647
1997	165	819	133	811	15	877	6	144	11 (4)	1,194
1996	182	727	141	757	19	648	12	395	10 (2)	855
1995	162	734	139	736	12	831	4	275	7 (3)	780
1994	154	784	133	822	4	617	9	217	8 (0)	874

Schedule of Total Membership - Six-Year Trend

Valuation Date 1/1	Active Members Defined Benefit Plans	Active Members Defined Contribution Plans	Retirees	Beneficiaries	Deferred Pensions[2]	Inactive Members[3]	Total
2003	8,142	797	2,534	393	573	177	12,616
2002	7,834	739	2,428	371	453	182	12,007
2001	7,911	683	2,324	363	433	158	11,872
2000	7,875	626	2,228	350	386	51	11,516
1999	7,933	595	2,253	387	344	145	11,657
1998	7,874	546	2,211	376	311	128	11,446

[1] Number of service-related disability pensions are shown in parentheses.
[2] Inactive participants with rights to deferred pension (vested)
[3] Inactive participants with rights to return of contributions (nonvested)


Total Membership – Six-Year Trend
Valuation Date 1/1
2003
12,616
2002
12,007
2001
11,872
2000
11,516
1999
11,657
1998
11,446

Schedule of Participating Pension Plans [1]

as of December 31, 2003

Counties

Adams
Adams-Green Acres
Forest
Jefferson

Cities

Allentown (Lehigh)
Bethlehem (Northampton)
Clairton (Allegheny)
Connellsville (Fayette)
DuBois (Clearfield)
Easton (Northampton)
Farrell (Mercer)
Greensburg (Westmoreland)
Harrisburg City (Dauphin)
Hermitage (Mercer)
Jeannette (Westmoreland)
Lebanon (Lebanon)
Lower Burrell (Westmoreland)
New Kensington (Westmoreland)
Sharon (Mercer)
Sunbury (Northumberland)
Uniontown (Fayette)

Boroughs

Adamstown (Lancaster)
Ashland (Schuylkill)
Atglen (Chester)
Avonmore (Westmoreland)
Bally (Berks)
Bangor (Northampton)
Bedford (Bedford)
Bellefonte (Centre)
Bellwood (Blair)
Bentleyville (Washington)
Berlin (Somerset)
Big Beaver (Beaver)
Biglerville (Adams)
Bloomfield (Perry)
Bowmanstown (Carbon)
Brackenridge (Allegheny)
Bridgeville (Allegheny)
Brockway (Jefferson)
Brookville (Jefferson)
California (Washington)
Cambridge Springs (Crawford)
Camp Hill (Cumberland)
Carnegie (Allegheny)
Carroll Valley (Adams)
Castle Shannon (Allegheny)
Centerville (Indiana)
Central City (Somerset)
Charleroi (Washington)
Claysville (Washington)
Clymer (Indiana)
Cochranton (Crawford)
Collegeville (Montgomery)
Collingdale (Delaware)
Conneautville (Crawford)
Conshohocken (Montgomery)
Conway (Beaver)
Coopersburg (Lehigh)
Cressona (Schuylkill)
Dalton (Lackawanna)
Delmont (Westmoreland)
Derry (Westmoreland)
Doylestown (Bucks)
Dravosburg (Allegheny)
Dublin (Bucks)
Duboistown (Lycoming)
Duncannon (Perry)
East Berlin (Adams)
East Rochester (Beaver)
East Stroudsburg (Monroe)
East Washington (Washington)
Emlenton (Venango)
Emporium (Cameron)
Etna (Allegheny)
Everett (Bedford)
Falls Creek (Jefferson)
Ferndale (Cambria)
Forest City (Susquehanna)
Fountain Hill (Lehigh)
Franklin (Cambria)
Franklintown (York)
Freeburg (Snyder)
Freedom (Beaver)
Freeland (Luzerne)
Greenville (Mercer)
Hollidaysburg (Blair)
Homer City (Indiana)
Hughestown (Luzerne)
Hummelstown (Dauphin)
Huntingdon (Huntingdon)
Hyndman (Bedford)
Jim Thorpe (Carbon)
Johnsonburg (Elk)
Kenhorst (Berks)
Kennett Square (Chester)
Kittanning (Armstrong)
Knox (Clarion)
Kulpmont (Northumberland)
Kutztown (Berks)
Latrobe (Westmoreland)
Lehighton (Carbon)
Lewistown (Mifflin)
Lykens (Dauphin)
Marcus Hook (Delaware)
Martinsburg (Blair)
Marysville (Perry)
Matamoras (Pike)
Mayfield (Lackawanna)
Mercer (Mercer)
Meyersdale (Somerset)
Middleburg (Snyder)
Middletown (Dauphin)
Millersburg (Dauphin)
Millerstown (Perry)
Minersville (Schuylkill)
Monaca (Beaver)
Monroeville Municipality (Allegheny)

[1] County names are in parentheses.

Schedule of Participating Pension Plans (*Continued*)

Mont Alto (Franklin)
Montrose (Susquehanna)
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)
Newtown (Bucks)
Norristown (Montgomery)
North East (Erie)
Northumberland (Northumberland)
Orwigsburg (Schuylkill)
Palmerton (Carbon)
Pen Argyl (Northampton)
Pennsburg (Montgomery)
Perkasie (Bucks)
Pine Grove (Schuylkill)
Portage (Cambria)
Pottstown (Montgomery)
Prospect Park (Delaware)
Renovo (Clinton)
Ridley Park (Delaware)
Roaring Spring (Blair)
Rochester (Beaver)
Rouseville (Venango)
Royersford (Montgomery)
Rural Valley (Armstrong)
Salisbury (Somerset)
Sandy Lake (Mercer)
Saxton (Bedford)
Schuylkill Haven (Schuylkill)
Selinsgrove (Snyder)
Sellersville (Bucks)
Shamokin Dam (Snyder)
Sharpsburg (Allegheny)
Sharpsville (Mercer)
Shenandoah (Schuylkill)
Slippery Rock (Butler)
Souderton (Montgomery)
South Waverly (Bradford)
Southmont (Cambria)
Springdale (Allegheny)
Stewartstown (York)
Summit Hill (Carbon)
Tarentum (Allegheny)
Telford (Montgomery)
Topton (Berks)
Trainer (Delaware)
Turbotville (Northumberland)
Turtle Creek (Allegheny)
Verona (Allegheny)
Versailles (Allegheny)
Waterford (Erie)
Waynesburg (Greene)
West Grove (Chester)
West Middlesex (Mercer)
West Newton (Westmoreland)
Wheatland (Mercer)
White Haven (Luzerne)
Williamstown (Dauphin)
Wilmerding (Allegheny)
Wilson (Northampton)
Windsor (York)
York Springs (Adams)
Youngwood (Westmoreland)

Townships of the First Class

Butler (Butler)
Caln (Chester)
Collier (Allegheny)
Crescent (Allegheny)
Darby (Delaware)
East Deer (Allegheny)
Elizabeth (Allegheny)
Harrison (Allegheny)
Hopewell (Beaver)
North Huntingdon (Westmoreland)
North Versailles (Allegheny)
Ridley (Delaware)
Rochester (Beaver)
Salisbury (Lehigh)
Springdale (Allegheny)
Swatara (Dauphin)
Upper Moreland (Montgomery)
Vanport (Beaver)
West Pottsgrove (Montgomery)
Whitehall (Lehigh)
Wilkins (Allegheny)

Townships of the Second Class

Allegheny (Westmoreland)
Antrim (Franklin)
Athens (Crawford)
Bald Eagle (Clinton)
Bedminster (Bucks)
Bell (Westmoreland)
Bethel (Armstrong)
Black Creek (Luzerne)
Blair (Blair)
Bloomfield (Crawford)
Blooming Grove (Pike)
Boggs (Centre)
Boggs (Clearfield)
Brecknock (Lancaster)
Briar Creek (Columbia)
Brighton (Beaver)
Broad Top (Bedford)
Brown (Mifflin)

Schedule of Participating Pension Plans *(Continued)*

Townships of the Second Class (Continued)

Buckingham (Bucks)
Buffalo (Washington)
Burnside (Clearfield)
Burrell (Indiana)
Caernarvon (Lancaster)
Cambria (Cambria)
Cambridge (Crawford)
Canton (Washington)
Center (Greene)
Center (Indiana)
Center (Snyder)
Centre (Berks)
Centre (Perry)
Cherrytree (Venango)
Clarion (Clarion)
Clearfield (Cambria)
Concord (Delaware)
Conemaugh (Indiana)
Conewago (Dauphin)
Corydon (McKean)
Covington (Lackawanna)
Cranberry (Venango)
Cross Creek (Washington)
Darlington (Beaver)
Delaware (Mercer)
Derry - Defined Benefit (Dauphin)
Derry - Defined Contribution (Dauphin)
Derry (Mifflin)
Derry (Westmoreland)
Dickinson (Cumberland)
Dingman (Pike)
Donegal (Westmoreland)
Dorrance (Luzerne)
Douglass (Montgomery)
East Allen (Northampton)
East Coventry (Chester)
East Fallowfield (Chester)
East Finley (Washington)
East Hanover (Dauphin)
East Huntingdon (Westmoreland)
East Manchester (York)
East Marlborough (Chester)
East Rockhill (Bucks)
Eldred (Jefferson)
Eldred (Monroe)
Eldred (Warren)
Elizabeth (Lancaster)
Elk (Warren)
Elk Creek (Erie)
Fairfield (Westmoreland)
Fairview (Erie)
Farmington (Clarion)
Forks (Northampton)
Forward (Allegheny)
Franklin (Beaver)
Franklin (Butler)
Franklin (Carbon)
Franklin (Greene)
Freedom (Blair)
Freehold (Warren)
Frenchcreek (Venango)
Girard (Clearfield)
Glade (Warren)
Greene (Beaver)
Greenfield (Blair)
Greenfield (Erie)
Hamilton (Monroe)
Hanover (Lehigh)
Haycock (Bucks)
Hemlock (Columbia)
Hilltown (Bucks)
Hopewell (Cumberland)
Hopewell (Washington)
Hopewell (York)
Horsham (Montgomery)
Howe (Forest)
Hunlock (Luzerne)
Huntington (Luzerne)
Huston (Clearfield)
Jackson (Greene)
Jackson (Lebanon)
Jackson (Luzerne)
Jackson (Snyder)
Jackson (Susquehanna)
Jenks (Forest)
Jenner (Somerset)
Jones (Elk)
Keating (McKean)
Kennett (Chester)
Lancaster (Butler)
Lancaster (Lancaster)
Latimore (Adams)
LeBoeuf (Erie)
Lehman (Pike)
Liberty (McKean)
Limestone (Lycoming)
Limestone (Union)
Lincoln (Somerset)
Liverpool (Perry)
London Grove (Chester)
Lower Mahanoy (Northumberland)
Lower Towamensing (Carbon)
Lower Yoder (Cambria)
Loyalhanna (Westmoreland)
Mahoning (Montour)
Manchester (York)
Mead (Warren)
Middle Smithfield (Monroe)
Middlesex (Cumberland)
Milford (Bucks)
Millcreek (Lebanon)
Monongahela (Greene)
Monroe (Wyoming)
Morris (Greene)
Morris (Washington)
Mount Joy (Lancaster)
Mount Pleasant (Westmoreland)
Muncy Creek (Lycoming)
New Garden (Chester)
Nockamixon (Bucks)
North Buffalo (Armstrong)
North Coventry (Chester)
North Strabane (Washington)
Nottingham (Washington)
Oakland (Venango)
Oil Creek (Crawford)
Oil Creek (Venango)
Old Lycoming (Lycoming)
Oliver (Mifflin)
Paradise (Monroe)
Pennsbury (Chester)
Perry (Snyder)
Pike (Berks)
Pine Grove (Schuylkill)
Pittsfield (Warren)
Pleasant (Warren)
Plum Creek (Armstrong)
Plumstead (Bucks)
Pocopson (Chester)
Point (Northumberland)
Portage (Cambria)
Price (Monroe)
Providence (Lancaster)
Pulaski (Lawrence)
Pymatuning (Mercer)
Raccoon (Beaver)
Rice (Luzerne)
Richhill (Greene)
Richland (Bucks)
Ridgway (Elk)

Schedule of Participating Pension Plans *(Continued)*

Townships of the Second Class (Continued)

Rome (Crawford)
Rutland (Tioga)
Scott (Columbia)
Sewickley (Westmoreland)
Shade (Somerset)
Sheffield (Warren)
Shippensburg (Cumberland)
Slippery Rock (Butler)
Solebury (Bucks)
South Abington (Lackawanna)
South Beaver (Beaver)
South Franklin (Washington)
South Huntingdon (Westmoreland)
South Manheim (Schuylkill)
South Middleton (Cumberland)
South Pymatuning (Mercer)
South Strabane (Washington)
Southampton (Cumberland)
Southwest (Warren)
Spring Creek (Warren)
Springfield (York)
Sugar Grove (Warren)
Sullivan (Tioga)
Summit (Butler)
Tinicum (Bucks)
Towamensing (Carbon)
Tredyffrin (Chester)
Tunkhannock (Wyoming)
Union (Berks)
Union (Lebanon)
Union (Snyder)
Unity (Westmoreland)
Wallace (Chester)
Warrington (York)
Warsaw (Jefferson)
Warwick (Lancaster)
Washington (Berks)
Washington (Dauphin)
Washington (Erie)
Washington (Greene)
Washington (Northampton)
Washington (Schuylkill)
Washington (Wyoming)
West Bradford (Chester)
West Brunswick (Schuylkill)
West Caln (Chester)
West Carroll (Cambria)
West Lampeter (Lancaster)
West Pennsboro (Cumberland)
West Rockhill (Bucks)
West Salem (Mercer)
West Wheatfield (Indiana)
Westtown (Chester)
Wetmore (McKean)
Whiteley (Greene)
Wiconisco (Dauphin)
Williams (Northampton)
Windsor (York)
Woodward (Clinton)
Wright (Luzerne)
Wrightstown (Bucks)
Zerbe (Northumberland)

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)
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 Area Sewage Authority (Jefferson)
Brockway Borough Municipal Authority (Jefferson)
Brookville Municipal Authority (Jefferson)
Bucks County Redevelopment Authority (Bucks)
Bucks County Water & Sewer Authority (Bucks)
Burrell Township Sewage Authority (Indiana)
Butler Area Public Library (Butler)
Cambria County Conservation and Recreation Authority (Cambria)
Cambria Township Sewer Authority (Cambria)
Cambria Township Water Authority (Cambria)
Carbon County Conservation District (Carbon)
Carmichaels-Cumberland Joint Sewer Authority (Greene)
Carroll Township Authority (Washington)
Catawissa Borough Municipal Water Authority (Columbia)
Centerville Borough Sanitary Authority (Washington)
Central Indiana County Joint Sanitary Authority (Indiana)
Centre County Library & Historical Museum (Centre)
Clarion County Housing Authority (Clarion)
Coaldale-Lansford-Summit Hill Sewer Authority (Carbon)
Columbia County Conservation District (Columbia)
Concord Township Sewer Authority (Delaware)
Connellsville Municipal Authority (Fayette)
Connellsville Redevelopment Authority (Fayette)
Conshohocken Borough Authority (Montgomery)
Coplay-Whitehall Sewer Authority (Lehigh)
Crescent South Heights Municipal Authority (Allegheny)
Cressona Borough Authority (Schuylkill)
Creswell Heights Joint Authority (Beaver)
Curwensville Municipal Authority (Clearfield)
Delaware Valley Municipal Management Association (Montgomery)
Derry Township Municipal Authority (Westmoreland)

Schedule of Participating Pension Plans *(Continued)*

Authorities and Other Units (Continued)

DuBois City Redevelopment Authority (Clearfield)
East Norriton-Plymouth-Whitpain Joint Sewer Authority (Montgomery)
Eastern Regional Communications Center (Allegheny)
Eastern Snyder County Regional Authority (Snyder)
Economy Borough Municipal Authority (Beaver)
Elizabeth Borough Municipal Authority (Allegheny)
Elizabeth Township Sanitary Authority (Allegheny)
Emlenton Area Municipal Authority (Venango)
Erie County Housing Authority (Erie)
Everett Area Municipal Authority (Bedford)
Falls Township Authority (Bucks)
Fawn-Frazer Joint Water Authority (Allegheny)
Fayette County Conservation District (Fayette)
Forward Township Municipal Authority (Allegheny)
Franklin City Housing Authority (Venango)
Franklin Township Municipal Sanitary Authority (Westmoreland)
Franklin Township Sewer Authority (Greene)
Frazer Transportation Authority (Allegheny)
Freeland Borough Municipal Authority (Luzerne)
Greater Lebanon Refuse Authority (Lebanon)
Greenville Municipal Authority (Mercer)
Guilford Township Authority (Franklin)
Guilford Water Authority (Franklin)
Harrison Township Water Authority (Allegheny)
Hawley Area Authority (Wayne)
Hazleton Transit Authority (Luzerne)
Hellertown Borough Authority (Northampton)
Hilltown Township Water & Sewer Authority (Bucks)
Horsham Township Sewer Authority (Montgomery)
Hughesville-Wolf Township Joint Municipal Authority (Lycoming)
Indiana County Conservation District (Indiana)
Indiana County Solid Waste Authority (Indiana)
Jackson Township Water Authority (Cambria)
Jeannette Municipal Authority (Westmoreland)
Johnsonburg Municipal Authority (Elk)
Juniata County Conservation District (Juniata)
Kiskiminetas Township Municipal Authority (Armstrong)
Kittanning Suburban Joint Water 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)
Lower Indiana County Municipal Authority (Indiana)
Lower Providence Township Sewer Authority (Montgomery)
Luzerne Conservation District (Luzerne)
Lycoming Sanitary Committee (Lycoming)
Lykens Borough Authority (Dauphin)
Mahanoy Township Authority (Schuylkill)
Mahoning Township Authority (Montour)
Maidencreek Township Authority (Berks)
Manor Township Joint Municipal Authority (Armstrong)
Mary Meuser Memorial Library (Monroe)
Matamoras Municipal Authority (Pike)
McKean County Solid Waste Authority (McKean)
Mercer County Regional Planning Commission (Mercer)
Mid Mon Valley Water Authority (Washington)
Middlesex Township Municipal Authority (Cumberland)
Middletown Township Sewer Authority (Delaware)
Mifflin County Regional (Mifflin)
Mifflintown Municipal Authority (Juniata)
Milford Water Authority (Pike)
Millcreek-Richland Joint Sewer Authority (Lebanon)
Millersburg Area Authority (Dauphin)
Mon Valley Sewer 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 Joy Township Authority (Lancaster)
Mount Lebanon Parking Authority (Allegheny)
Mount Pocono Municipal Authority (Monroe)
Myerstown Community Library Association (Lebanon)
Myerstown Water Authority (Lebanon)
Nanty-Glo Sanitary Sewer Authority (Cambia)
Nanty-Glo Water Authority (Cambria)
Nesquehoning Borough Authority (Carbon)
New Kensington Municipal Sanitary Authority (Westmoreland)
New Kensington Redevelopment Authority (Westmoreland)
Newport Borough Water Authority (Perry)
Norristown Municipal Waste Authority (Montgomery)
North & South Shenango Joint Municipal Authority (Crawford)
North Coventry Municipal Authority (Chester)
North Huntingdon Township Municipal Authority (Westmoreland)

Schedule of Participating Pension Plans *(Continued)*

Authorities and Other Units (Continued)

North Middleton Authority (Cumberland)
North Strabane Township Municipal Authority (Washington)
Northampton Borough Municipal Authority (Northampton)
Northern Lancaster County Authority (Lancaster)
Northern York County Regional (York)
Northumberland Sewer Authority (Northumberland)
Oil City Housing Authority (Venango)
PA League of Cities (Dauphin)
Parks Township Municipal Authority (Armstrong)
Penn Township Sewage Authority (Westmoreland)
Pennridge Regional (Bucks)
Pennridge Waste Treatment Authority (Bucks)
Perkasie Borough Authority (Bucks)
Peters Creek Sanitary Authority (Washington)
Peters Township Municipal Authority (Franklin)
Portage Area Sewer Authority (Cambria)
Portage Borough Municipal Authority (Cambria)
Possum Valley Municipal Authority (Adams)
Reynoldsville Water Authority (Jefferson)
Riverview Sanitary Authority (Allegheny)
Robesonia-Wernersville Municipal Authority (Berks)
Robinson Township Municipal Authority (Allegheny)
Rochester Area Joint Sewer Authority (Beaver)
Rostraver Township Sewer Authority (Westmoreland)
Seward/St. Clair Township Sanitary Authority (Westmoreland)
St. Marys Area Joint Water Authority (Elk)
Shamokin City Redevelopment Authority (Northumberland)
Shannock Valley General Services Authority (Armstrong)
Sheffield Township Municipal Authority (Warren)
Slippery Rock Municipal Authority (Butler)
South Fayette Township Municipal Authority (Allegheny)
Southern Police Commission Municipal (York)
Southwestern PA Water Authority (Greene)
Southwest Regional Dispatch Center (Allegheny)
Stroudsburg Municipal Authority (Monroe)
Sunbury Municipal Authority (Northumberland)
Susquehanna Township Authority (Dauphin)
Tower City Borough Authority (Schuylkill)
Tri-County Joint Municipal Authority (Washington)
Twin Boroughs Sanitary Authority (Juniata)
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 Carroll Township Water & Sewer Authority (Cambria)
Western Butler County Authority (Butler)
Western Clinton County Municipal Authority (Clinton)
Western Westmoreland Municipal Authority (Westmoreland)
Westmoreland-Fayette Municipal Sewer Authority (Westmoreland)
White Run Regional Municipal Authority (Adams)
Whitehall Township Authority (Lehigh)
Williamstown Borough Authority (Dauphin)
Womelsdorf-Robesonia Joint Authority (Berks)
York County Planning Commission (York)

Police

Ashley Borough (Luzerne)
Bally Borough (Berks)
Barrett Township (Monroe)
Bedminster Township (Bucks)
Bellwood Borough (Blair)
Bentleyville Borough (Washington)
Berks-Lehigh Regional (Berks)
Big Beaver Borough (Beaver)
Biglerville Borough (Adams)
Birmingham Township (Chester)
Blair Township (Blair)
Brecknock Township (Lancaster)
Briar Creek Township (Columbia)
Brockway Borough (Jefferson)
Buckingham Township (Bucks)
Caernarvon Township (Lancaster)
California Borough (Washington)
Cambria Township (Cambria)
Cambridge Springs Borough (Crawford)
Camp Hill Borough (Cumberland)
Carroll Valley Borough (Adams)
Central City Borough (Somerset)
Centre Township (Berks)
Clairton City (Allegheny)
Clymer Borough (Indiana)
Colebrookdale Township (Berks)
Conneaut Lake Regional (Crawford)
Coopersburg Borough (Lehigh)
Covington Township (Lackawanna)
Crescent Township (Allegheny)
Danville Borough (Montour)
Darlington Township (Beaver)
Delmont Borough (Westmoreland)

Schedule of Participating Pension Plans *(Continued)*

Police (Continued)

Donegal Township (Washington)
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 Berlin Borough (Adams)
East Coventry Township (Chester)
East Deer Township (Allegheny)
East Fallowfield Township (Chester)
East Pennsboro Township (Cumberland)
East Washington Borough (Washington)
Elizabeth Township (Allegheny)
Ell-Co Regional (Washington)
Emlenton Borough (Venango)
Emporium Borough (Cameron)
Everett Borough (Bedford)
Factoryville Borough (Wyoming)
Fairview Township (Erie)
Falls Creek Borough (Jefferson)
Forest City Borough (Susquehanna)
Forward Township (Allegheny)
Franklin Borough (Cambria)
Franklin Township (Beaver)
Freedom Township (Blair)
Gilpin Township (Armstrong)
Greenfield Township (Blair)
Greenville Borough (Mercer)
Harveys Lake Borough (Luzerne)
Heidelberg Township (York)
Hellam Township (York)
Hemlock Township (Columbia)
Hilltown Township (Bucks)
Hummelstown Borough (Dauphin)
Hyndman Borough (Bedford)
Independence Township (Beaver)
Jackson Township (Luzerne)
Johnsonburg Borough (Elk)
Lancaster Township (Butler)
Larksville Borough (Luzerne)
Liberty Borough (Allegheny)
Locust Township (Columbia)
Lower Windsor Township (York)
Lower Yoder Township (Cambria)
Lykens Borough (Dauphin)
Mahoning Township (Montour)
Manor Borough (Westmoreland)
Martinsburg Borough (Blair)
Marysville Borough (Perry)
Mayfield Borough (Lackawanna)
Mead Township (Warren)
Mercer Borough (Mercer)
Middleburg Borough (Snyder)
Middlesex Township (Cumberland)
Millcreek Township (Lebanon)
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)
Mount Union Borough (Huntingdon)
New Garden Township (Chester)
New Wilmington Borough (Lawrence)
Newport Borough (Perry)
Newtown Borough (Bucks)
Nicholson Borough (Wyoming)
Nockamixon Township (Bucks)
North Coventry Township (Chester)
North Huntingdon Township (Westmoreland)
North Middleton Township (Cumberland)
North Sewickley Township (Beaver)
Northeastern Regional (York)
Northern Cambria Regional (Cambria)
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 Township (Bucks)
Roaring Spring Borough (Blair)
Rochester Township (Beaver)
Rye Township (Perry)
Sandy Lake Borough (Mercer)
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)
Sheffield Township (Warren)
Shippingport Borough (Beaver)
Shiremanstown Borough (Cumberland)
Sinking Spring Borough (Berks)
Souderton Borough (Montgomery)
South Beaver Township (Beaver)
South Centre Township (Columbia)
South Pymatuning Township (Mercer)
South Waverly Borough (Bradford)
South Williamsport Borough (Lycoming)
Southern Police Commission (York)
Springdale Township (Allegheny)
Stewartstown Borough (York)
Summit Hill Borough (Carbon)
Telford Borough (Montgomery)
Tinicum Township (Bucks)
Tulpehocken Township (Berks)
Tunkhannock Township (Wyoming)
Upper Uwchlan Township (Chester)
Vanport Township (Beaver)
Versailles Borough (Allegheny)
West Grove Borough (Chester)
West Lampeter Township (Lancaster)
West Middlesex Borough (Mercer)
West Pottsgrove Township (Montgomery)
West Sadsbury (Chester)
West Vincent Township (Chester)
Westfield Borough (Tioga)
Wheatland Borough (Mercer)
White Haven Borough (Luzerne)
Wiconisco Township (Dauphin)
Williamstown Borough (Dauphin)
Windsor Borough (York)

Schedule of Participating Pension Plans *(Continued)*

Police (Continued)

Windsor Township (York)
Wrightstown Township (Bucks)
Youngwood Borough (Westmoreland)

Firefighters

Clairton City (Allegheny)
Easton City (Northampton)
Greenville Borough (Mercer)
Harrisburg City (Dauphin)
Larksville Borough (Luzerne)
Manchester Township (York)
New Garden Township (Chester)
Upper Moreland Township (Montgomery)
Wilson Borough (Northampton)

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