

Season



for change

**Pennsylvania
Municipal Retirement System**

2005 Comprehensive Annual Financial Report
For the Year Ended December 31, 2005

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 sponsors' requirements.

Our Vision

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

The Pennsylvania Municipal Retirement System

Comprehensive Annual Financial Report
For the Fiscal Year Ended
December 31, 2005

Douglas K. Bowen, Chairman
Pennsylvania Municipal Retirement Board

James B. Allen, Secretary
Pennsylvania Municipal Retirement System

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introduction



plans served 847

June 30, 2006

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, 2005. 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 records as of December 31, 2005, 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, 2005 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 provisions for vesting, disability benefits, survivor benefits, and death benefits. The plan cost is determined by individual plan characteristics. The 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 2005, plan requirements ranged from no employee contribution to as high as 7.5% of earnings.

2005 CAFR

The 2005 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

introduction

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's 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 question on most financial professionals' minds during 2005 was how much longer could the United States economy grow at the strong pace seen over the last three years? Despite many roadblocks in 2005, the fact is that the domestic economy only began slowing down in the final quarter of the year. For the entire year, the country's Gross Domestic Product grew at 3.5%, slower than the 2004 rate of 4.2% but still significantly stronger than 2003's growth of 2.7%. In all, these are very respectable numbers and are clearly good news for the financial markets.

The Federal Reserve continued its fight against inflation by raising the federal funds rate eight times during the year to 4.25%. Inflation remained a strong concern at year's end due to high energy prices that were sparked by two devastating hurricanes that impacted the United States' major oil refining region and the voracious appetite of China and India for energy resources. During the year, economists fretted

over the U.S. deficit and the negative balance of trade. In addition, the anticipated "burst" of the housing bubble and its impact on consumer spending, along with increasing costs of the Iraq war and counterterrorism efforts, were major concerns during the entire year.

With all of the instability and discord, it is amazing that the economy did so well. Growth in corporate earnings was strong at an estimated rate of 25% and the unemployment rate declined from 5.4% to 4.95% by the year's end. Investor's demand for real estate led to extremely strong appreciation, while a large number of corporate acquisitions and mergers produced strong equity returns.

Financial Information

The System's financial statements were prepared in accordance with generally accepted accounting principles of the United States of America. 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, 37, and 40 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."

The System's net assets totaled \$1,322,391,989 as of December 31, 2005. In 2005, the System's net assets increased by \$84,830,535. Investment-related gains increased the portfolio by \$100,268,743 and contributions added an additional \$36,215,118. Benefit payments and administrative expenses reduced the total assets by \$51,653,326. Additional information 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 2005 administrative budget was adopted in September 2004 and set at \$3.319 million exclusive of investment fees. Expenditures (exclusive of investment fees and depreciation) in 2005 amounted to \$3,115,414. 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, 2005, and also shows the amount and percentage of increases and decreases in relation to December 31, 2004 revenues.

	Additions to Plan Net Assets	2005 Amount	Percent of Total	2004 Amount	Increase (Decrease) from 2004	Percent of Increase (Decrease)
Member Contributions	\$	16,046,984	11.77%	\$ 15,821,360	\$ 225,624	1.43%
Municipal Contributions		19,890,494	14.57	17,041,418	2,849,076	16.72
Assessments		277,640	0.20	263,401	14,239	5.41
Investment Income		100,268,743	73.46	140,070,192	(39,801,449)	(28.42)
Total		\$136,483,861	100.00%	\$173,196,371	\$(36,712,510)	

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 2005 fiscal year, the fair value of the System's investment portfolio increased from \$1,266,520,008 to \$1,365,535,212. 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 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, 2005, and shows the percentage of increases and decreases in relation to December 31, 2004 amounts.

The major expense-related items for 2005 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 approximately \$4.3 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

For the third consecutive year, the financial markets pushed towards a healthy recovery; almost all markets saw positive returns. Unfortunately, depending upon the asset class examined, some of the "positive" returns were more positive than others. Being well diversified, however, the Pennsylvania Municipal Retirement Fund was able to assemble a very solid return of 8.6%. This return ranked the System in the top 25th percentile of pension funds measured by the Independent Consultants

Cooperative (ICC) Universe. The ICC Universe measures and compares the returns of over 18,000 client portfolios. The five-year return, as measured by the System's investment consultant, Dahab Associates, was 5.9% per annum, which placed the fund in the top 30th percentile of the ICC Universe.

A major investment focus of the Board in 2005 was an effort to find an appropriate investment vehicle to commit additional assets to the real estate asset class. The Board's asset allocation targets remained

unchanged in 2005 (see Asset Allocation, page 42); however, the ability to meet allocation targets was frustrated by the limited real estate investment vehicles available to meet the Board's conservative approach that requires limited leverage. As the year began, the real estate asset class represented approximately 9.5% of the portfolio. Due to the liquidation of a major holding during the year, the year-end allocation was closer to 6.5%, well below the target. Progress was made in the efforts to reach the desired targets as the Board worked to develop a possible funding vehicle.

Several other projects occupied the trustees during the year. One involved the issuance of a Request for Proposals for an investment consultant. After a competitive search, the Board awarded a new five-year contract to Dahab Associates. The firm has played a major role in guiding the Board in their

	Deductions from Plan Net Assets	2005 Amount	Percent of Total	2004 Amount	Increase (Decrease) from 2004	Percent of Increase (Decrease)
Annuity benefits		\$ 37,021,910	71.68%	\$ 33,640,514	\$ 3,381,396	10.05%
Disability benefits		1,184,295	2.29	1,089,729	94,566	8.68
Terminations		10,331,707	20.00	10,318,197	13,510	0.13
Administrative		3,115,414	6.03	3,127,096	(11,682)	(0.37)
Total		\$51,653,326	100.00%	\$48,175,536	\$3,477,790	

fiduciary duties and will continue to advise the Board on the Fund's investments. The trustees also replaced The Boston Company Asset Management Inc., a money manager that focused on large cap value stocks, with the firm of DePrince, Race, and Zollo, Inc. The firm Century Capital Management, LLC was also added as an investment advisor. The firm was hired to diversify the risk associated with operating in the highly volatile small cap growth arena.

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. Increase in net assets for the 2005 fiscal year was \$84,830,535. This represents an increase in the fund balance of 6.9% over the 2004 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, 2005. 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

The Board's attention to policy initiatives resulted in two newly adopted policy statements and one restatement. The restatement was accomplished by the adoption of Policy Statement 05-1; the Right To Know Policy, which was updated to detail the types of information that the System can make available to the public.

Policy Statement 05-2, the Excess Interest Award Process, established a minimum excess interest award threshold. The Board is annually required to determine the amount of investment earnings in excess of that required to be allocated in regular interest and fund expenses. This "excess" is defined in the law as "Excess Interest." The Board had previously adopted a procedure to determine the excess interest rate but elected to issue a new policy statement to memorialize the process and make it available to the public. The additional provision set a minimum threshold and sought to limit the administrative burden associated with the allocation process in years when the award would be considered "de minimis."

The third policy initiative was the adoption of Policy Statement 05-3, the Plan Withdraw Procedure. The Board is required to take action on a plan's application to withdraw from the System. While the law and the adopted regulations set forth the specific

introduction

requirements for withdrawing, the Board sought to specify how the application would be processed and the steps that would be followed once a plan's application to withdraw has been approved.

An additional major initiative involved the staff of the System continuing a three-year project that is intended to enhance the System's computer resources and security. Both physical changes to the office and software enhancements began in 2004 and continued in 2005. The expectation is that plan members will be able to access their records, perform benefit calculations, and even initiate simple account maintenance via the Internet in the very near future.

The Board welcomed one new Board member, Paul Corbin, who represents the State Association of County Commissioners. Additionally, the Board welcomed the return of previous Board member, Victor Cicero, who had served as the active police officer representative between 1996 and 2003. Mr. Cicero was appointed by Governor Rendell to represent the System's retirees in February 2005. Their commitment to serving the System's members is admired and greatly appreciated.

Professional Services

The financial information in this report has been audited by the independent accounting firm of Clifton Gunderson LLP, which is completing year one of a five-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 five 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 one 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 recognize and express appreciation to the individuals who are so committed to the operations of the System. First and foremost, we salute our board members for their dedicated service to the System. Their devotion, leadership, and steadfast commitment to serving the System's members are most treasured. 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 the data and information needed to compile this financial report. The staff is commended for its teamwork and concerted effort to meet deadlines without detracting from the quality or accuracy of the report.

The third and most important thank you goes to those who are associated with the plans we service - our individual plan members, the plans' contacts, and the governing boards who are responsible for the local government we serve. We appreciate your continued support and trust. Thank you for allowing us the privilege of administering your pension needs.



James B. Allen
Secretary

Reynold E. Witmer
Chief of Accounting



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, 2004

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.



Carla E. Pruzg

President

Jeffrey L. Essler

Executive Director

Pennsylvania Municipal Retirement Board
as of December 31, 2005



Douglas K. Bowen
Chairman
Represents Pennsylvania Municipal
Authorities Association



Robert T. Umstead
Vice-Chairman
Represents Pennsylvania State
Association of Boroughs



Robert P. Casey, Jr.
State Treasurer (ex-officio)
represented by Sally Ulrich



Victor Cicero
Represents Pennsylvania
Municipal Retirement System
retired members



Paul Corbin
Represents Pennsylvania State
Association of County Commissioners



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



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



Anthony Spagnolo
Represents First Class
Township Commissioners



Vacant

Represents Pennsylvania
Chiefs of Police Association

Administrative Staff

James B. Allen
Secretary

Kristine M. Gibboney
Assistant Secretary

Reynold E. Witmer
Accounting
Division Chief

Benjamin F. Mader
Municipal Services
Division Chief

Michael G. Mortimer
Chief Technology
Officer

Diane L. Castner
Membership Services
Division Chief

Cynthia L. Davis
Operations
Division Chief

Professional Consultants

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
John J. Smolock

Investment Consultant

Dahab Associates, Inc.
Bay Shore, NY
Richard E. Dahab, CFA
President

Master Custodian

Mellon Bank Corporation
Pittsburgh, PA

Legal Counsel

Commonwealth of Pennsylvania
Harrisburg, PA
Gerald Gornish
Chief Counsel

Investment Managers ⁽¹⁾

Black Rock Financial Management, Inc.

Philadelphia, PA
Wayne Archambo, Managing Director

LSV Asset Management

Norwalk, CT
Christopher LaCroix, Managing Director

Century Capital Management

Boston, MA
Paul E. Berg, Managing Director

Mercator Asset Management, L.P.

Boca Raton, FL
James E. Chaney, President, JXC Corp.

Chase Investment Counsel Corporation

Charlottesville, VA
Derwood S. Chase, Jr., President

Prudential Real Estate Investors (PRISA)

Parsippany, NJ
Lester F. Lockwood, President

DePrince, Race, & Zollo

Orlando, FL
Richard Wells, Director of Marketing

State Street Global Advisors

Boston, MA
James Thorsen, CFA

Emerald Advisers, Inc.

Lancaster, PA
Kenneth G. Mertz II, President

Times Square Real Estate Investors

Hartford, CT
John Eisele, Managing Director

Forest Investment Associates, Inc.

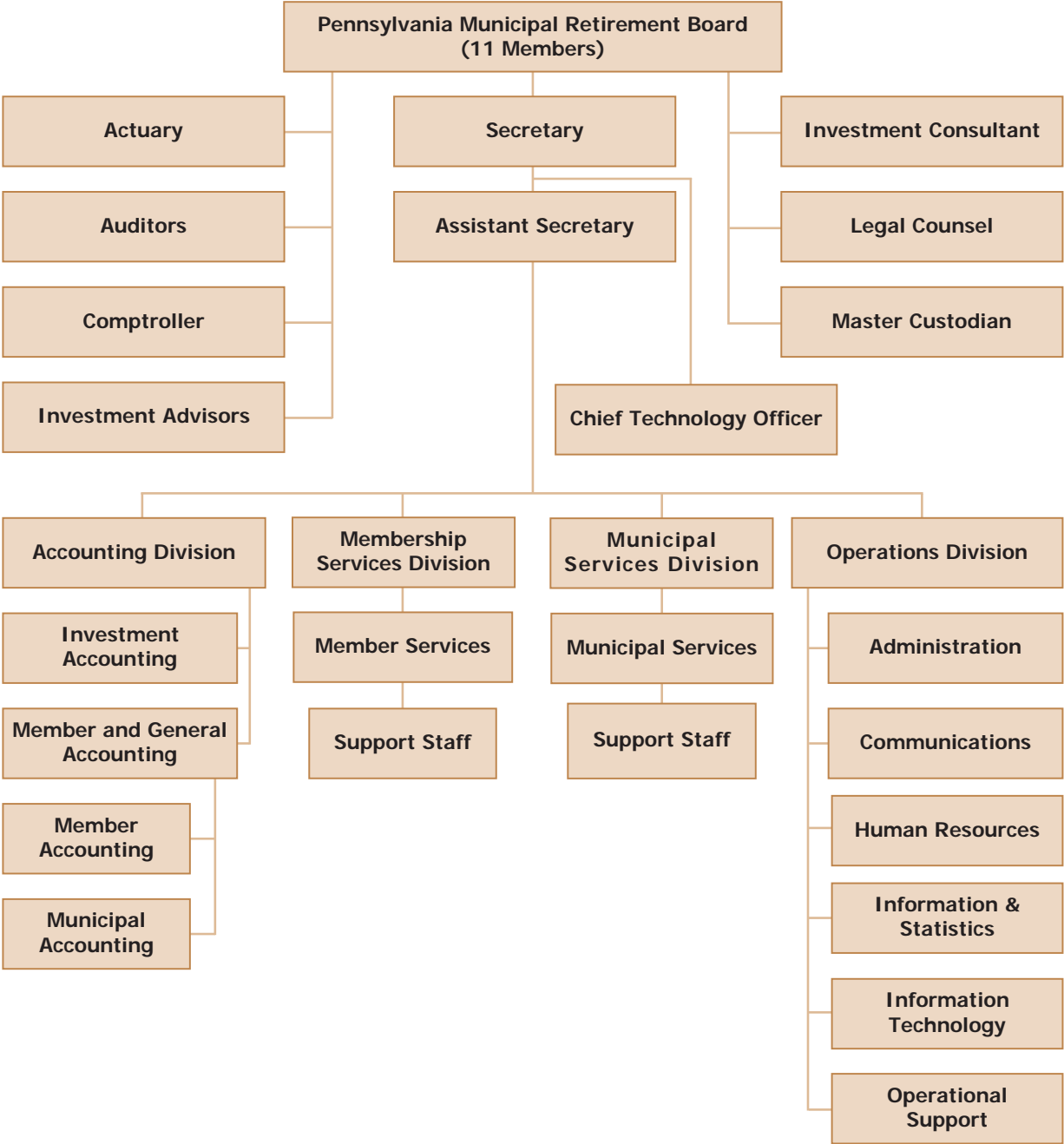
Atlanta, GA
L. Richard Doelling, Director of Client Relations

Waddell & Reed Investment Management Corp.

Overland Park, KS
Thomas Mingel, Senior Vice President

⁽¹⁾ Manage the long-term portfolio of investments reported on the Statement of Plan Net Assets. All information in the Investment Section pertains to the activity of these investment managers.

Organization Chart



Dear PMRS Members:

On behalf of all of the members of the Pennsylvania Municipal Retirement Board (PMRB), I am pleased to present the Pennsylvania Municipal Retirement System's (the System) 2005 Comprehensive Annual Financial Report. We believe it reflects in large measure, our commitment to complete disclosure.

The System, which was established in 1974, administers over 845 municipal pension plans within the Commonwealth of Pennsylvania. Serving more than 13,000 individual members, the number of participants in the System continues to grow. The increased interest in the System's services is certainly attributable to the strength that the fund has shown over the past thirty-two years. Our ability to reduce investment volatility and to efficiently provide professional pension administration to our members are significant factors that have contributed to the System's growth.

Our commitment to devising and trusting a financial strategy has guided the Board and the System away from some of the more unfortunate circumstances that have befallen numerous pension systems (public and private) throughout the country. Strong and reliable investment consultant services enabled the Board to build and adhere to its portfolio diversification targets. Equally important actuarial advice aided the Board in the decision to adjust the regular rate of interest from 6.5% to 6.0% effective as of January 1, 2005. Determined to insure the strength and stability of the fund, the Board has resolved to approach its fiduciary responsibilities in a conservative and cost-conscious manner. The Board is pleased to be able to report that the portfolio has rebounded from a \$180 million deficit in 2002 to a \$40 million surplus in 2005.

Without the dedicated service of my fellow Board members, our professional consultants, and our staff, none of this would have been possible. Please feel free to contact us with any questions regarding the System and its financial policies. We also encourage readers to stay current by visiting the PMRS website at www.pmrs.state.pa.us.

As always, we thank you for the trust you have bestowed in us and we appreciate your support. We continue to strive to be Pennsylvania local governments' pension administrator of choice.

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 non-service 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 non-service 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.

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

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

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 6.0%. 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



billion in assets
\$1.322



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, 2005 and 2004, 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, 2005 and 2004, 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, Investments, 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
May 23, 2006

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, 2005 and 2004. 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, 2005, including comparative amounts for the prior year.

The Statements of Changes in Plan Net Assets summarize the System's financial activities that occurred during the fiscal period from January 1, 2005 to December 31, 2005, 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 non-investment consultants. All of this supplemental information is considered useful in understanding and evaluating the financial activities of PMRS.

Financial Highlights

- ◆ The System's plan net assets increased by \$84 million from \$1,238 million at December 31, 2004 to \$1,322 million at December 31, 2005. The System's plan net assets increased by \$125 million from \$1,113 million at December 31, 2003 to \$1,238 million at December 31, 2004. These increases are primarily attributable to a net gain on investments.
- ◆ The funded ratio as of the latest actuarial valuation dated January 1, 2005 decreased from 113.6% at January 1, 2003 to 105.6%. The decrease is due to actuarial experience losses and changes in actuarial assumptions.
- ◆ The rate of return for the year ended December 31, 2005 was a net gain of 8.6% compared to a net gain of 13.1% and 23.7% for the years ended December 31, 2004 and 2003, respectively.
- ◆ Total employee and employer contributions increased from \$33.1 million in 2004 to \$36.2 million in 2005. Total employee and employer contributions increased from \$29.7 million in 2003 to \$33.1 million 2004.
- ◆ Total pension plan benefit payouts increased by 7.8% from \$45.0 million during 2004 to \$48.5 million during 2005. Total pension plan benefit payouts increased by 13.2% from \$39.8 million during 2003 to \$45.0 million during 2004.

- ♦ Administrative expenses remained basically unchanged at \$3.1 million for 2005 and 2004 and increased by 19.8% from \$2.6 million for 2003 to \$3.1 million in 2004. Administrative expenses were within the System's budgeted amounts for all three 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 the System's 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 105.6% funded as of January 1, 2005. The System's operations for 2004 and 2003 are reflected in the actuarial valuation as of January 1, 2005.

Investments

PMRS is a long-term investor and the Board manages the Fund with long-term objectives in mind. A primary element of the System's 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.

Summary of Plan Net Assets as of December 31, 2005, 2004, and 2003

Analysis of Plan Assets	2005	2004	2003
Assets <i>(In Thousands)</i>			
Receivables	\$ 5,353	\$ 6,259	\$ 9,153
Investments	1,322,156	1,234,207	1,114,676
Securities lending collateral pool	43,379	32,313	52,390
Capital assets	351	312	351
Total assets	1,371,239	1,273,091	1,176,570
Liabilities			
Total liabilities	48,847	35,530	64,029
Total plan assets	\$1,322,392	\$1,237,561	\$1,112,541

Summary of Changes in Plan Net Assets Years Ending December 31, 2005, 2004, and 2003

Analysis of Plan Assets	2005	2004	2003
Additions <i>(In Thousands)</i>			
Contributions	\$ 36,215	\$ 33,126	\$ 29,727
Net investment gain	100,269	140,070	208,542
Total additions	136,484	173,196	238,269
Deductions			
Benefit payments and terminations	48,538	45,048	39,791
Administrative expenses	3,115	3,127	2,611
Total deductions	51,653	48,175	42,402
Total changes in plan net assets	\$84,831	\$125,021	\$195,867

For 2005, the System's rate of return on investments was a net gain of 8.6%, 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, 2005 was 14.9% and 5.9%, respectively. The Fund's long-term actuarial investment return assumption is 6.0%.

The asset distribution of the System's investment portfolio at December 31, 2005, 2004, and 2003 at fair market value is listed on the chart on page 20.

Fixed Income

Fixed income increased approximately \$32 million from December 31, 2004 to December 31, 2005, primarily due to asset allocation rebalancing, as well as income earned during 2005. Fixed income increased approximately \$34 million from December 31, 2003 to December 31, 2004, primarily due to income earned during 2004, as well as asset allocation rebalancing.

Common and Preferred Stock

Common and preferred stock including international stock increased approximately \$76 million from December 31, 2004 to December 31, 2005, and increased approximately \$80 million from December 31, 2003 to December 2004, primarily due to appreciation in the domestic and international equity markets.

Real Estate Equity

Real estate equity decreased approximately \$30 million from December 31, 2004 to December 31, 2005, as a result of sales of real estate properties, and increased approximately \$8 million from December 31, 2003 to December 31, 2004. The increases were the result of market appreciation in fair values.

Contributions and Investment Income

During 2005, contributions from employers and members totaled \$36.2 million compared to \$33.1 million during 2004 and \$29.7 million during 2003. Net investment gains during 2005 were \$100 million compared to net investment gains of \$140 million during 2004 and net investment gains of \$208 million during 2003. Investment gains were primarily attributable to appreciation in fair values in the domestic and international equity markets during the last two years. Investment expenses increased \$0.1 million

from \$4.2 million during 2004 to \$4.3 million during 2005 and \$0.8 million from \$3.4 million during 2003 to \$4.2 million during 2004 due to the increase in fair value of investments under management.

Pension Plan Benefits and Expenses

The primary source of expense during 2005 was for payment of pension benefits totaling \$48.5 million compared to \$45.0 million during 2004 and \$39.8 million during 2003. Pension benefits increased \$3.5 million from 2004 to 2005 and \$5.2 from 2003 to 2004 due to new annuitants receiving greater monthly benefits and additional municipality terminations. Administrative expenses totaled \$3.1 million in 2005 and 2004 as compared to \$2.6 million during 2003.

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.

Asset Distribution at Fair Market Value

	2005	%	2004	%	2003	%
Asset Class	<i>(In Thousands)</i>					
Short term	\$ 33,655	2.6%	\$ 23,953	1.9%	\$ 26,827	2.4%
Fixed income	314,390	23.8	282,139	22.9	247,674	22.2
Common stock	670,717	50.7	621,969	50.4	559,160	50.2
International stock	218,056	16.5	190,399	15.4	172,786	15.5
Real estate equity	85,338	6.4	115,747	9.4	108,229	9.7
Total	\$1,322,156	100.0%	\$1,234,207	100.0%	\$1,114,676	100.0%

Statements of Plan Net Assets

December 31, 2005 and 2004

Assets	2005	2004
Receivables		
Plan members	\$ 2,422,880	\$ 2,373,780
Municipal employers	138,756	553,473
Accrued investment income	1,333,772	1,913,933
Investment sales receivable	1,457,562	1,417,822
Total receivables	5,352,970	6,259,008
Investments, at fair value		
Short-term and other investments	33,654,929	23,953,206
U.S. Government bonds	227,115,400	170,496,519
Corporate bonds	87,274,689	111,642,351
Common stocks	670,717,574	621,969,293
Real estate equity	85,337,696	115,746,725
International equities	218,055,731	190,398,467
Total investments	1,322,156,019	1,234,206,561
Securities lending collateral pool	43,379,193	32,313,447
Capital assets (net of accumulated depreciation of \$441,483 and \$739,158, respectively)	350,919	312,674
Total assets	1,371,239,101	1,273,091,690
Liabilities		
Accounts payable and accrued expenses	1,618,643	1,707,117
Investment purchases payable	3,849,276	1,509,672
Collateral held under securities lending program	43,379,193	32,313,447
Total liabilities	48,847,112	35,530,236
Net Assets Held in Trust For Pension Benefits	\$1,322,391,989	\$1,237,561,454

(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, 2005 and 2004

Additions	2005	2004
Contributions		
Plan members	\$ 16,046,984	\$ 15,821,360
Municipal employers	19,890,494	17,041,418
Assessments	277,640	263,401
Total contributions	36,215,118	33,126,179
Investment income (loss)		
Net appreciation in fair value of investments	5,309,043	48,113,293
Short-term and other investments	1,008,168	571,929
U.S. Government bonds	0	(5,506,026)
Corporate bonds	0	1,303,097
Common stocks	48,136,408	81,600,220
Real estate equity	14,021,906	5,333,649
International equities	35,492,681	12,165,501
Miscellaneous	195,040	179,789
Securities lending income	438,077	473,814
Less investment expenses	<u>(4,332,580)</u>	<u>(4,165,074)</u>
Net investment income	100,268,743	140,070,192
Total additions	136,483,861	173,196,371
Deductions		
Annuity benefits	37,021,910	33,640,514
Disability benefits	1,184,295	1,089,729
Terminations	10,331,707	10,318,197
Administrative expenses	3,115,414	3,127,096
Total deductions	51,653,326	48,175,536
Net increase	84,830,535	125,020,835
Net assets held in trust for pension benefits		
Balance, beginning of year	1,237,561,454	1,112,540,619
Balance, end of year	\$1,322,391,989	\$1,237,561,454

(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

(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.

Participating Local Government Employees

	Defined Benefits	Defined Contributions
Counties	4	0
Cities	18	0
Boroughs	146	23
Townships of the First Class	19	1
Townships of the Second Class	145	90
Authorities and Other Units	164	46
Police	174	9
Firefighters	8	0
Total	678	169

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, 2005, there were 678 municipalities with defined benefits and 169 with defined contributions. The tables (below) reflect membership and individual membership.

Individual Membership

Active Members	
Defined Benefit Plans	
Municipal	7,482
Police	724
Firefighters	135
Total	8,341
Defined Contributions Plans	
Municipal	857
Police	10
Firefighters	0
Total	867
Total active members	9,208
Retirees and Beneficiaries	
Retirees	2,768
Beneficiaries	424
Total retirees and beneficiaries	3,192
Inactive Participants with Rights to Deferred Pension (Vested)	
Defined benefit	464
Defined contributions	138
Total vested	602
Inactive Participants (non-vested)	
Defined benefit	165
Defined contribution	0
Total non-vested	165
Total individual memberships	13,167

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.)

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, 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 straight-line method over the estimated useful lives of the assets, typically 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 years ended December 31, 2005 and 2004 consisted of the following:

	2005	2004
Municipality normal cost	\$25,198,665	\$21,773,245
Amortization of unfunded actuarial accrued liability	(8,963,588)	(8,383,223)
Total⁽¹⁾	\$16,235,077	\$13,390,022

Total contributions to the System during 2005 amounted to \$36,215,118 of which \$16,046,984 and \$19,890,494 were made by its members and municipalities, respectively and \$ 277,640 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 Actuarial Cost Method to determine plan liabilities and normal cost. Under this method, a normal cost is calculated that would fund each employee's benefits during the employee's career as a level percent of pay.

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

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

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:

- 1a. 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 6.0% a year (net of investment and certain administrative expenses) compounded annually, (b) projected salary increases of 3.0% a year compounded annually for inflation, with an additional age-based component to reflect merit/seniority, (c) postretirement cost-of-living increases of 3.0% per annum until the maximum is reached (optional in contracts), and (d) pre- and post-retirement 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 6.0%.

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

As of December 31, 2005 and 2004, the balance in the Members' Reserve Account was \$308,712,429 and \$298,043,468, 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 6.0%.

As of December 31, 2005 and 2004, the balance in the Municipal Reserve Account was \$571,602,755 and \$558,929,193, 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 6.0%.

As of December 31, 2005 and 2004, the balance in the Retired Members' Reserve Account was \$398,433,007 and \$361,653,106, 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, 2005 and 2004, the balance in the Disability Reserve Account was \$433,286 and \$504,340, 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 2005 and 2004. Such calculation 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, 2004 and 2003, respectively, and the expected cash flows of the System for 2005 and 2004 if excess interest had been distributed.

As of December 31, 2005 and 2004 the Undistributed Earnings Designation Account had a balance of \$43,210,512 and \$18,431,347, 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 terms, 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.

The Board achieves day-to-day management of the investment portfolio through the use of investment managers. Restrictions concerning diversification within each manager and among managers 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 non-banking 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 non-banking institutions.

The System's investments are categorized below to give an indication of the level of risk assumed by the System at December 31, 2005. 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 in 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 amounts up to 105% of the fair value of securities lent. 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, 2005, 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 is inadequate to replace the securities lent) or fail to pay income distribution on them. As of December 31, 2005 and December 31, 2004, the System's carrying value and fair value of lent securities was \$41,398,438 and \$30,826,695, respectively. The fair value of associated collateral was \$43,379,193 as of December 31, 2005 and \$32,313,447 as of December 31, 2004. The System's income, net of expenses, from securities lending was \$438,077 for 2005 and \$473,814 for 2004. Securities lent at year-end 2005 for cash collateral are presented as unclassified in the following schedule of custodial credit risk.

The System had \$43,379,193 and \$32,313,447 of cash collateral invested in the custodial agent's short-term collateral investment pool as of December 31, 2005 and 2004, respectively.

Credit Risk by Quality

	2005		
	Category 1	Not Categorized	Total
U.S. Government bonds	\$ 0	\$ 227,115,400	\$ 227,115,400
Corporate bonds	0	87,274,689	87,274,689
Common and preferred stocks	717,349,290	171,424,015	888,773,305
Real estate equity	0	85,337,696	85,337,696
State Treasury short-term investment fund	0	33,654,929	33,654,929
Securities lending collateral	0	43,379,193	43,379,193
Grand Total	\$717,349,290	\$648,185,922	\$1,365,535,212

	2004		
	Category 1	Not Categorized	Total
U.S. Government bonds	\$ 0	\$ 170,496,519	\$ 170,496,519
Corporate bonds	0	111,642,351	111,642,351
Common and preferred stocks	632,245,721	180,122,039	812,367,760
Real estate equity	0	115,746,725	115,746,725
State Treasury short-term investment fund	0	23,953,206	23,953,206
Securities lending collateral	0	32,313,447	32,313,447
Grand Total	\$632,245,721	\$634,274,287	\$1,266,520,008

Credit Risk Concentration

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, 2005 and 2004 were:

Security	Fair Value
2005	
State Street Index Fund	\$485,814,103
2004	
State Street Index Fund	\$462,260,909

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a fixed income investment. At December 31, 2005, the System had no actively managed long-term fixed income investments. The fixed-income portfolio consists of the following:

Security	Quality Rating	Modified-Adjusted Duration	Fair Value
Lehman Brothers Aggregate Fund	AA	4.6	\$314,390,089
Short-Term Investment Fund	NR	0.1	33,654,929

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As part of the System's program of diversification, the System invests in non-U.S. markets. At December 31, 2005, PMRS had the following non-U.S. currency exposure.

Currency	Equity	Short-Term	Total
Euro Currency	\$61,217,573	\$51,872	\$61,269,445
Japanese Yen	44,225,049	1,170	44,226,219
British Pound Sterling	27,236,868	47	27,236,915
Swedish Franc	18,338,854	203,682	18,542,536
Australian Dollar	3,885,533	234	3,885,767
Singapore Dollar	3,470,989	0	3,470,989
Swedish Krona	2,641,218	12	2,641,230
Canadian Dollar	2,370,466	2,137	2,372,603
Other non-U.S. Currencies	4,656,052	24	4,656,076

(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 publicly available financial report that can be obtained by writing to SERS, 30 N. Third Street, P.O. Box 1147, Harrisburg, Pennsylvania 17108-1147.

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 2.37% at July 1, 2005, 1.43% at July 1, 2004, and 0.59% at July 1, 2003. The System's annual required contributions to SERS for the years ending December 31, 2005 and December 31, 2004 were \$24,345 and \$11,711 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)

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.

(8)

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. The Board also adopted a self-insurance indemnification policy in 2004. 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.

(9)

Commitments and Contingencies

PMRS leases office facilities under an operating lease that expires November 2008. Future minimum lease payments under this lease are notated in the chart.

2006	104,250
2007	104,250
2008	95,568

Total rental expenses for the years ended December 31, 2005 and 2004 were \$103,125 and \$100,088, respectively.

PMRS entered into a contract in December 2004 to upgrade its current software system. The contract includes the purchase of an upgraded software system, training fees, technical support, data conversion and interface development. The remaining portion of the \$409,500 contract is for \$109,500 and is payable over the implementation period of the new software system. PMRS anticipates that the software will be implemented in July 2006.

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)
1/1/05	\$1,219,130,000	\$1,154,858,200	\$ (64,271,800)	105.6%	\$319,004,918	(20.1)%
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)

See accompanying notes to required supplementary schedules.

Schedule 2 Schedule of Required Employer Contributions for Last Six Years

Year ended December 31	Annual Required Contributions (ARC) ⁽²⁾	Actual Employer Contribution	Percentage Contributed ⁽³⁾
2005	\$16,235,077	\$19,890,494	123%
2004	13,390,022	17,041,418	127
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

See accompanying notes to required supplementary schedules.

⁽¹⁾ 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, 2004, January 1, 2002, or January 1, 2000, except for 10 plans sponsored by distressed municipalities and 4 plans sponsored by counties that are required to re-determine contribution levels as of January 1, 2004 under the applicable Commonwealth statutes (Act 205 of 1984 and Act 293 of 1972).

All information provided in the Actuarial Section has been certified by the Agency's actuary. The data presented in this schedule has been drawn by the Agency's staff from Exhibit I, Funded Status of Actuarial accrued Liabilities, found in the Actuarial Section.

⁽²⁾ The annual Required contribution is calculated using the actuary's determined Normal Cost percentage for each plan and the employer' anticipated payroll for each participation plan. It also may include the amortization payment calculated by the actuary or the over-funding credit required under Pennsylvania state law, Act 205 of 1984. The composite figure is assembled by the Agency's staff.

⁽³⁾ 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).

Notes to Required Supplemental Schedules

as of December 31, 2005 and 2004

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, 2005
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	6.0% compounded annually (net of investment and certain administration expenses)
Projected salary increases	3.0% inflation and age-related scale for merit/seniority (e.g., age 30 - 5.9%; age 40 - 4.5%; age 50 - 4.1%)
Inflation at	3.0%
Post-retirement cost-of-living adjustments	3.0% per annum until maximum is reached (optional in contracts)

Schedule 3 - Administrative Expenses

Comparative Two-Year Schedule
Years Ended December 31, 2005 and 2004

	2005	2004
PERSONNEL COSTS		
Salaries and wages	\$ 1,250,233	\$ 1,447,926
Social security contributions	94,311	90,291
Retirement contributions	24,345	11,711
Insurance contributions	395,483	362,849
Other employee benefits	6,478	6,448
Unemployment compensation	0	11,986
Total personnel costs	1,770,850	1,931,211
PROFESSIONAL COSTS		
Performance evaluation	106,551	95,000
Actuarial	332,480	318,430
Data processing	9,093	8,132
Audit	55,935	62,364
Legal	84,027	92,302
Miscellaneous professional	87,130	105,130
Total professional costs	675,216	681,358
COMMUNICATION COSTS		
Printing	34,099	15,015
Telephone	11,535	11,455
Postage	30,878	47,676
Travel	20,639	28,312
Advertising	3,594	3,655
Total communication costs	100,745	106,113
OTHER SERVICES AND CHARGES		
Contracted EDP services	339,002	137,042
Office space rental	103,125	100,088
Equipment leasing	5,397	14,558
Supplies	18,545	33,354
Maintenance	14,630	37,101
Bonding and insurance	1,507	2,131
Dues and subscriptions	2,211	3,013
Total other services and charges	484,417	327,287
DEPRECIATION		
	84,186	81,127
Total administrative expenses	\$3,115,414	\$3,127,096

Schedule 4 - Investment Expenses

Comparative Two-Year Schedule
Years Ended December 31, 2005 and 2004

	2005	2004
Investment management fees	\$ 4,332,580	\$ 4,165,074
Custodial fees (included in administration expenses for financial statement purposes)	7,175	7,247
Total investment expenses	\$4,339,755	\$4,172,321

Schedule 5 - Payments to Consultants

Comparative Two-Year Schedule
Years Ended December 31, 2005 and 2004

Firm Name	Nature of Service	2005	2004
Clifton Gunderson, LLP	Auditor	\$ 55,935	\$ 62,364
Dahab Associates, Inc.	Investment Consultant	106,551	95,000
The Segal Company	Actuary	332,480	318,430
Total		\$494,966	\$475,794

investments



actual rate of return **8.6%**

Report on Investment Activity

Investment Return

On December 31st, 2005, the Pennsylvania Municipal Retirement Board's investment portfolio was valued at \$1,320,710,000, which was an increase of \$89,793,000 from the December 2004 ending valuation of \$1,230,917,000. During the calendar year of 2005, the System recorded aggregate net withdrawals of \$9,895,461 and a net investment return of \$99,678,461.

For the period between January 1, 2001 and December 31, 2005, the System recorded net withdrawals totaling \$46,106,360 and a net investment return of \$330,045,400. If the fund had earned an annualized compounded rate of 6.5% during that period, it would have been worth \$1,368.4 million, or \$47,718,000 more than the actual value at the end of the year.

Economic Environment

2005 was a good year for the U.S. economy. In spite of an ongoing war and devastating hurricanes, the overall results for the year were quite positive. That said, thirteen consecutive interest rate hikes, coupled with high energy prices, finally began to slow down the U.S. economy in the fourth quarter after a remarkable first nine months. The country's Gross Domestic Product (GDP) growth for the fourth quarter was 1.1%. This was well below the consensus estimate of 2.9% and below even the most pessimistic estimates of 2.0%. This brought the full year growth rate in 2005 to 3.1%, which was slower than the 4.2% growth rate for 2004.

The economy continued to create jobs in the construction and service areas. The unemployment rate declined from 5.4% to 4.9% by the end of the year.

Inflation, as measured by the Consumer Price Index (CPI), was down 0.1% in December, bringing the full year rate to 3.4%. The core inflation rate remained modest, rising only 2.2% for the year. The core rate excludes the volatile food and energy components.

The Federal Reserve followed its template from the previous quarters as their concerns for inflation persisted and raised interest rates again. The year's eight rate increases lifted the Federal funds rate from 2.25% to 4.25%. Should inflation continue to remain at its current level, it is likely that there will be several more interest rate increases even if they dampen the economic growth significantly.

Equity Market

Earnings reports remained upbeat toward the end of the year. High returns in the financial and technology sectors drove the S&P 500 to its highest levels of the year.

The broad large cap market indices, the S&P 500 and the Russell 1000 posted gains of 4.91% and 6.26% respectively for the year. Smaller stocks underperformed their larger brethren, gaining 4.55%.

Growth stocks made a comeback in the second half of 2005. However value stocks outpaced growth stocks for the trailing 12 months returning 7.05% compared to 5.26% for the Russell 1000 Growth. The Russell 2000 Value index gained 4.70% for the trailing year, while the Russell 2000 Growth index rose 4.16%.

Note: The System's investment assets reported in the Investment Section do not agree exactly with the investments 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.

At year-end, the average yield of an S&P 500 issue was 2.1%, the average growth rate was 12.9%, and the average price/earnings ratio (trailing 12-months earnings) was 23.1. The p/e ratio remained higher than its historically normal range of 14 to 16, but has come down markedly. The primary driver has been improvements in earnings for the past three years.

International Equities

Although the MSCI EAFE index gained 14.02% in U.S. dollars for 2005, in local currency, it rose 29.54%, as the dollar continued to strengthen against the currencies of the other countries included in the EAFE. Canada led the way, gaining 28.86% for the year. The country that performed the worst for the year was Ireland, which slipped 2.09%.

Emerging markets continued to outperform the developed markets for the trailing year, recording a return of 34.54%. The EAFE Index had a respectable gain of 14.02% for the trailing year. In dollars, the EM Europe index's 51.17% return was the highest for the year. In 2005, the best performing emerging market by far was Egypt. Its return of 161.59% was considerably more than the next best market, Columbia, which gained 107.52%. Venezuela declined the most, losing 24.07% for the year?

Bond Market

Reinforcing its fight against inflation, the Federal Reserve raised the target for the federal funds rate a total of eight times in 2005. The short end of the yield curve shifted higher and the entire curve became flat. Shorter term Treasuries rose 0.22%. While medium term and long term Treasuries gained 0.16% and 0.06%.

For the trailing 12 months U.S. Treasuries returned 2.79%, while Intermediate Treasuries underperformed long Treasuries. Intermediate Treasuries

gained 1.56% for the trailing year and long Treasuries rose 6.5%.

The Lehman Brothers Aggregate was up 2.43% for the trailing year. Investment grade corporates lagged high yield corporates (junk bonds) for the year, gaining 1.96% versus a rise of 2.74% for high yield corporates.

Cash Equivalents

Short-term yields increased as the Fed pushed up rates for the thirteenth consecutive time. Treasury bills (considered to be a risk-free surrogate) produced a trailing 12-month total return on cash and equivalents of 3.05%.

Relative Performance

Total Fund

Over the trailing year, the System's total portfolio returned 8.6%, which ranked above the median in the 25th percentile of the balanced trust fund universe. The cumulative return for the last five years was 32.9% (5.9% annualized), which ranked above the median in the 30th percentile.

Equities

Over the calendar year, the large cap equity segment gained 9.8%, which ranked above the median in the 31st percentile, 4.9% above the S&P 500 (4.9%). During the cumulative five-year period, the large cap equity component gained 17.4% (3.3% annualized), which ranked above the median in the 42nd percentile, 2.7% above the S&P 500's annualized return of 0.6%.

International Equities

For the year, the international equity segment gained 14.7%, which ranked below the median in the 54th percentile, and was 2.8% below the Salomon World Index's 17.5% return. Over the cumulative five-year

period covered by this report, the international equity segment recorded a gain of 30.3% (5.4% annualized), which ranked below the median in the 81st percentile, 1.6% below the benchmark's annualized return of 7.0%.

Small Cap

During the trailing year, the small cap segment returned 6.2%, which ranked below the median in the 62nd percentile, 1.7% greater than the Russell 2000's return of 4.5%. The cumulative small cap return over the last five years was 42.7% (7.4% annualized), which ranked below the median in the 71st percentile, 0.8% less than the Russell 2000's annualized return of 8.2%.

Bonds

In 2005, the fixed income portion of the portfolio posted a gain of 2.4%, which ranked below the median in the 62nd percentile, matching the Lehman Aggregate's gain for the period. Over the cumulative five-year period, the fixed income component returned 32.3% (5.8% annualized), which ranked below the median in the 73rd percentile. For comparison, the Lehman Aggregate returned an annualized 5.9% over the same time frame.

Real Estate

Over the trailing twelve-month period, the real estate portion of the portfolio posted a gain of 17.4%. Over the cumulative five-year period covered by this report, the real estate portion of the portfolio recorded a gain of 70.2% (11.2% annualized).

Asset Allocation

On December 31, 2005, the allocation of assets was as follows:

Domestic equities	35.6%	\$470,356,129
Small cap equities	15.2	\$201,098,202
International equities	16.5	\$218,467,151
Total equities	67.3	\$889,921,482
Fixed income	23.8	\$314,390,089
Real estate	6.5	\$85,695,989
Cash and equivalents	2.3	\$30,702,435

Prepared by DAHAB ASSOCIATES, INC.

Investment Performance

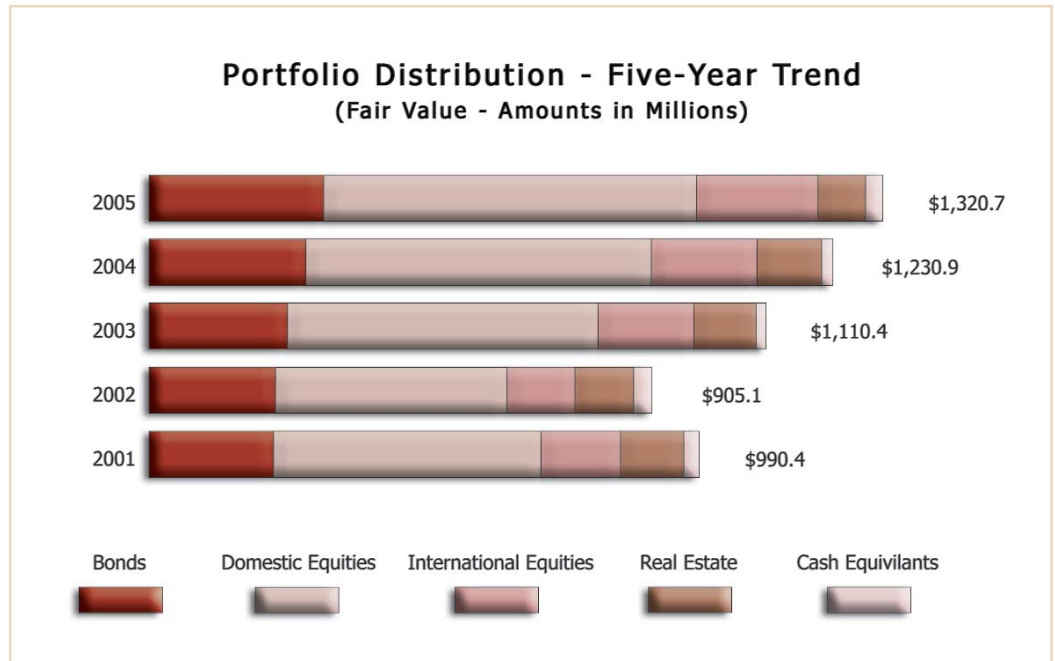
Investment Performance

On December 31, 2005, the System's investment assets were valued at \$1,320,710,000,⁽¹⁾ an increase in value of \$89,793,000 over the December 31, 2004 valuation of \$1,230,917,000.

During the last five years, the System has increased from \$990.4 million to \$1,320.7 million. The following graph shows the System's five-year trend of investment assets at fair value.

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 \$1,322,156,019 presented in the Financial Section and the balance of \$1,320,710,000 reported in this section.

The data presented in the Investment Section by the System's independent investment consultant has been prepared by using rates of return using a time-weighted rate of return methodology based upon market values. 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



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

Asset Allocation

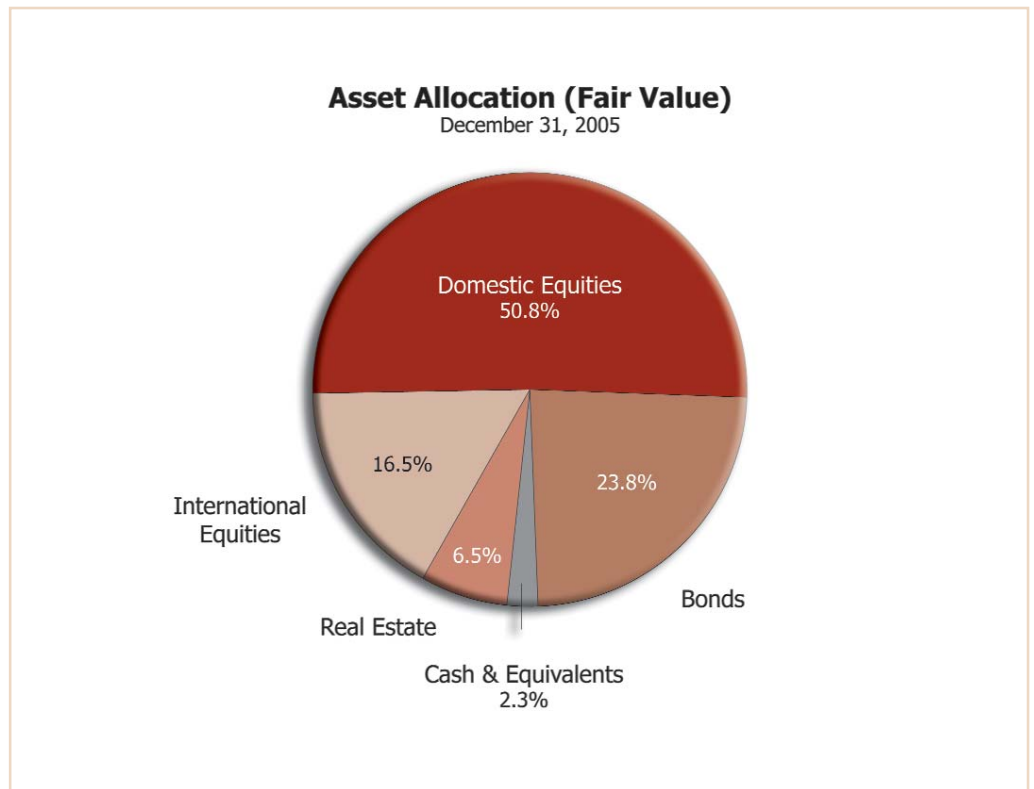
The System's asset allocation as of December 31, 2005 was \$671.4 million committed to domestic equities, \$218.5 million to international equities, \$314.4 million to bonds, \$85.7 million to real estate, and \$30.1 million to cash equivalents. The percentage distribution is illustrated below.

The time-weighted rate of return for the System's investments during the fiscal year ended December 31, 2005 was 8.6%, ranking above the median in the 25th percentile of all balanced funds as measured by the ICC (Independent Consultants Cooperative) universe. This performance level was above the median balanced fund's return of 5.8%. The cumulative five-year return for December 2000 through December 2005 of 32.9% (5.9% per year) ranked in the 30th percentile.

For the year ended December 31, 2005, equities gained 9.8% and ranked in the 31st percentile, performing 4.9% above the Standard and Poor's 500 return of 4.9%. For the last five years, the System's stock return of 17.4% (3.3% annualized) ranked in the 46nd percentile, 2.7% per year above the Standard and Poor's 500 return of 0.6% for the same time period.

Fixed income returned 2.4% for the year, ranking in the 62nd percentile, matching the Lehman Aggregate bond index return. For the five-year period, the cumulative bond return of 32.3% (5.8% per year) ranked in the 73rd percentile, performing 0.1% below the Lehman Aggregate bond index return of 5.9% for the same period.

The real estate segment of the portfolio earned 17.4% for the fiscal year. For the cumulative five-year period, the real estate portfolio earned 70.2% (11.2% per year).



Investment Summary

Portfolio Summary

As of December 31, 2005

Type of Investment	Par Value	Cost Value	Fair Value	% of Total Fair Value
CORPORATE AND GOVERNMENT BONDS				
U.S. Government bonds	\$ 190,600,000	\$ 190,600,000	\$ 227,100,000	17%
Corporate bonds	73,200,000	73,200,000	87,300,000	7
Total	263,800,000	263,800,000	314,400,000	24
COMMON STOCK				
Domestic	559,100,000	559,100,000	670,700,000	51
International	159,200,000	159,200,000	218,100,000	16
Total	718,300,000	718,300,000	888,800,000	67
OTHER INVESTMENTS				
Real estate equity	70,700,000	70,700,000	85,300,000	6
Cash equivalents	33,700,000	33,700,000	33,700,000	3
Total	104,400,000	104,400,000	119,000,000	9
Grand total	\$1,086,500,000	\$1,086,500,000	\$1,322,200,000	100%

Portfolio Quality

Two-Year Comparative Analysis
Years Ended December 31, 2005 and 2004

Bond Rating	Fair Value	% of Total Fair Value	% of Total Carrying Value
DECEMBER 31, 2005			
AAA	\$0	0%	0%
AA	314,400,000	100	100
A	0	0	0
Total bonds	\$314,400,000	100%	100%
DECEMBER 31, 2004			
AAA	\$0	0	0
AA	282,100,000	100	100
A	0	0	0
Total bonds	\$282,100,000	100%	100%

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 AIMR'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 12/31/05	Period From 1/1/03 to 12/31/05 (Annualized)	Period From 1/1/01 to 12/31/05 (Annualized)
Total	8.6%	14.9%	5.9%
<i>(Rank)⁽²⁾</i>	<i>(25)</i>	<i>(23)</i>	<i>(30)</i>
Large Cap equities	9.8	17.1	3.3
<i>(Rank)⁽³⁾</i>	<i>(31)</i>	<i>(44)</i>	<i>(42)</i>
Bonds	2.4	3.4	5.8
<i>(Rank)⁽⁴⁾</i>	<i>(62)</i>	<i>(76)</i>	<i>(73)</i>
Real Estate	17.4	15.2	11.2
International	14.7	24.4	5.4
<i>(Rank)</i>	<i>(54)</i>	<i>(60)</i>	<i>(81)</i>
Small Cap equities	6.2	22.2	7.4
<i>(Rank)</i>	<i>(62)</i>	<i>(58)</i>	<i>(71)</i>
Inflation Rate			
Consumer Price Index	3.4	3.0	3.2
Market Indicators			
Standard and Poor's 500	4.9	14.4	0.6
Russell 2000	4.5	22.1	8.2
Lehman Aggregate Bond Index	2.4	3.6	5.9
Salomon World (International)	17.5	26.8	7.0
91-day Treasury Bills	4.1	2.4	2.1
ICC Universe⁽⁵⁾ Median Rate of Return			
(Time-Weighted)	7.1	12.7	4.2

⁽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 Independent Consultants Cooperative (ICC) Universe contains the returns of over 20,000 portfolios with an aggregate asset value of approximately \$1,700 billion. This universe provides as accurate a standard for evaluating a manager's performance as any available through any service in the country.

Ten Largest Common Stock Holdings

As of December 31, 2005
(Fair Value)

Stock	Shares	Fair Value	% of Stock Portfolio
United Health Group Inc	184,700	11,478,066	1.71%
Amgen Inc	118,800	9,365,098	1.39%
Wellpoint Inc	113,900	9,090,076	1.35%
Pepsico Inc	147,100	8,692,382	1.29%
American Movil - ADR Series L	292,800	8,567,328	1.28%
Burlington Resources Inc	97,400	8,394,673	1.25%
Franklin Resources Inc	78,700	7,402,536	1.10%
Walgreen Co	166,400	7,364,465	1.10%
Caremark RX Inc	140,900	7,296,434	1.09%
Qualcomm Inc	167,600	7,218,399	1.08%

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, 2005 and 2004

Firm Name	2005	2004
BlackRock Financial Management	\$ 385,678	\$ 335,401
Boston Company Asset Management	138,442	392,570
Century Capital Management	53,712	0
Chase Investment Counsel Corporation	839,412	739,265
DePrince, Race & Zollo, Inc.	66,136	0
Emerald Advisors	292,919	252,930
Forest Investment Associates	189,354	176,537
LSV Asset Management	553,948	326,654
Mercator Asset Management	562,589	463,261
Prudential Investments	550,510	423,183
Seix Investment Advisors	0	139,464
State Street Global Advisors	206,717	161,605
Waddell & Reed Investment Management	444,935	388,966
TimesSquare Real Estate	38,228	365,238
Total	\$4,332,580	\$4,165,074

Investment Summary (continued)

Summary of Commissions Paid to Brokers Year Ended December 31, 2005

Broker Name	Commissions Paid
A. G. Edwards & Sons Inc., St. Louis	\$5,774
Abel Noser corp., New York	255
ABG Securities, Oslo	885
ABN AMRO Securities LLC, New York	415
Advest Co., Hartford	500
Assent LLC, Hoboken	182
Avondale Partners LLC, Nashville	5,219
B Trade Services LLC, New York	65,965
Baird, Robert W. & Co. Inc., Milwaukee	8,242
Bank of America Securities LLC, Charlotte	12,226
Banco Santander, New York	3,908
BBVA Securities Inc, New York	999
Bear Stearns & Co. Inc., New York	27,221
Bear Stearns Sec Corp., Brooklyn	13,307
Bernstein Sanforn C. & Co., New York	977
Bloomberg Tradebook, New York	61
Bridge Trading Co., St. Louis	2,236
Buckingham Research Group, Inc. Brooklyn	1,181
Canaccord Adams Inc., Boston	4,045
Cantor Fitzgerald & Co. Inc., New York	29,900
Capital Institutional Services Inc., Dallas	7,268
Carnegie Fondcommission, New York	953
Carnegie International, New York	1,121
Chase Securities, New York	252
Chevreur De Viriu SA, Paris	3,627
CIBC World Markets Corp., New York	10,183
Citibank Custodial, Toronto (CITC)	257
Citibank NA, London	860
Citigroup Gbl Mkts Inc., New York	37,926
Citigroup Gbl Mkts/Salomon, New York	13,855
Cochran Caronia Securities LLC, Jersey City	913
Compass Point Research & Trading, New York	550
Credit Agricole Indosuez Chx, Milano	1,731
Credit Agricole Securities, New York	867
Credit Lyonnais Securities (Asia), Hong Kong	2,275
Credit Lyonnais Securities, Singapore	1,371
Credit Lyonnais Securities Inc., New York	230
Credit Suisse (Europe), London	8,547
Credit Suisse, New York	28,080

Broker Name	Commissions Paid
Cruttenden & Co., Santa Barbara	\$4,728
Custom Equity Research Inc., New York	415
Cuttone, New York	363
D Carnegie AB Finland, Helsinki	1,038
Daiwa Securities America Inc., New York	6,801
Davenport & Co. of Virginia, Richmond	680
Davy Stockbrokers, Dublin	911
Dean Witter Reynolds Inc., New York	1,955
Deutsche Banc Alex Brown Inc., New York	26,796
Dougherty Company, Brooklyn	1,362
Dowling & partners, Jersey City	2,529
Dresdner Kleinwort Benson, New York	35,524
Dresdner Kleinwort Wasserstein, London	2,183
Dresdner Kleinwort Wasserstein, New York	978
Enskilda Securities AB, London	7,996
Enskilda Securities, New York	497
Exane, New York	7,791
Exane, Paris	5,420
Execution Services Inc., New York	5,612
First Albany Capital Inc., Albany	75
First Analysis Securities Corp., Chicago	746
First Clearing LLC., Richmond	3,500
Fortis BK Nederland, Amsterdam 101	8,275
Fortis Investment Services LLC, New York	2,417
Fortis Securities LLC, New York	2,181
Fortis, New York	1,262
Fox-Pitt Kelton Inc., New York	1,665
Fox-Pitt Kelton LTD, London	1,615
Friedman Billings, Washington DC	1,480
Goldman Sachs & Co., New York	35,918
Gunnallen Financial, Jersey City	914
Howard Weil Labouisse Friedrichs, New Orleans	126
Instinet Corp., New York	1,918
Intermonte Securities CIM, Milan	6,706
Intersecurities Inc., Jersey City	2,995
Investment Technology Groups, New York	2,790
J P Morgan Sec LTD/Stock Lending, London	687
J P Morgan Securities, Sidney	254
J P Morgan Securities LTD, London	7,637

Continued on next page

investments

J P Morgan Securities Asia Pacific, Hong Kong	\$263	Parker/Hunter Inc., Pittsburgh	\$320
Janney Montgomery Scott, Philadelphia	2,937	Pershing Division of DLJ, New York	9,782
Jefferies & Co. Inc., New York	10,243	Pershing LLC, Jersey City	8,774
JMP Securities, San Francisco	3,433	Pershing Securities LTD, London	920
Johnson Rice & Co., New Orleans	930	Pipeline Trading systems LLC, New York	43
Jones & Associates Inc., Westlake Village	6,176	Piper Jaffray & Co., Minneapolis	1,388
Kaufman Brothers, Weehawken	3,410	Prudential Equity Group, New York	15,234
Keefe Bruyette & Woods, Jersey City	7,323	Pulse Trading LLC, Boston	9,200
Keefe Bruyette & Woods, New York	6	Punk, Ziegel & Knoell, New York	805
Keven Dann Partners LLC, New York	1,290	Quaker Securities Inc., Philadelphia	650
King (CL) & Associates, Albany	693	Raymond James & Associates Inc., St. Petersburg	14,632
Kleinwort Benson Securities LTD, London	15,743	RBC Capital Markets Corp., New York	10,005
Knight Securities Broadcort, Jersey City	7,924	RBC Dominion Securities Inc., Toronto (DOMA)	5,488
La Branche Financial Services/HBI, New York	3,836	S G Cowen & Co. LLC., New York	6,716
Leerink Swann & Co., Jersey City	6,834	Salomon Brothers International LTD, London	1,648
Legg Mason Wood Walker, Inc., Baltimore	8,285	Sandler O'Neill & Partners, New York	3,323
Lehman Bros Inc., New York	30,184	SBC Warbuck UK, London	147
Liquidnet Inc., Brooklyn	43,678	Schonfeld Securities LLC, New York	140
Lynch Jones & Ryan Inc., Houston	420	Scotia McLeod Inc., Toronto (SCOT)	1,019
Macquarie Equities LTD, Sydney	3,327	Scott Stringfellow Inc., Richmond	2,253
Mainfirst Bank AG, Frankfurt	11,875	SG Americas Securities LLC, New York	9,050
Mainfirst Bank, London	1,113	Societe Generale (ACC), Zurich	665
McDonald & Co., New York	4,520	Southwest Securities Inc., Dallas	1,610
Merrill Lynch International (2L), London	2,664	State Street Brokerage Services, Boston	30,670
Merrill Lynch International London Equities	2,634	Stephens Inc., Little Rock	1,658
Merrill Lynch International LTD, New York	148	Sterne Agee & Leach Inc.	2,573
Merrill Lynch Pierce Fenner Smith Inc., New York	37,544	Stifel Nicolaus	4,829
Merrill Lynch Pierce Fenner, Wilmington	9,290	Suntrust Capital Markets Inc., Atlanta	5,355
Merrill Lynch Professional Ctrg, Purchase	3,047	Svenska Handelsbanken, New York	1,014
Merriman Curhan Ford & Co., Brooklyn	4,062	Thinkequity Oaratners LLC, Minneapolis	20
Mizuho Securities USA Inc., New York	16,069	Thomas & Weisel Partners, San Francisco	2,971
Moors & Cabot Inc./IPO Tracking, New Jersey	248	Toronto Dominion Securities, Toronto	806
Morgan J.P. Securities Inc., New York	41,348	UBS AG, London	8,613
Morgan Stanley & Co. Inc., New York	63,275	UBS Equities, London	12,925
MS Securities, London	758	UBS Financial Services Inc., Weehawken	3,016
Natexis Bleichroeder Inc., New York	514	UBS Securities LLC, Stamford	29,503
National Financial Services Corp., New York	2,760	UBS Warburg Asia LTD, Hong Kong	4,070
Needham & Company, New York	11,220	Union Bank Switzerland Securities, London	14,618
Nesbitt Burns, Toronto (NTDT)	206	Veritas Securities, New York	252
Neuberger & Berman	1,436	Wachovia Capital Markets LLC, Charlotte	19,604
Neue Zurcher Bank, Zurich	2,405	Wedbush Morgan Securities, Inc., Los Angeles	2,200
Nomura Securities International Inc., New York	3,573	Weeden & Co., New York	394,511
Non-Broker Corp Actions, Boston	4	Wells Fargo Securities LLC, New York	120
NZB Neue Zuercher Bank, Zurich	11,749	William Blair & Co., Chicago	5,413
Oppenheimer & Co. Inc., New York	6,050	Total Brokerage Commissions Paid	\$1,545,099

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 2004 asset allocation study, the Board reaffirmed 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 agreement.

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.

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 three 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



105.6%
funded ratio



THE SEGAL COMPANY
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June 1, 2006

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, 2005, in accordance with generally accepted actuarial principles and practices. This certificate includes the following attached exhibits:

Certificate Contents

EXHIBIT I	Funded Status of Actuarial Accrued Liabilities
EXHIBIT II	Actuarial Accrued Liability
EXHIBIT III	Schedule of Retirees and Beneficiaries
EXHIBIT IV	Actuarial Assumptions
EXHIBIT V	Actuarial Methods

Individual municipality actuarial valuation results as of January 1, 2005, have been provided separately for 678 defined benefit plans that are required to redetermine contribution levels as of January 1, 2005 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, 2004.

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 Standard 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. 05-3636

Benefits, Compensation and HR Consulting ATLANTA BOSTON CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES MINNEAPOLIS NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX SAN FRANCISCO SEATTLE TORONTO WASHINGTON, D.C.

Multinational Group of Actuaries and Consultants AMSTERDAM BARCELONA GENEVA HAMBURG JOHANNESBURG LONDON MELBOURNE MEXICO CITY OSLO PARIS

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)
1/1/05	1,219,130,000	\$1,154,858,200	\$(64,271,800)	105.6%
1/1/04	54,024,249	45,580,670	(8,443,579)	118.5
1/1/03	1,084,828,900	955,259,400	(129,569,500)	113.6
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

The actuarial assumptions as of January 1, 2005 are shown in Exhibit II. The above information was derived from the following membership data, as provided by the System, regarding:

- ◆ 678 defined benefit plans and 169 defined contribution-only plans as of January 1, 2005;
- ◆ 4 defined benefit plans required to redetermine contribution levels as of January 1, 2004;
- ◆ 656 defined benefit plans and 163 defined contribution-only plans as of January 1, 2003;
- ◆ 14 defined benefit plans required to redetermine contribution levels as of January 1, 2002;
- ◆ 630 defined benefit plans and 139 defined contribution-only plans as of January 1, 2001;
- ◆ 16 defined benefit plans required to redetermine contribution levels as of January 1, 2000;

	As of January 1			
	2005	2004	2003	2002
a. Retirees currently receiving benefits	2,768	194	2,534	487
b. Beneficiaries currently receiving benefits	424	8	393	112
c. Terminated vested employees entitled to future benefits defined benefit plans	464	37	473	73
d. Terminated non-vested employees entitled to contribution refunds- defined benefit plans	165	4	177	57
e. Active employees in defined benefit plans	8,341	731	8,142	1,900
i. aggregate salary	\$319,004,918	\$22,249,329	\$293,388,800	\$67,861,900
ii. vested	4,603	259	4,189	9,155
iii. non-vested	3,738	472	3,953	985
f. Participants in defined contribution-only plans	1,005	--	897	--
i. aggregate salary	\$26,807,519	--	\$21,459,225	--
ii. active	867	--	797	--
iii. inactive	138	--	100	--

⁽¹⁾ According to method described in Exhibit V, 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.

Exhibit II - Actuarial Accrued Liability

Valuation	(A)	(B)	(C)	Valuation Assets ⁽²⁾	Portion of Actuarial Accrued Liability Covered by Assets		
	Active Member Contributions	Retirees and Beneficiaries ⁽¹⁾	Active Members (Employer Financed Portion)				
2005	\$231,122,200	\$395,061,900	\$528,674,100	\$1,219,130,000	100%	100%	100%
2003	213,174,400	329,766,100	412,318,900	1,084,828,900	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%

Exhibit III - 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
2005	251	116	3,192	\$34,691,928	8.4%	\$10,868	3.8%
2004	214	84	3,057	32,010,035	7.4	10,471	2.8
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

⁽¹⁾ Includes terminated employees not yet receiving benefits.

⁽²⁾ Sum of Member, Municipal, Retirement, and Disability Reserve Accounts as shown in audited financial statements.

Exhibit IV - Actuarial Assumptions

The following actuarial assumptions were adopted by the PMRS Board in November 2004 for first use in the January 1, 2005 actuarial valuation. (Actuarial assumptions for the prior valuation were adopted by the PMRS Board in November 1999.)

Healthy life mortality rates: For those retired before January 1, 2005, the 1983 Group Annuity Mortality Table for Males, with ages set back 6 years for females. For new retirees on or after January 1, 2005, the 1994 Group Annuity Mortality Static Table for males and females. The sample rates are shown at right.

Healthy Life Mortality Rates				
Age	Retirees Prior to January 1, 2005 ⁽¹⁾		New Retirees on or After January 1, 2005	
	Male	Female	Male	Female
50	0.39%	0.19%	0.26%	0.14%
55	0.61	0.35	0.44	0.23
60	0.92	0.57	0.80	0.44
65	1.56	0.84	1.45	0.86
70	2.75	1.39	2.37	1.37
75	4.46	2.48	3.72	2.27
80	7.41	4.04	6.20	3.94
85	11.48	6.71	9.72	6.77

Disabled life mortality rates: Mortality under healthy life table for a life 10 years older.

Termination rates before retirement: For all plans with 25 or more active members, the termination rates d current valuation rates are shown below. 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 where such percentage equals 100 percent less 5 percent x (25 number of members); for municipalities with 5 or fewer members, no terminations were assumed. The prior and current valuation rates are shown at right.

Years of Service	Termination Rates Before Retirement					
	Prior Valuation Rate ⁽²⁾			Current Valuation Rate ⁽²⁾		
	Uniformed Members	Municipal Members		Uniformed Members	Municipal Members	
	M&F	Male	Female	M&F	Male	Female
less than 1	10%	12%	16%	13%	13%	16%
1 but less than 2	8	10	14	10	12	15
2 but less than 3	8	9	12	7	10	13
3 but less than 4	7	8	10	7	9	11
4 but less than 5	6	7	9	6	6	9
5 but less than 6	5	7	8	5	6	8
6 but less than 7	4	6	7	4	6	7
7 but less than 8	3	5	6	3	5	7
8 but less than 9	3	4	5	3	4	6
9 but less than 10	2	3	4	3	3	5
10 or more	2	2	3	3	2	4

Sample rates for the prior and current valuation assumptions are as follows:

Age	Prior Valuation Rate (%)	Current Valuation Rate (%)
25	0.043%	0.034%
35	0.074	0.059
45	0.180	1.144
55	0.504	0.404
65	1.160	0.928

Disability incidence rates:
 (a) 40% of 1964 OASDI (Social Security) Experience for Males for municipal plans (formerly, 50% of those rates were used).

⁽¹⁾ This table was used for all participants in their prior valuation.

⁽²⁾ No termination rates are applied once the employee becomes eligible for voluntary early or normal retirement.

(b) Uniformed plans - 60% of 1964 OASDI (Social Security) Experience for Males (formerly, 100% of those rates were used). Sample rates for the prior and current assumptions are listed above.

Age	Prior Valuation Rate (%)	Current Valuation Rate (%)
25	0.085%	0.051%
35	0.147	0.088
45	0.360	0.216
55	1.009	0.605
65	2.321	1.393

Type of disability:

- (a) Municipal plans - 15% of disablements are assumed to be service related.
- (b) 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: 3.0% inflation (3.5% for prior valuation) 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 are assumed to have an additional 6% increase applied at time of assumed retirement. Beginning with the 2005 valuation, 2% is added to the rate shown for each of the first 3 years of service. Sample rates are shown at right:

Sample Salary Rates	
Age	Total Rate (%) (including inflation) ⁽¹⁾
25	7.8%
30	5.9
35	5.1
40	4.5
45	4.2
50	4.1
55	3.9
60	3.7
65	3.0

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 at right:

Retirement Assumptions		
Age	Prior Rate of Normal Retirement ⁽²⁾	Current Rate of Normal Retirement ⁽²⁾
Under 46	10%	5%
46 - 54	10	15
55 - 59	10	10
60 - 61	10	10
62	35	30
63 - 64	20	20
65	45	35
66 - 74	20	15
75	100	100

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

Marital Status and Spouse's age ⁽³⁾: 85% of members will be married at time of retirement and females are four years younger than their spouses.

⁽¹⁾ Add 2% each of the first 3 years of service.

⁽²⁾ Rates indicated are adjusted by adding 5% (and 10% for ages 60-62 under current rate assumptions) for the year in which the member is first eligible for normal retirement.

⁽³⁾ If applicable.

Social Security projections ⁽¹⁾:

- a) The Social Security Taxable Wage Base will increase by 3.5% compounded annually. (4.0% in prior valuation)
- b) The Consumer Price Index will increase by 3.0% compounded annually. (3.5% in prior valuation)
- c) The Average Total Wages of All Workers will increase by 3.5% compounded annually. (4.0% in prior valuation)

Post-retirement cost-of-living increases ⁽¹⁾: 3.0% per year, subject to plan limitations (3.5% in prior valuation)

Net investment return: 6.0% compounded annually (net of investment and certain administration expenses) for funding purposes. (6.5% in prior valuation)

Exhibit V - 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 Member, 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 percent of fair market value.

Each year, municipalities 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 is used to allocate the new surplus. Generally, depending on the relative size of surplus to fair market value, between 10 percent and 90 percent of new surplus will become excess interest. However, there was no excess interest allocation for 2004 because the new surplus was smaller than the minimum excess interest policy adopted by the Board.

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 over the lesser of:

- (a) i. 30 years, with respect to the initial liability as of 1/1/85 (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

⁽¹⁾ If applicable.

(b) the average assumed working lifetime of active employees as of the date the liability was established ⁽¹⁾.

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 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 with the system. (However, this procedure does not apply to the legislated ad hoc adjustments 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. it is the expected cost of disabilities in the coming year.

Notes to Actuarial Section

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. An actuarial experience study covering the period 1/1/1998 to 1/1/2003 was used by the Board as the basis to adopt (with the actuary's recommendation) several changes in assumptions that were implemented with the January 1, 2005 actuarial valuation.

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⁽²⁾, 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 and the liabilities for future benefits to present retired lives⁽²⁾ will be fully covered by present assets with the exception of rare circumstances (Exhibit II, items A and B). The actuarial accrued liability for active members will be partially covered by the remainder of present assets (Exhibit II, item C). If the system has been using level cost financing, the funded portion of Item C will usually increase over a period of time. It is rare that Item C is fully funded.

⁽¹⁾ If there are no active employees, the unfunded liability is amortized in one year from the date that the liability was established.

⁽²⁾ Includes terminated employees not yet receiving benefits.

statistical



13,167
members served

Part I - Financial

Revenues by Source and Expenses by Type Last Six Years

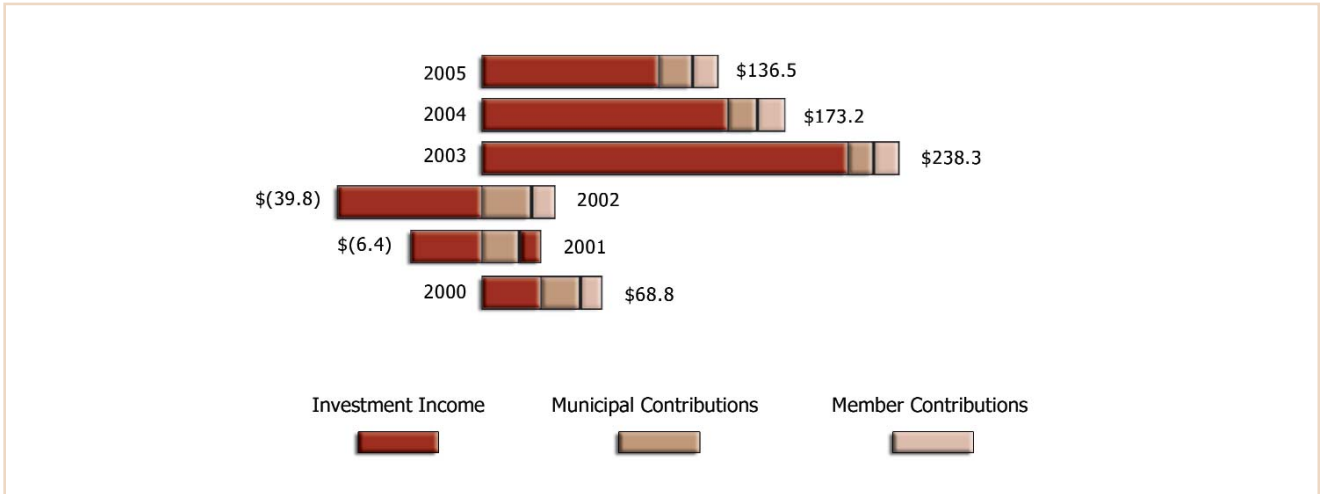
Revenues by Source					
Fiscal Year	Member Contributions	Municipal Contributions ⁽¹⁾	Municipal Assessments ⁽²⁾	Investment Income	Total Revenue
2005	\$16,046,984	\$19,890,494	\$277,640	\$100,268,743	\$136,483,861
2004	15,821,360	17,041,418	263,401	140,070,192	173,196,371
2003	14,760,323	14,696,210	270,140	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

Expenses by Type					
Fiscal Year	BENEFIT EXPENSES			Administrative Expenses	Total Expenses
	Annuity	Disability	Termination		
2005	\$37,021,910	\$1,184,295	\$10,331,707	\$3,115,414	\$51,653,326
2004	33,640,514	1,089,729	10,318,197	3,127,096	48,175,536
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

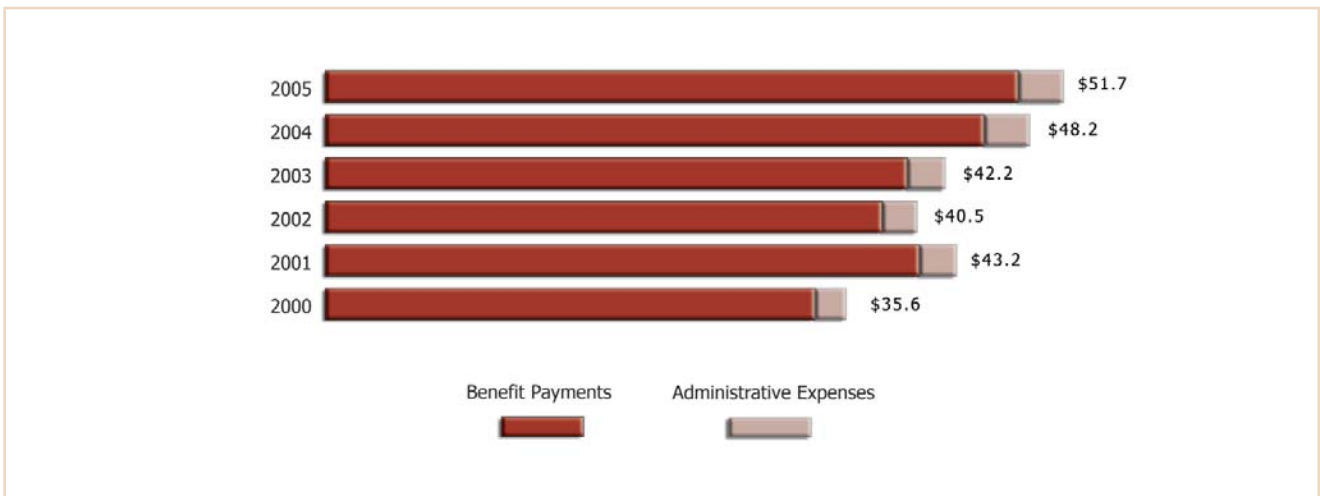
⁽¹⁾ Contributions were made in accordance with actuarially determined contribution requirements.

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

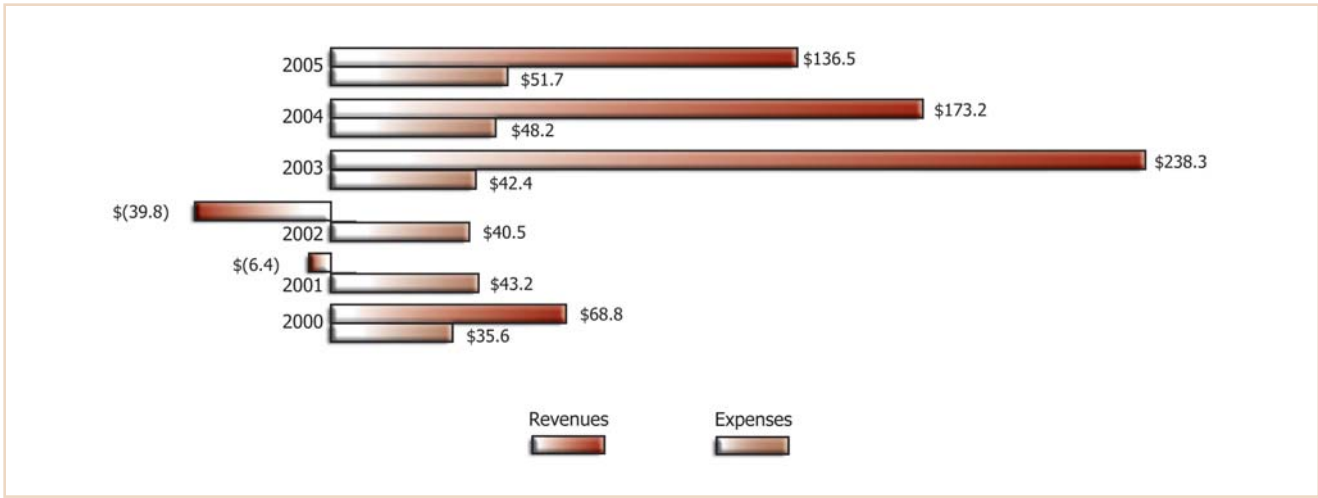
Revenues by Source - Six-Year Trend
(Amounts in Millions)



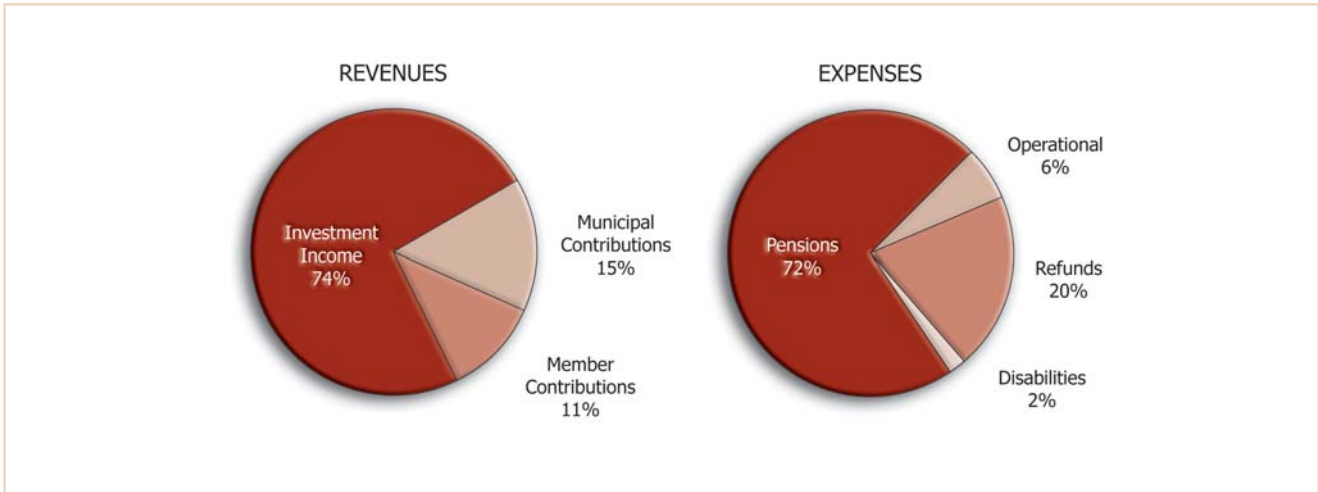
Expenses by Type - Six-Year Trend
(Amounts in Millions)



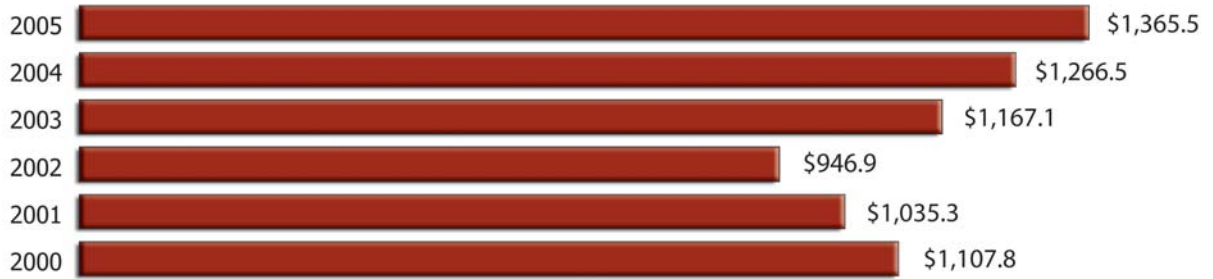
Revenues vs. Expenses - Six-Year Trend (Amounts in Millions)



Components of Total Revenues and Expenses - 2005 (Amounts in Millions)



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

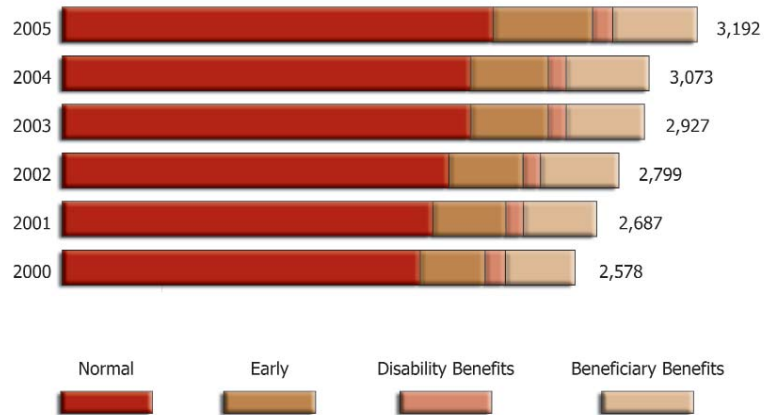


Part II - Membership

Active Members - Six-Year Trend Valuation Date 1/1



Retired Members - Six-Year Trend Valuation Date 1/1



Pensions in Payment Status on January 1, 2005
by Type and by Monthly Amount

Monthly amount	Total	Type of Pension				
		Normal	Involuntary early	Voluntary early	Service disability	Non-service disability
Total	3,192	2,592	166	333	27	74
Under \$100	146	121	12	11	1	1
\$100 - \$199	211	155	34	20	2	--
200 - 299	264	205	27	29	--	3
300 - 399	252	206	18	26	--	2
400 - 499	203	157	12	27	2	5
500 - 599	254	203	14	29	--	8
600 - 699	204	161	12	23	--	8
700 - 799	190	143	5	30	--	12
800 - 899	187	141	7	25	2	12
900 - 999	162	132	7	15	3	5
1,000 - 1,199	305	239	7	41	5	13
1,200 - 1,299	190	163	3	18	4	2
1,400 - 1,599	160	141	5	9	5	--
1,600 - 1,799	114	104	1	7	2	--
1,800 - 1,999	82	72	--	7	--	3
2,000 - 2,199	68	62	--	6	--	--
2,200 - 2,399	45	44	--	1	--	--
2,400 - 2,599	47	43	--	4	--	--
2,600 - 2,799	36	35	1	--	--	--
2,800 - 2,999	12	11	--	1	--	--
3,000 - 3,499	31	27	--	3	1	--
3,500 - 3,999	19	17	1	1	--	--
4,000 and over	10	10	--	--	--	--

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

Year ended January 1:	Type of Pension									
	Total		Normal		Involuntary early		Voluntary early		Disability	
	Sum	AMA ⁽¹⁾	Sum	AMA	Sum	AMA	Sum	AMA	Sum ⁽²⁾	AMA
2005	261	1,133	191	1,201	14	608	36	973	10(1)	2,372
2004	214	1,199	171	1,226	8	609	26	1,206	9(4)	1,199
2003	199	1,087	170	1,121	5	670	17	974	7(2)	837
2002	246	1,277	206	1,346	6	945	30	957	4(0)	655
2001	185	954	147	1,028	8	423	25	736	5(1)	702
2000	179	869	152	912	3	345	22	647	2(0)	850
1999	152	939	122	1,006	6	347	13	785	11(2)	698
1998	169	782	142	831	9	337	10	594	8(4)	647
1997	165	819	133	811	6	144	15	877	11(4)	1,194
1996	182	727	141	757	12	395	19	648	10(2)	855

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 ⁽³⁾	Inactive Members ⁽⁴⁾	Total
2005	8,341	867	2,768	424	602	165	13,167
2004	8,491	902	2,657	416	546	230	13,242
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

⁽¹⁾ Average Monthly Amount

⁽²⁾ Number of service-related disability pensions are shown in parentheses.

⁽³⁾ Inactive participants with rights to deferred pension (vested)

⁽⁴⁾ Inactive participants with rights to return of contributions (non-vested)

Active Members - Six-Year Trend
Valuation Date 1/1



Schedule of Active Member Valuation Data

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
2005	8,341	(1.8)%	678	2.4%	\$319,005,000	0.7%	\$38,245	2.5%
2004	8,491	4.3	662	1.0	316,703,000	7.9	37,299	3.5
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

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
2005	867	(3.8)%	169	(3.4)%	\$26,808,000	6.0%	\$30,920	10.3%
2004	902	13.2	175	7.4	25,291,000	17.9	28,038	4.1
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

**Schedule of Participating Pension Plans ⁽¹⁾
as of December 31, 2005**

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)
Nanticoke (Luzerne)
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)
Carrolltown (Cambria)
Castle Shannon (Allegheny)
Centerville (Washington)
Central City (Somerset)
Charleroi (Washington)
Claysville (Washington)
Clymer (Indiana)
Coaldale (Schuylkill)
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)
Holidaysburg (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 City (Westmoreland)
Lehighton (Carbon)
Lewistown (Mifflin)
Lykens (Dauphin)
Marcus Hook (Delaware)
Martinsburg (Blair)
Marysville (Perry)
Matamoras (Pike)
Mayfield (Lackawanna)
Mercer (Mercer)
Meyersdale (Somerset)

⁽¹⁾ County names are in parentheses.

Schedule of Participating Pension Plans (continued)

Middleburg (Snyder)
 Middletown (Dauphin)
 Millersburg (Dauphin)
 Millerstown (Perry)
 Minersville (Schuylkill)
 Monaca (Beaver)
 Monroeville Municipality (Allegheny)
 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)
 Perkasio (Bucks)
 Pine Grove (Schuylkill)
 Portage (Cambria)
 Pottstown (Montgomery)
 Prospect Park (Delaware)
 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**

Caln (Chester)
 Collier (Allegheny)
 Crescent (Allegheny)
 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)
 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)
Columbus (Warren)
Concord (Delaware)
Conemaugh (Indiana)
Conewago (Dauphin)
Corydon (McKean)
Covington (Lackawanna)
Cranberry (Venango)
Cross Creek (Washington)
Darlington (Beaver)
Delaware (Mercer)
Derry (Westmoreland)
Derry (Dauphin)
Derry (Mifflin)
Derry - DC Plan (Dauphin)
Dickinson (Cumberland)
Dingman (Pike)
Donegal (Washington)
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 Franklin (Washington)
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)
Plumcreek (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)

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 Bend (Armstrong)
 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 (Fayette)
 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 (Allegheny)
 Ambridge Borough Municipal (Beaver)
 Armstrong Conservation District (Armstrong)
 Avonmore Borough Municipal (Westmoreland)
 B.A.R.T.A. (Berks)
 Bedford Borough Water (Bedford)
 Bedford Municipal (Bedford)
 Bedminster Municipal (Bucks)
 Belle Vernon Municipal (Fayette)
 Bethlehem (Northampton)
 Bethlehem City Redevelopment (Northampton)
 Bloomfield Township Sewer (Crawford)
 Bradford City Water (McKean)
 Bradford Regional Airport (McKean)
 Brighton Township Municipal (Beaver)
 Brighton Township Sewer (Beaver)
 Bristol Township (Bucks)
 Brockway Area Sewage (Jefferson)
 Brockway Borough Municipal (Jefferson)

Brodhead Creek Regional (Monroe)
 Brookville Municipal (Jefferson)
 Bucks County Water & Sewer
 Bucks County Redevelopment
 Burrell Township Sewage (Indiana)
 Butler Area Public Library (Butler)
 Cambria County Conservation & Recreation (Cambria)
 Cambria Township Sewer (Cambria)
 Cambria Township Water (Cambria)
 Carbon County Conservation District (Carbon)
 Carmichaels-Cumberland Joint Sewer (Greene)
 Carroll Township (Washington)
 Catawissa Borough Municipal Water (Columbia)
 Centerville Borough Sanitary (Washington)
 Central Carbon Municipal (Carbon)
 Central Indiana County Joint Sanitary (Indiana)
 Centre County Library & Historical Museum
 Clarion County Housing
 Coaldale-Lansford-Summit Hill Sewer (Carbon)
 Columbia County Conservation District
 Concord Township Sewer (Delaware)
 Connellsville Municipal (Fayette)

Connellsville Redevelopment (Fayette)
Conshohocken Borough (Montgomery)
Coplay-Whitehall Sewer (Lehigh)
Crescent South Heights Municipal (Allegheny)
Cressona Borough (Schuylkill)
Creswell Heights Joint (Beaver)
Curwensville Municipal (Clearfield)
Delaware Valley Municipal Management Assoc (Montgomery)
Derry Township Municipal (Westmoreland)
DuBois City Redevelopment (Clearfield)
East Norriton-Plymouth-Whitpain Joint Sewer (Montgomery)
Eastern Regional Communications Center (Allegheny)
Eastern Snyder County Regional (Snyder)
Economy Borough Municipal (Beaver)
Elizabeth Borough Municipal (Allegheny)
Elizabeth Township Sanitary (Allegheny)
Emlenton Area Municipal (Venango)
Erie County Housing (Erie)
Everett Area Municipal (Bedford)
Falls Township (Bucks)
Fawn Township Sewage (Allegheny)
Fawn-Frazer Joint Water (Allegheny)
Fayette County Conservation District (Fayette)
Forward Township Municipal (Allegheny)
Franklin City Housing (Venango)
Franklin Township Municipal Sanitary (Westmoreland)
Franklin Township Sewer (Greene)
Frazer Transportation (Allegheny)
Fredericksburg Sewer & Water (Lebanon)
Freeland Borough Municipal (Luzerne)
Greater Lebanon Refuse (Lebanon)
Greenville Municipal (Mercer)
Guilford Township Authority (Franklin)
Guilford Water (Franklin)
Harrison Township Water (Allegheny)
Hawley Area (Wayne)
Hazleton Transit (Luzerne)
Hellertown Borough (Northampton)
Hilltown Township Water & Sewer (Bucks)
Horsham Township Sewer (Montgomery)
Hughesville-Wolf Township Joint Municipal (Lycoming)
Indiana County Conservation District
Indiana County Solid Waste
Jackson Township Water (Cambria)
Jeannette Municipal (Westmoreland)
Jefferson Conservation District (Jefferson)

Johnsonburg Municipal (Elk)
Juniata County Conservation District
Kiskiminetas Township Municipal (Armstrong)
Kittanning Suburban Joint Water (Armstrong)
Kulpmont-Marion Heights JMA (Northumberland)
Lancaster City Parking (Lancaster)
Lansford - Coaldale Joint Water (Carbon)
Lebanon Community Library (Lebanon)
Leetsdale Borough Municipal (Allegheny)
Lehigh County (Lehigh)
Lehighon Water (Carbon)
Lower Bucks County Joint Municipal Supervisors
Lower Bucks County Joint Municipal
Lower Indiana County Municipal (Indiana)
Lower Providence Township Sewer (Montgomery)
Luzerne Conservation District (Luzerne)
Lycoming Sanitary Committee (Lycoming)
Mahanoy Township (Schuylkill)
Mahoning Township (Montour)
Maidencreek Township (Berks)
Manor Township Joint Municipal (Armstrong)
Mary Meuser Memorial Library (Northampton)
Matamoras Municipal (Pike)
McKean County Solid Waste (McKean)
Mercer County Regional Planning Commission
Mid Mon Valley Water (Washington)
Middlesex Township Municipal (Cumberland)
Middletown Township Sewer (Delaware)
Mifflin County Regional (Mifflin)
Mifflintown Municipal (Juniata)
Milford Water (Pike)
Millcreek - Richland Joint Sewer (Lebanon)
Millersburg Area (Dauphin)
Mon Valley Sewer (Washington)
Monroe County Control Center
Montgomery County Sewer (Montgomery)
Montour County Conservation District (Montour)
Montrose Municipal (Susquehanna)
Moon Township Municipal (Allegheny)
Morrisville Borough Municipal (Bucks)
Mount Jewett Borough (McKean)
Mount Joy Township (Lancaster)
Mount Lebanon Parking (Allegheny)
Mount Pocono Municipal (Monroe)
Myerstown Community Library Association (Lebanon)
Myerstown Water (Lebanon)

Schedule of Participating Pension Plans (continued)

Nanty-Glo Sanitary Sewer (Cambria)
 Nanty-Glo Water (Cambria)
 Nesquehoning Borough (Carbon)
 New Kensington Municipal Sanitary (Westmoreland)
 New Kensington Redevelopment (Westmoreland)
 Newport Borough Water (Perry)
 Norristown Municipal Waste (Montgomery)
 North & South Shenango Joint Municipal (Crawford)
 North Coventry Municipal (Chester)
 North Huntingdon Township Municipal (Westmoreland)
 North Middleton (Cumberland)
 North Strabane Township Municipal (Washington)
 Northampton Borough Municipal (Northampton)
 Northeastern Regional Police (York)
 Northern Lancaster County (Lancaster)
 Northern York Co Reg Police (York)
 Northumberland Sewer (Northumberland)
 Northwest Regional Lancaster County Police Commission
 Oil City Housing (Venango)
 PA League Of Cities & Municipalities (Dauphin)
 Parks Township Municipal (Armstrong)
 Penn Township Sewage (Westmoreland)
 Pennridge Regional Police (Bucks)
 Pennridge Waste Treatment (Bucks)
 Perkasie Borough (Bucks)
 Peters Creek Sanitary (Washington)
 Peters Township Municipal (Franklin)
 Portage Area Sewer (Cambria)
 Portage Borough Municipal (Cambria)
 Possum Valley Municipal (Adams)
 Reynoldsville Water (Jefferson)
 Riverview Sanitary (Allegheny)
 Robeson-Wernersville Municipal (Berks)
 Robinson Township Municipal (Allegheny)
 Rochester Area Joint Sewer (Beaver)
 Rostraver Township Sewer (Westmoreland)
 Seward-St. Clair Township Sanitary (Westmoreland)
 Shamokin City Redevelopment (Northumberland)
 Shannock Valley General Services (Armstrong)
 Sheffield Township Municipal (Warren)

Slippery Rock Municipal (Butler)
 South Fayette Township Municipal (Allegheny)
 Southern Police Commission (York)
 Southwest Regional Dispatch Center (Allegheny)
 Southwestern PA Water (Greene)
 St. Marys Area Joint Water (Elk)
 Sunbury Municipal (Northumberland)
 Susquehanna Township (Dauphin)
 Swatara Township (Dauphin)
 Tower City Borough (Schuylkill)
 Tri-County COG IBC (Columbia)
 Tri-County Joint Municipal (Washington)
 Twin Boroughs Sanitary (Juniata)
 Upper Allegheny Joint Sanitation (Allegheny)
 Upper Montgomery Joint (Montgomery)
 Upper Southampton Municipal (Bucks)
 Upper Southampton Sewer (Bucks)
 Vanport Township Municipal (Beaver)
 Vernon Township Water (Crawford)
 Warren County Housing (Warren)
 Warren County Solid Waste (Warren)
 Warrington Township Municipal (Bucks)
 Warwick Township Municipal (Lancaster)
 Washington Area COG (Washington)
 Washington Township Municipal (Berks)
 Washington Township Municipal (Fayette)
 Waterford Borough Municipal Authority (Erie)
 Wayne County Redevelopment (Wayne)
 Wernersville Municipal (Berks)
 West Carroll Township Water & Sewer (Cambria)
 Western Butler County (Butler)
 Western Clinton County Municipal (Clinton)
 Western Westmoreland Municipal (Westmoreland)
 Westmoreland-Fayette Municipal Sewer (Westmoreland)
 White Run Regional Municipal (Adams)
 Whitehall Township (Lehigh)
 Williamstown Borough (Dauphin)
 Womelsdorf-Robeson Joint (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 Township (York)
Carroll Valley Borough (Adams)
Central City Borough (Somerset)
Centre Township (Berks)
Clairton City (Allegheny)
Clymer Borough (Indiana)
Cochranton Borough (Crawford)
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)
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)
Eli-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)
Knox Borough (Clarion)
Lancaster Township (Butler)
Larksville Borough (Luzerne)
Liberty Borough (Allegheny)
Linesville Borough (Crawford)
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)
Northwest Lawrence Co. Reg. Comm. (Lawrence)
Ohio Township (Allegheny)
Old Lycoming Township (Lycoming)
Orangeville Area Police Board (Columbia)
Orangeville Borough (Columbia)
Orwigsburg Borough (Schuylkill)
Paxtang Borough (Dauphin)
Penbrook Borough (Dauphin)
Pennridge Regional Dept (Bucks)
Perkasie Borough (Bucks)
Pine Grove Borough (Schuylkill)
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)

Schedule of Participating Pension Plans (continued)

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 Commission (York)
Springdale Township (Allegheny)
Stewartstown Borough (York)
Summit Hill Borough (Carbon)
Telford Borough (Montgomery)
Tinicum Township (Bucks)
Tulpehocken Township (Berks)
Tunkhannock Township (Wyoming)

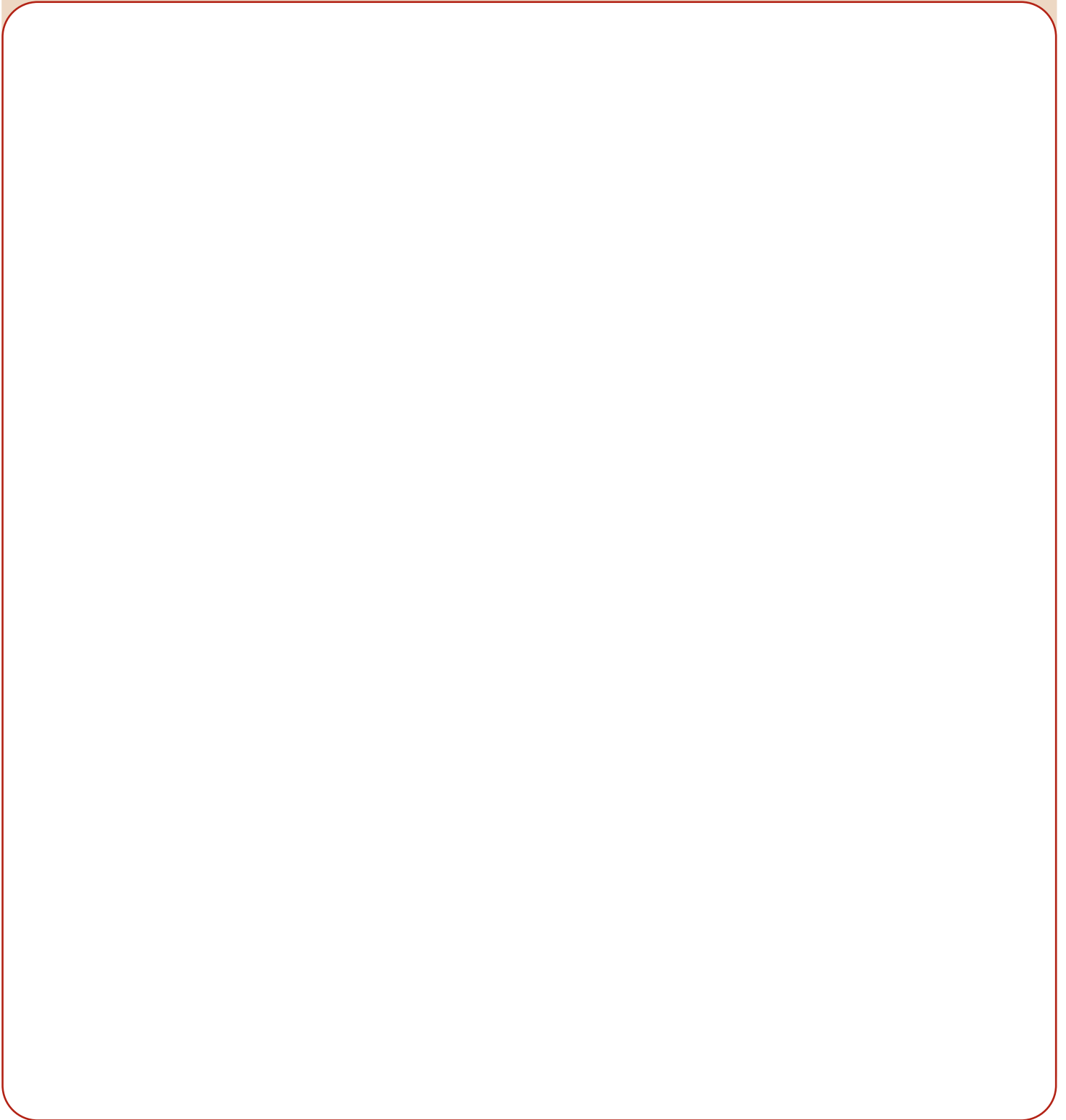
Upper Uwchlan Township (Chester)
Vanport Township (Beaver)
Versailles Borough (Allegheny)
Washington Township (Fayette)
West Grove Borough (Chester)
West Lampeter Township (Lancaster)
West Middlesex Borough (Mercer)
West Pikeland Township (Chester)
West Pottsgrove Township (Montgomery)
West Sadsbury Township (Chester)
West Vincent Township (Chester)
Westfield Borough (Tioga)
Wheatland Borough (Mercer)
White Haven Borough (Luzerne)
Wiconisco Township (Dauphin)

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

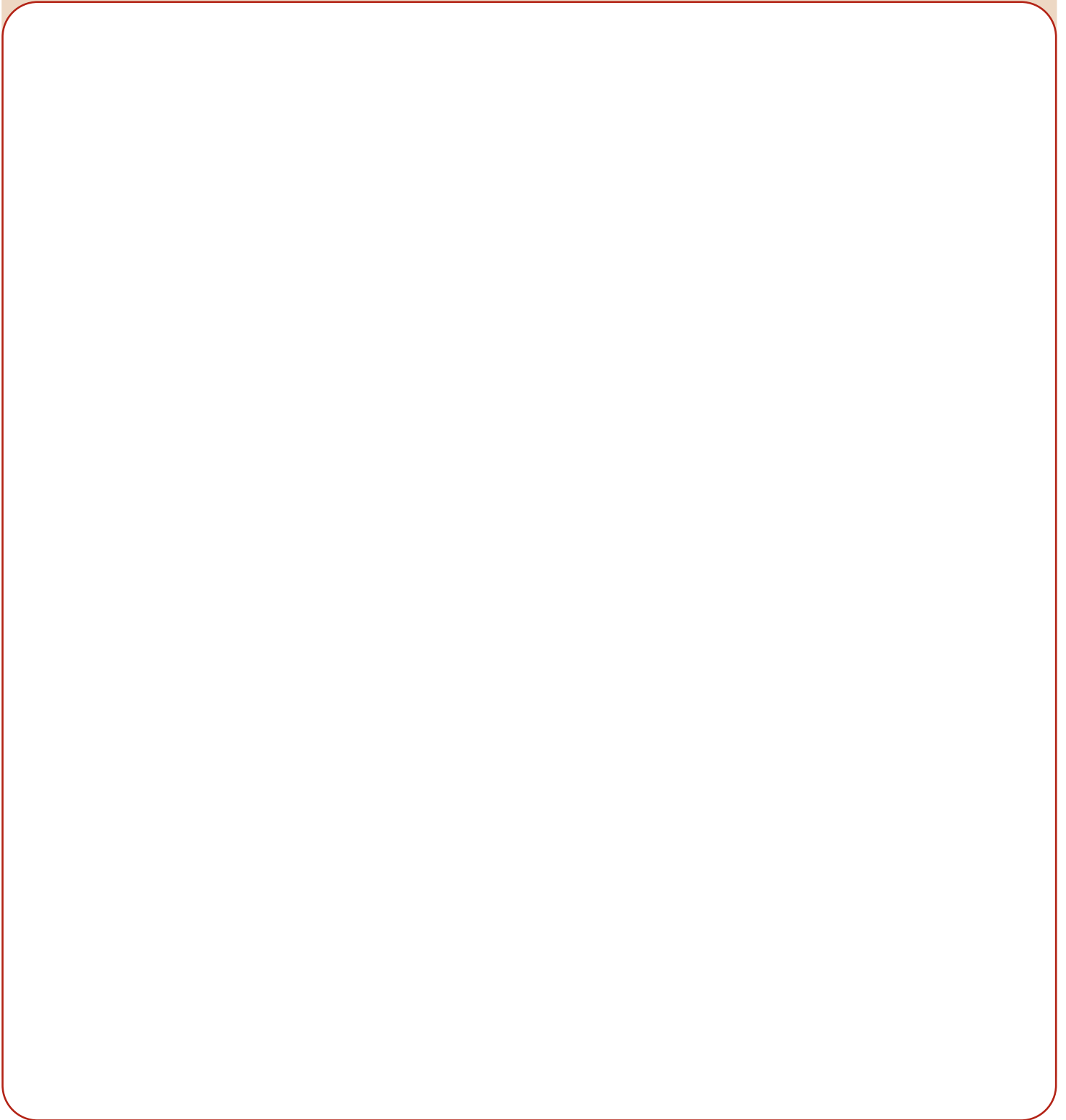
FIREFIGHTERS

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

Notes



Notes



Notes



Pennsylvania Municipal Retirement System

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

Telephone : 717-787-2065; 1-800-622-7968
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