Pennsylvania
Municipal Retirement System

loyal

steady

dedicated

disciplined

dependable

transparent

PRUDENT

2006 Comprehensive Annual Financial Report
For the Year Ended December 31, 2006

our Mission & Vision

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.

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, 2006

Douglas K. Bowen, Chairman
Pennsylvania Municipal Retirement Board

James B. Allen, Secretary
Pennsylvania Municipal Retirement System

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Pennsylvania Municipal Retirement System
Eastgate Center
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Harrisburg, Pennsylvania 17102-1400

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P. O. Box 1165
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www.pmrs.state.pa.us

Contents

Introduction

Proudly serving Pennsylvania for over thirty years.

We are

Dedicated

Pennsylvania Municipal Retirement System
Commonwealth of Pennsylvania
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June 30, 2007

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, 2006. 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, 2006, 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, 2006 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 2006, plan requirements ranged from no employee contribution to as high as 7.5% of earnings.

2006 CAFR

The 2006 Comprehensive Annual Financial Report (CAFR) format follows the required Governmental Accounting Standards Board

(GASB) Statement No. 25. The annual report is presented in five sections: introductory, financial, investment, actuarial, and statistical. The Introductory Section contains this Letter of Transmittal, the System's administrative organization, the Chairman's Report, and a summary of plan provisions; the Financial Section presents the opinion of the System's independent auditors, Clifton Gunderson LLP, and the financial statements of the System with accompanying notes and schedules, including management'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 2006 United States economic story was often referred to as the "Goldilocks" economy, "not too hot, not too cold, just right." The year began with nearly all eyes searching for the last signs of life in what had been a rather long period of economic growth by historical standards. When would the markets turn was the question and what would eventually spook the correction? It was thought that the answer would be high energy prices and the return of inflation. The U.S. experienced higher interest rates during the first half of the year, and the Federal Reserve Board fueled the expectations by increasing the federal funds rate from 4.25% to 5.25%. Commodity prices also increased during the first two quarters.

Then the markets started to focus on two bellweather barometers that signaled a major turn in the directions the markets were heading. The price of crude oil began dropping sharply in July and even more telling was the drop in new home sales and the overall pricing of homes. In August the Federal Reserve Board signaled its content with the markets and stopped its nearly two year incremental march of rate tightening. Inflation was tamed and recession avoided. This action by the Feds seemed to give a very strong green light to investors and the domestic markets went on a tear joining the world markets that were already enjoying yet another year of remarkable returns.

With the "Goldilocks" economy well in place, the 2006 year ended with a very basic question, what would knock the economy off course? Would inflation return or would the Feds renew actions to tame the heating economy? Would oil prices rise and home prices drop, inducing a recession? While the year ended with much speculation about 2007, there was no doubt that the 2006 domestic economy was "just right."

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 $1,455,868,894 as of December 31, 2006. In 2006, the System's net assets increased by $133,476,905. Investment-related gains increased the portfolio by $161,140,029 and contributions added an additional $37,749,106. Benefit payments and administrative expenses reduced the total assets by $65,412,230. Additional information is detailed in the Financial Section ("Statements of Plan Net Assets" and "Statements of Changes in Plan Net Assets").

Additions to Plan Net Assets	2006 Amounts	Percent of Total	2005 Amounts	Increase (Decrease) from 2005	Percent of Increase (Decrease)
Member Contributions	$ 16,316,197	8.20%	$ 16,046,984	$ 269,213	1.68%
Municipal Contributions	21,148,089	10.63	19,890,494	1,257,595	6.32
Assessments	284,820	0.14	277,640	7,180	2.59
Investment Income	161,140,029	81.03	100,261,568	60,878,461	60.72
Total	$198,889,135	100.00%	$136,476,686	$62,412,449	

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 2006 administrative budget was adopted in September 2005 and set at $3.27 million exclusive of investment fees. Expenditures (exclusive of investment fees and depreciation) in 2006 amounted to $2,920,868. 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, 2006, and also shows the amount and percentage of increases and decreases in relation to December 31, 2005 revenues.

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 2006 fiscal year, the fair value of the System's investment portfolio increased from $1,365,535,212 to $1,533,433,404. 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, 2006, and shows the percentage of increases and decreases in relation to December 31, 2005 amounts.

Deductions from Plan Net Assets	2006 Amounts	Percent of Total	2005 Amounts	Increase (Decrease) from 2005	Percent of Increase (Decrease)
Annuity benefits	$ 42,756,777	65.36%	$37,021,910	$ 5,734,867	15.49%
Disability benefits	1,380,018	2.11	1,184,295	195,723	16.53
Terminations	18,354,567	28.06	10,331,707	8,022,860	77.65
Administrative	2,920,868	4.47	3,108,239	(187,371)	(6.03)
Total	$65,412,230	100.00%	$51,646,151	$13,766,079	---

The major expense-related items for 2006 were payment of benefits, refunds of withdrawing plans, refunds of contributions due to termination or death, and administrative expenses. The System processed seven plan withdrawals totaling approximately $14.8 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

Ignoring a slight hiccup in the second quarter of the year, the domestic markets enjoyed a fourth year of very positive returns. The System's portfolio had a double digit return of 12.6%. Leading the asset classes was the international equities portfolio with a 24.4% return. The developed international markets, as measured by the MSCI EAFE Index, saw a return of over 26% for the year. The System's relative performance to the broad markets was a disappointment. The small cap equity portfolio experienced the next strongest return at 14.9%. The relative performance, however, was weaker than the market performance as measured by the Russell 2000 which turned in an 18.4% return.

Within the large cap equity allocation, the System had a return of 12.0%. Repeating the theme, the solid performance was appreciated but not up to expectations. The Dow Jones Industrial Averages were up 19.1% for the year. The Standard & Poor's 500 Index, representing the broader markets, was up 15.8% for the year. The fixed income portfolio, being entirely passive, yielded an anemic 4.3% return in the Lehman Brothers Aggregate bond index. The final asset class to contribute to the System's performance was the real estate allocation. Here, the System saw a 14.4% return for the year.

While disappointing on relative terms, the System's diversification and asset allocation allowed for a return that placed it in the 53rd percentile as measured by the Independent Consultants Cooperative (ICC) Universe. The five year annualized return as computed by the System's investment consultant, Dahab Associates, was 9.2%. This placed the System in the top 27th percentile of the ICC Universe.

The two major investment initiatives undertaken by the PMRS Board in 2006 related to the weak returns being generated by one international equity manager and the continuing need to find real estate funds that met the Board's criteria. On the later issue the Board undertook a manager search and agreed to work with TIAA-CREF to develop a limited partnership for the purposes of building a pool of properties in a joint fund. The Board also authorized, but had not funded by year-end, an additional commitment to the timberland sub-asset class. As to the international equity commitment, the Board moved late in the year to terminate the relationship with one manager and to fund two new managers. The contracting process was not completed, however, by year-end.

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 2006 fiscal year was $133,476,905. This represents an increase in the fund balance of 10.1% over the 2005 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 efforts to revamp and review existing Board policy statements continued in 2006 with the adoption in January of Policy Statement 06-1, the Investment Guidelines. Work continued on the policy development during the summer with a focus on revising the proxy voting policy statement. While much time was devoted to the topic over a series of meetings, a revised policy had not been adopted by December 31, 2006. Finally, a major initiative of the System was to remove use of an individual's social security number as an identifier on plan documents and forms, unless absolutely necessary. By year end, the System had issued randomly assigned and generated "member keys" or numeric identifiers to secure member privacy.

Other System efforts were devoted to the issuance of a Request for Proposal for an independent auditing firm to assist in the preparation of the System's financial statements and the SAS-70 audit. A new contract was issued for the services of Clifton Gunderson, LLC. The System also issued a Request for Proposal for actuarial services. At year's end the Board awarded the contract for actuarial services to the firm of Cheiron.

The System's three-year effort to upgrade the computer software was successfully completed with a November 2006 "go live" date. While the System was running parallel software at year-end, the cutover was undertaken and expected to be the sole platform in 2007.

The Board also welcomed one new member, Charles Staso, who represents the active police members, to the System. As 2006 came to a close, the PMRS Board was at full membership for the first time in a number of years.

Professional Services

The financial information in this report has been audited by the independent accounting firm of Clifton Gunderson LLP, which is completing year two of a five-year contract. The actuarial information was prepared with the help of E. Greenblum, consulting actuary from The Segal Company. The Segal Company has completed 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 two 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.

Internal Controls

The management of the System is responsible for and has implemented systems of internal accounting controls. These controls are designed to assure the safeguarding of assets and the reliability of financial records. We believe that the internal accounting controls currently in place are adequate to meet the purpose for which they were intended. We also believe the financial statements, supporting schedules and statistical tables to be fairly presented in all material respects.

Acknowledgments

Recognition and appreciation is in order for the individuals and firms that contribute to the successful operations of the Pennsylvania Municipal Retirement System. The commitment and dedication found throughout the organization is inspired by the leadership and devotion exhibited by the PMRS Board members, individually, and as a team. These individuals serve the System without financial remuneration other than travel expenses for board meetings, seminars, and conferences.

Next, recognition goes to the staff and the consultants who give their professional all to serve the needs of our membership. This year is an especially momentous one in that the System has elected to utilize the services of a new actuarial firm. Making the change for business reasons does not negate or lessen the impact of the over twenty years of professional service, the friendships, and the dedication that have been rendered the PMRS by the Segal Company, and in particular, the consulting actuary for that entire time, Eli Greenblum. We are sincerely appreciative for the opportunity to have worked with such a great group of people.

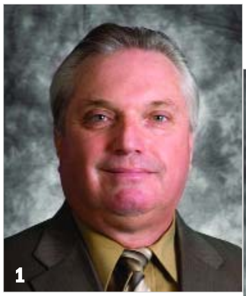
Ultimately though, the most sincere and heartfelt acknowledgement remains for those who have given their trust and support and have allowed PMRS to administer their pension plans - our members. We recognize your support and confidence and dedicate our efforts to not just meeting, but indeed exceeding your expectations. Thank you for giving us the opportunity to be of service.

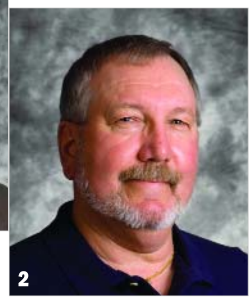
James B. Allen
Secretary

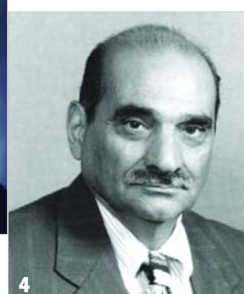
Reynold E. Witmer
Chief of Accounting


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, 2005
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.
President
Executive Director
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
President
Executive Director

Pennsylvania Municipal Retirement Board
as of December 31, 2006







1 **Douglas K. Bowen**
Chairman

Represents Pennsylvania Municipal Authorities Association

2 **Robert T. Umstead**
Vice-Chairman

Represents Pennsylvania State Association of Boroughs

3 **Robert P. Casey, Jr.**

State Treasurer (ex-officio) represented by Sally Ulrich

4 **Victor Cicero**

Represents Pennsylvania Municipal Retirement System retired members

5 **Paul Corbin**

Represents Pennsylvania State Association of County Commissioners

6 **Pedro A. Cortés**

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

7 **John A. Haiko**

Represents Pennsylvania State Association of Township Supervisors

8 **Dawn C. Knapp**

Represents Pennsylvania State Firefighter's Association

9 **Linda L. Lingle**

Represents Pennsylvania League of Cities

10 **Anthony Spagnolo**

Represents First Class Township Commissioners

11 **Charles Staso**

Represents Active Police Officers enrolled in PMRS

Staff, Consultants, & Advisors (as of December 31, 2006)

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
William F. Blair, CPA, Partner

Comptroller
Commonwealth of Pennsylvania
Harrisburg, PA
John J. Smolock, Central Services

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

Century Capital Management
Boston, MA
Paul E. Berg, Managing Director

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

DePrince, Race, & Zollo
Orlando, FL
Richard Wells, Director of Marketing

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

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

LSV Asset Management
Norwalk, CT
Christopher LaCroix, Managing Director

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

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

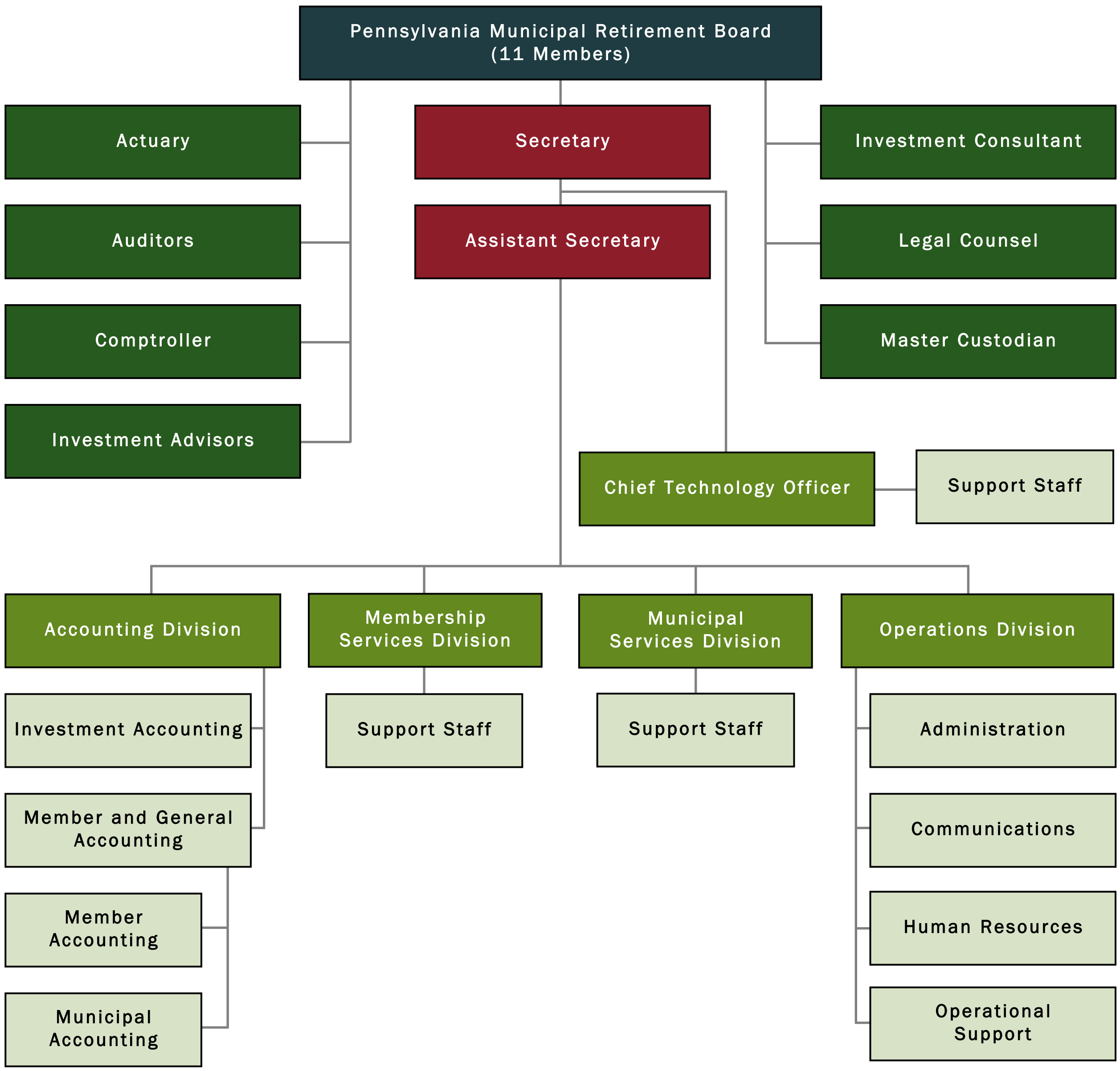
State Street Global Advisors
Boston, MA
James Thorsen, CFA

Times Square Real Estate Investors
Hartford, CT
John Eisele, Managing Director

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

(1) Manages 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



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www.pmrs.state.pa.us ra-staff@state.pa.us

June 30, 2007

Dear PMRS Members:

I am very proud to present the 2006 Comprehensive Annual Financial Report (CAFR) for the Pennsylvania Municipal Retirement System (the System). This task is undertaken on behalf of all of the members of the Pennsylvania Municipal Retirement Board and our staff who are pleased to be able to share this document. We offer it as part of our commitment to complete disclosure of the 2006 financial activities of the System.

The System, which was established in 1974, continues to help local governments "...secure the future retirement of their employees by providing comprehensive, cost efficient and professional pension administration services..." We proudly administer 864 pension plans for Pennsylvania municipalities. These plans will provide benefits to nearly 14,000 members. We believe our participating municipalities have chosen PMRS as their administrator due to our proven credentials. Documenting our efforts in public records such as this report, serves not only our members' needs but the public's right-to-know.

While PMRS continues to grow, the System recognizes an increasing responsibility to balance growth with prudent management of limited resources. Whether it is monitoring the fluctuations in the financial markets or the computer security of the office records, the Board has at the forefront of our agenda, the fiduciary commitment to responsibly shepherd the System's resources in service to our members. Whether monitoring policy implementation, seeking cost-cutting measures, or simply addressing technological enhancements, we must rely upon the dedicated professionals that work closely with the System on a daily basis.

Douglas K. Bowen, Chairman, Pennsylvania Municipal Retirement Board

Together, the Board, the System's consultants, and the PMRS staff, have worked diligently to reach new heights. We invite you to stay current on our latest endeavors by visiting us on the web at www.pmrs.state.pa.us. We truly appreciate the support of our individual plan members and all of the governing boards that have enrolled their pension plans in the System. We are humbled and touched to play such an important role in so many lives.

Should you seek any additional information, please do not hesitate to call our office. Once again, thank you for giving PMRS the opportunity to be of service.

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.

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

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

- 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

Striving for complete disclosure in all aspects of our work.

We are

Transparent

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

Pennsylvania Municipal Retirement Board
Pennsylvania Municipal Retirement System
Harrisburg, Pennsylvania

We have audited the accompanying basic financial statements of the Pennsylvania Municipal Retirement System (the System) as of and for the years ended December 31, 2006 and 2005, 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, 2006 and 2005, 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 subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Baltimore, Maryland
June 25, 2007

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, 2006 and 2005. 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, 2006, 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, 2006 to December 31, 2006, 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 $134 million from $1,322 million at December 31, 2005 to $1,456 million at December 31, 2006. 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. These increases are primarily attributable to a net gain on investments.
- The funded ratio decreased from 113.6% at January 1, 2003 to 105.6% as of the last valuation date of January 1, 2005. The decrease is due to actuarial experience losses and changes in actuarial assumptions. The January 1, 2006 actuarial valuation was derived from the four defined benefit plans required to redetermine contribution levels as of January 1, 2006. The January 1, 2006 funded ratio for these plans was 109.8%, a decrease from the January 1, 2004 funded ratio of 118.5%.
- The rate of return for the year ended December 31, 2006 was a net gain of 12.6% compared to a net gain of 8.6% and 13.1% for the years ended December 31, 2005 and 2004, respectively.
- Total employee and employer contributions increased from $36.2 million in 2005 to $37.7 million in 2006. Total employee and employer contributions increased from $33.1 million in 2004 to $36.2 million in 2005.

- Total pension plan benefit payouts increased by 28.8% from $48.5 million during 2005 to $62.5 million during 2006. Total pension plan benefit payouts increased by 7.8% from $45.0 million during 2004 to $48.5 million during 2005.

- Administrative expenses decreased by 6.4% from $3.1 million for 2005 to $2.9 million in 2006 and remained basically unchanged at $3.1 million for 2005 and 2004. Administrative expenses were within the System's budgeted amounts for all three years.

Summary of Plan Net Assets
as of December 31, 2006, 2005, and 2004

Analysis of Plan Assets	2006	2005	2004
Assets	*(In Thousands)*		
Receivables	$ 6,759	$ 5,353	$ 6,259
Investments	1,453,099	1,322,156	1,234,207
Securities lending collateral pool	80,335	43,379	32,313
Capital assets	282	351	312
Total assets	1,540,475	1,371,239	1,273,091
Liabilities	84,606	48,847	35,530
Total plan assets	$1,455,869	$1,322,392	$1,237,561

Summary of Changes in Plan Net Assets
as of December 31, 2006, 2005, and 2004

Analysis of Plan Assets	2006	2005	2004
Additions	*(In Thousands)*		
Contributions	$ 37,749	$36,215	$ 33,126
Net investment gain	161,140	100,262	140,070
Total additions	198,889	136,477	173,196
Deductions			
Benefit payments and terminations	62,491	48,538	45,048
Administrative expenses	2,921	3,108	3,127
Total deductions	65,412	51,646	48,175
Total changes in plan net assets	$133,477	$84,831	$125,021

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.

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.

For 2006, the System's rate of return on investments was a net gain of 12.6%, 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, 2006 was 11.4% and 9.2%, 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, 2006, 2005, and 2004 at fair market value is listed on the chart on page 20.

Fixed Income

Fixed income increased approximately $14 million from December 31, 2005 to December 31, 2006, primarily due to asset allocation rebalancing, as well as income earned during 2006. Fixed income increased approximately $32 million from December 31, 2004 to December 31, 2005, primarily due to income earned during 2005, as well as asset allocation rebalancing.

Common and Preferred Stock

Common and preferred stock including international stock increased approximately $118 million from December 31, 2005 to December 31, 2006, and increased approximately $76 million from December 31, 2004 to December 2005, primarily due to appreciation in the domestic and international equity markets.

Real Estate Equity

Real estate equity increased approximately $12 million from December 31, 2005 to December 31, 2006, as a result of market appreciation in fair values, and decreased approximately $30 million from December 31, 2004 to December 31, 2005. The decrease was the result of sales of real estate properties.

Contributions and Investment Income

During 2006, contributions from employers and members totaled $37.7 million compared to $36.2 million during 2005 and $33.1 million during 2004. Net investment gains during 2006 were $161 million compared to net investment gains of $100 million during 2005 and net investment gains of $140 million during 2004. 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 $0.8 million from $4.3 million during 2005 to $5.1 million during 2006 and $0.1 million from $4.2 million during 2004 to $4.3 million during 2005 due to the increase in fair value of investments under management.

Pension Plan Benefits and Expenses

The primary source of expense during 2006 was for payment of pension benefits totaling $62.5 million compared to $48.5 million during 2005 and $45.0 million during 2004. Pension benefits increased $14.0 million from 2005 to 2006 and $3.5 from 2004 to 2005 due to new annuitants receiving greater monthly benefits and additional municipality terminations. Administrative expenses totaled $2.9 million in 2006 as compared to $3.1 million during 2005 and 2004.

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

	2006	%	2005	%	2004	%
Asset Class			(In Thousands)			
Short term	$ 20,978	1.4%	$ 33,655	2.5%	$ 23,953	1.9%
Fixed income	328,004	22.6	314,390	23.8	282,139	22.9
Common stock	747,162	51.4	670,717	50.7	621,969	50.4
International stock	259,930	17.9	218,056	16.5	190,399	15.4
Real estate equity	97,025	6.7	85,338	6.5	115,747	9.4
Total	$1,453,099	100.0%	$1,322,156	100.0%	$1,234,207	100.0%

Statements of Plan Net Assets

December 31, 2006 and 2005

Assets	2006	2005
Receivables		
Plan members	$ 2,434,329	$ 2,422,880
Municipal employers	988,968	138,756
Accrued investment income	1,259,110	1,333,772
Investment sales receivable	2,076,866	1,457,562
Total receivables	**6,759,273**	**5,352,970**
Investments, at fair value		
Short-term and other investments	20,978,253	33,654,929
U.S. Government bonds	234,949,007	227,115,400
Corporate bonds	93,054,632	87,274,689
Common stocks	747,161,813	670,717,574
Real estate equity	97,025,119	85,337,696
International equities	259,929,899	218,055,731
Total investments	**1,453,098,723**	**1,322,156,019**
Securities lending collateral pool	80,334,681	43,379,193
Capital assets (net of accumulated depreciation of $441,483 and $739,158, respectively)	281,989	350,919
Total assets	**$1,540,474,666**	**$ 1,371,239,101**

Liabilities		
Accounts payable and accrued expenses	1,829,333	1,618,643
Investment purchases payable	2,441,758	3,849,276
Collateral held under securities lending program	80,334,681	43,379,193
Total liabilities	**84,605,772**	**48,847,112**
Net Assets Held In Trust For Pension Benefits	**$1,455,868,894**	**$1,322,391,989**

(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, 2006 and 2005

Additions	2006	2005
Contributions		
Plan members	$ 16,316,197	$ 16,046,984
Municipal employers	21,148,089	19,890,494
Assessments	284,820	277,640
Total contributions	**37,749,106**	**36,215,118**
Investment income		
From investing activities:		
Net appreciation in fair value of investments	141,876,207	88,191,965
Short-term and other investments	1,864,658	1,008,168
Common stocks	11,905,906	6,573,799
Real estate equity	4,887,199	4,603,627
International equities	4,776,376	3,590,647
Miscellaneous	370,669	195,040
Less investment expenses	(5,106,351)	(4,339,755)
Total investing activities income	**160,574,664**	**99,823,491**
Securities lending activity		
Securities lending income	4,080,122	1,779,058
Less: Securities lending expenses	(3,514,757)	(1,340,981)
Net securities lending activity	**565,365**	**438,077**
Net investment income	**161,140,029**	**100,261,568**
Total additions	**198,889,135**	**136,476,686**
Deductions		
Annuity benefits	42,756,777	37,021,910
Disability benefits	1,380,018	1,184,295
Terminations	18,354,567	10,331,707
Administrative expenses	2,920,868	3,108,239
Total deductions	**65,412,230**	**51,646,151**
Net increase	**133,476,905**	**84,830,535**
Net assets held in trust for pension benefits		
Balance, beginning of year	**1,322,391,989**	**1,237,561,454**
Balance, end of year	**$1,455,868,894**	**$1,322,391,989**

(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.

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, 2006, there were 683 municipalities with defined benefits and 172 with defined contributions. The tables (below) reflect membership and individual membership.

Participating Local Government Employees

	Defined Benefits	Defined Contributions
Counties	4	--
Cities	18	--
Boroughs	147	23
Townships of the First Class	18	1
Townships of the Second Class	148	94
Authorities and Other Units	167	47
Police	174	7
Firefighters	7	--
Total	683	172

Individual Membership

Active Members	
Defined Benefit Plans	
Municipal	7,638
Police	606
Firefighters	130
Total	8,374
Defined Contributions Plans	
Municipal	889
Police	7
Firefighters	--
Total	896
Total active members	9,270
Retirees and Beneficiaries	
Retirees	2,941
Beneficiaries	436
Total retirees and beneficiaries	3,377
Inactive Participants with Rights to Deferred Pension (Vested)	
Defined benefit	525
Defined contributions	150
Total vested	675
Defined benefit	66
Defined contribution	--
Total non-vested	66
Total individual memberships	13,388

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, 2006 and 2005 consisted of the following:

Total contributions to the System during 2006 amounted to $37,749,106 of which $16,316,197 and $21,148,089 were made by its members and municipalities, respectively and $284,820 were from assessments.

Total contributions to the System during 2005 were $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.

	2006	2005
Municipality normal cost	**$26,164,012**	**$25,198,665**
Amortization of unfunded actuarial accrued liability	**(8,981,779)**	**(8,963,588)**
Total[1]	**$17,182,233**	**$16,235,077**

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).

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. 10 years with respect to changes in benefits for current retired members;

d. 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

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

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 1994 Group Annuity Mortality Static Table for males and 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, 2006 and 2005, the balance in the Members' Reserve Account was $322,229,279 and $ 308,712,429, 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, 2006 and 2005, the balance in the Municipal Reserve Account was $593,509,509 and $ 571,602,755, 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, 2006 and 2005, the balance in the Retired Members' Reserve Account was $421,667,014 and $398,433,007, 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, 2006 and 2005, the balance in the Disability Reserve Account was $(126,426) and $433,286, respectively. The account ended 2006 with a deficit balance.

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 approved the distribution of excess interest at a rate of 0.58% during 2006. The calculation of excess interest was prepared in accordance with the Board approved formula and was based on the actuarial value (fair value) of the System’s assets as of December 31, 2005 and the cash flows of the System for 2006. The December 31, 2006 distribution amounted to $7,096,000. The System did not distribute excess interest in 2005.

As of December 31, 2006 and 2005 the Undistributed Earnings Designation Account had a balance of $118,589,518 and $43,210,512, 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 are allowable if (a) collateralized by United States Government Obligations deemed acceptable by the Treasury Department prior to the transaction; (b) the market value of collateral shall equal at least 102% of the principal and accrued interest; and (c) the collateral is delivered to the Treasury's bank account. For tri-party agreements, collateral shall be delivered to the Treasury's account with an independent third party subcustodian (either a money center bank or a nationally recognized non-bank financial institution).

Custodial Credit Risk

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, 2006, 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, 2006 and December 31, 2005, the System's carrying value and fair value of lent securities was $77,019,810 and $41,398,438, respectively. The fair value of associated collateral was $80,334,681 as of December 31, 2006 and $43,379,193 as of December 31, 2005. The System's income, net of expenses, from securities lending was $565,365 for 2006 and $438,077 for 2005. Securities lent at year-end 2006 for cash collateral are presented as unclassified in the following schedule of custodial credit risk.

Credit Risk by Quality

2006

Investments (Fair Value)	Category 1	Not Categorized	Total
U.S. government bonds	$ 0	$234,949,007	$ 234,949,007
Corporate bonds	0	93,054,632	93,054,632
Common and preferred stocks	820,659,339	186,432,373	1,007,091,712
Real estate equity	0	97,025,119	97,025,119
State Treasury short-term investment fund	0	20,978,253	20,978,253
Securities lending collateral	0	80,334,681	80,334,681
Grand Total	$820,659,339	$712,774,065	$1,533,433,404

2005

Investments (Fair Value)	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

The System had $80,334,681 and $43,379,193 of cash collateral invested in the custodial agent's short-term collateral investment pool as of December 31, 2006 and 2005, respectively.

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, 2006 and 2005 were:

Security	Fair Value
2006	
State Street Index Fund	$514,436,012
Prudential Property Investment Separate Account (PRISA)	81,148,547
2005	
State Street Index Fund	$485,814,103
Prudential Property Investment Separate Account (PRISA)	70,473,756

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, 2006, 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	4.4	$328,003,639
Short-Term Investment Fund	NR	0.1	20,978,253

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, 2006,PMRS had the following non-U.S. currency exposure.

Currency	Equity	Short-Term	Total
Euro Currency	$72,901,397	$1,067	$72,902,464
Japanese Yen	46,907,598	0	46,907,598
British Pound Sterling	42,709,448	54	42,709,502
Swiss Franc	25,640,604	0	25,640,604
Singapore Dollar	7,663,992	0	7,663,992
Swedish Krona	4,897,536	14	4,897,550
Hong Kong Dollar	4,623,311	0	4,623,311
Australian Dollar	3,045,660	254	3,045,914
Canadian Dollar	2,167,826	1,591	2,169,417
Other non-U.S. Currencies	1,853,950	25	1,853,975

(5) Pension Plan for Employees of the System

The System contributes to the Commonwealth's State Employee's Retirement System (SERS), a cost-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 3.23% at July 1, 2006, 2.37% at July 1, 2005, and 1.43% at July 1, 2004. The System's annual required contributions to SERS for the years ending December 31, 2006 and December 31, 2005 were $35,990 and $24,345 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 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, the active police officers, and the active firefighters. 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.

2007	$104,250
2008	$95,568

Total rental expenses for the years ended December 31, 2006 and 2005 were $104,419 and $103,125, respectively.

(10) Reclassification

Certain amounts in the 2005 Financial statements have been reclassified to conform with the presentation of the 2006 Financial Statements.

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 Ration (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]
2006	$17,182,233	$21,148,089	123%
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

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, 2006, January 1, 2004, or January 1, 2002, except for those plans required to redetermine contribution requirements.

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, 2006 and 2005

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, 2006 and 2005

	2006	2005
PERSONNEL COSTS		
Salaries and wages	$1,281,510	$1,250,233
Social security contributions	97,469	94,311
Retirement contributions	35,990	24,345
Insurance contributions	409,367	395,483
Other employee benefits	4,317	6,478
Total personnel costs	**1,828,653**	**1,770,850**
PROFESSIONAL COSTS		
Performance evaluation	108,755	106,551
Actuarial	332,700	332,480
Data processing	14,657	9,093
Audit	86,325	55,935
Legal	91,279	84,027
Miscellaneous professional	54,788	79,955
Total professional costs	**688,504**	**668,041**
COMMUNICATION COSTS		
Printing	17,711	34,099
Telephone	12,441	11,535
Postage	47,690	30,878
Travel	29,407	20,639
Advertising	3,643	3,594
Total communication costs	**110,892**	**100,745**
OTHER SERVICES AND CHARGES		
Contracted EDP services	24,076	339,002
Office space rental	104,419	103,125
Equipment leasing	4,500	5,397
Supplies	28,746	18,545
Maintenance	28,153	14,630
Bonding and insurance	1,663	1,507
Dues and subscriptions	2,631	2,211
Total other services and charges	**194,188**	**484,417**
DEPRECIATION	98,631	84,186
Total administrative expenses	**$2,920,868**	**$3,108,239**

Schedule 4 - Investment Expenses

Comparative Two-Year Schedule
Years Ended December 31, 2006 and 2005

	2006	2005
Investment management fees	**$ 5,099,753**	**$4,332,580**
Custodial fees	**6,598**	**7,175**
Total investment expenses	**$5,106,351**	**$4,339,755**

Schedule 5 - Payments to Consultants

Comparative Two-Year Schedule
Years Ended December 31, 2006 and 2005

Firm Name	Nature of Service	2006	2005
Clifton Gunderson, LLP	**Auditor**	**$86,325**	**$ 55,935**
Dahab Associates, Inc.	**Investment Consultant**	**108,755**	**106,551**
The Segal Company	**Actuary**	**332,700**	**332,480**
Total		**$527,780**	**$494,966**

Investments

We have devised our plan of action and continue to stick to it.

We are

Disciplined

Report on Investment Activity

Investment Return

As of December 31, 2006, the Pennsylvania Municipal Retirement Board's investment portfolio was valued at $1,453,564,000, which represented an increase of $132,854,000 over the December 2005 ending valuation of $1,320,710,000. During the calendar year of 2006, the System recorded aggregate net withdrawals of $31,644,092 and a net investment return of $164,498,090.

For the cumulative period between January 1, 2002 and December 31, 2006, the System has recorded net withdrawals totaling $70,838,690 and posted net investment gains totaling $533,743,400. If the portfolio had returned a compounded nominal rate of 6.5% during that period, it would have been worth $1,279,454,000 or $174,110,000 less than the actual value as of December 31, 2006.

Economic Environment

In spite of weakness in the Housing and Automobile sectors, the economy continued to grow at a surprisingly robust 3.5% rate. Economists now predict a slow steady growth rate for the next twelve months, with most areas shrugging off the housing problems. The question of instability in the Middle East and its effect on oil prices seems to have receded from the public interest. The economy has now expanded for 5¼ years with no near term indication of a recession.

The economy surprised most economists last quarter by generating 405,000 jobs. The unemployment rate dropped slightly from 4.6% to 4.5%. The U.S. service economy is creating enough new positions to offset losses in the housing area and to absorb new workers. During 2006, on average, the economy created a little more than 150,000 new jobs per month.

Industrial capacity utilization peaked in July at 82.6%, before falling back to 81.8% in December. Capacity utilization is still a bit above the long-term average of 81.0%. Overall industrial capacity rose by 2.4% during the year. The biggest rise in capacity was in the area of office equipment, which increased by over 10%.

Inflation fears eased as energy prices fell during October, although they did rise a bit after the election, and the housing market continued to soften. Overall, the CPI declined by 0.5% in fourth quarter. For the year, inflation was up 2.5%, well within the Fed target range.

The Federal Reserve continued to hold interest rates steady at 5¼%. While they pledged to remain vigilant, no hint of another rise has been given.

The U.S. dollar lost about 4.0% against the Euro during the quarter. It closed the quarter at $1.32/euro, down from $1.27/euro in September. The U.S goods and services deficit declined slightly in November to $58.2 billion.

Equity Market

The market rally continued throughout the fall. The U.S. stock market had a great quarter with the S&P returning 6.70%. Value stocks continued to outperform growth stocks, and small company stocks returned a bit more than large company stocks. Every sector of the market was up for the quarter with the best performance in the energy area, which was up 11.9%. Service was the next best area, up 10.0%. Even the worst performing area, Consumer Non-Durables was up 3.0%.

The broad large cap market indices, the S&P 500 and the Russell 1000, earned 6.70% and 6.95%, respectively, for the quarter. Smaller stocks, represented by the Russell 2000 index, rose 8.90% for the quarter.

Note: The System's investment assets reported in the Investment Section are presented on the same basis of accounting as described in Note 1 of the Notes to Financial Statements with the following exceptions: 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.

Value outperformed growth in the large cap arena; the Russell 1000 Growth index returned 5.93%, while the Russell 1000 Value index returned 8.00%. Value stocks more than doubled the performance of growth stocks for the trailing 12 months returning 22.24% compared to 9.08% for the Russell 1000 Growth.

The Russell 2000 Value index returned 9.03% for the quarter and was up 23.49% for the trailing year. The Russell 2000 Growth index rose 8.77% for the quarter but was only up 13.34% for the trailing 12 months.

At quarter-end, the average yield of an S&P 500 issue was 1.8%, the average growth rate was 12.5%, and the average price/earnings ratio (trailing 12-months earnings) was 21.4. While the P/E ratio remained higher than its historically normal range of 14 to 16, it has come down markedly. Based upon estimated 2007 earnings figures it is within the normal range. (Only about 12% of stocks had outsized, over 30x, P/E ratios on December 31st.)

International Equities

Emerging markets outperformed their developed counterparts for the quarter and year. In fact, during the last three years the MSCI Emerging Markets Free Index returned 124.41% or an amazing 30.92% per annum! For the fourth quarter, the emerging markets returned 17.64% and 32.59% for the trailing year.

The Developed markets represented by the EAFE Index had a gain of 10.40% for the quarter, and 26.86% for the trailing year. Except for Japan, the Netherlands and Switzerland, every one of the EAFE components turned in a double-digit return for the quarter. The best performing developed market last quarter was Norway, with a return of 26.20% followed by Singapore with a return of 23.30%. For the year, Spain produced the best return, up a remarkable 50.17%.

On an equal-weighted basis, the EAFE index gained 14.54% for the quarter and 35.66% for the trailing year in US dollar terms.

Bond Market

The rally in bonds came to a halt in the fourth quarter. Although the Federal Reserve extended the pause in the interest rate hikes begun in the 3rd quarter, the yield curve rose slightly. The curve remains inverted. Rates climbed and any hopes of a decrease in interest rates were dismissed as the Federal Reserve maintained its cautionary stance against inflation.

Shorter-term Treasuries rose to 5.00%, while medium term and long term Treasuries rose to 4.77% and 4.87%, respectively.

The Lehman Brothers Aggregate bond index returned 1.24% for the quarter, adding to gains achieved in the prior quarter. For the trailing year, the Aggregate index was up 4.33%. Investment grade corporates lagged high yield corporates (junk bonds) for the quarter and the year. Investment grade corporates gained 1.34% versus a rise of 4.20% for high yield corporates. For the trailing year, investment grade corporates rose 4.26%, while their high yield counterparts returned 11.85%.

The average maturity of the Lehman Aggregate index was 6.96 years at the end of the quarter. The interest rate sensitivity (duration) fell 0.1 years to 4.5 years (on an adjusted basis) and the average yield remained steady at 5.3%.

Cash Equivalents

Short-term yields remained virtually unchanged during the fourth quarter. Treasury bills (considered to be a risk-free surrogate) returned 1.25% for the quarter, producing a trailing 12-month total return on cash and equivalents of 4.82%.

Relative Performance

Total Fund

Over the calendar year, the System's total portfolio returned 12.6%, ranking in the 53rd percentile of the balanced trust fund universe. The cumulative return for the last five years was 9.2% annualized, which ranked in the 27th percentile.

Equities
Over the calendar year, the large cap equity segment returned 12.0%; that return was 3.8% less than the S&P 500's 15.8% performance, ranking in the 66th percentile of the large cap universe. During the cumulative five-year period, the large cap equity component returned 8.1% annualized and ranked in the 42nd percentile. For comparison, the S&P 500 returned an annualized 6.2% over the same time frame.

International Equities
For the year, the international equity segment gained 24.4%, 1.4% less than the Salomon World Index's 25.8% return, and ranked in the 66th percentile of the international equity universe. During the cumulative five-year period, the international equity segment recorded a gain of 14.8% annualized and ranked in the 80th percentile. The benchmark returned an annualized 17.2% during the same period.

Small Cap
During the trailing year, the small cap equity segment returned 14.9%, 3.5% below the Russell 2000's 18.4% return, and ranked in the 51st percentile of the small cap universe. The cumulative small cap return over the last five years was 10.3% per annum and ranked in the 72nd percentile. The Russell 2000 returned an annualized 11.4% during the same period.

Bonds
In 2006, the fixed income portion of the portfolio posted a gain of 4.3%, which was equal to the Lehman Aggregate Index's performance, ranking in the 69th percentile of the Core Fixed Income universe. Over the cumulative five-year period, the fixed income component returned 5.0% annualized and ranked in the 83rd percentile. For comparison, the Lehman Aggregate Index returned an annualized 5.1% during the same time frame.

Real Estate
Over the trailing twelve-month period, the real estate segment returned 14.4%, which was 3.2% below the NCREIF Property Index's 17.6% performance. During the cumulative five-year period, the real estate portion returned 12.9% annualized, while the benchmark returned an annualized 12.4% over the same period.

Asset Allocation
On December 31, 2006, the allocation of assets was as follows:

Domestic equities	36.2%	$525,960,766
Small cap equities	15.3	221,802,721
International equities	17.9	260,291,208
Total equities	**69.4**	**1,008,054,695**
Fixed income	22.6	328,003,639
Real estate	6.7	97,185,997
Cash and equivalents	1.4	20,319,277

Prepared by DAHAB ASSOCIATES, INC.

Investment Performance

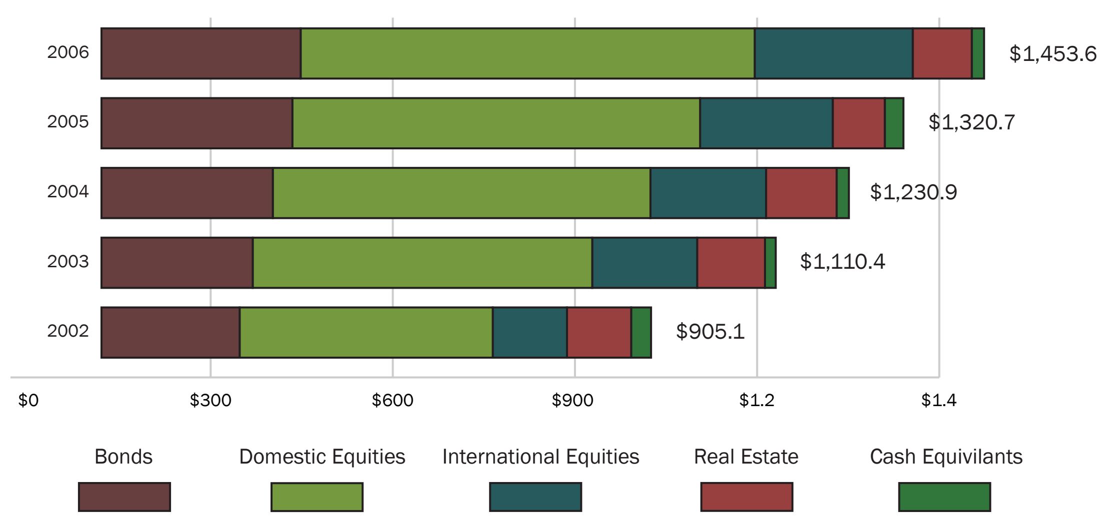
On December 31, 2006, the System's investment assets were valued at $1,453,564,000,[1] an increase in value of $132,854,000 over the December 31, 2005 valuation of $1,320,710,000.

During the last five years, the System has increased from $905.1 million to $1,453.6 million. The following graph shows the System's five-year trend of investment assets at fair value.

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 Section with the exception of the recognition of pending sales and purchases. The difference noted above represents the difference between the investment balance of $1,453,099,000 presented in the Financial Section and the balance of $1,453,564,000 reported in this section.

Portfolio Distribution - Five-Year Trend

(Fair Value - Amounts in Millions)



[1] Amounts in the Investment Section do not include the securities lending collateral pool.

Asset Allocation

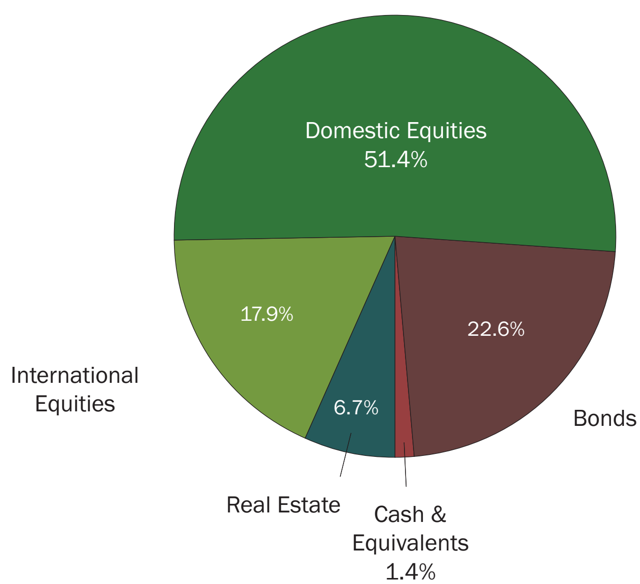
The System's asset allocation as of December 31, 2006 was $747.8 million committed to domestic equities, $260.3 million to international equities, $328.0 million to bonds, $97.2 million to real estate, and $20.3 million to cash equivalents. The percentage distribution is illustrated below.

The time-weighted rate of return for the System's investments during the fiscal year ended December 31, 2006 was 12.6%, ranking near the median in the 53rd percentile of all balanced funds as measured by the ICC (Independent Consultants Cooperative) universe. This performance level was below the median balanced fund's return of 15.0%. The cumulative five-year return for December 2001 through December 2006 of 9.2% annualized ranked in the 27th percentile.

For the year ended December 31, 2006, equities gained 12.0% and ranked in the 66th percentile, performing 3.8% below the Standard and Poor's 500 return of 15.8%. For the last five years, the System's stock return of 8.1% annualized ranked in the 42nd percentile, 1.9% per year above the Standard and Poor's 500 return of 6.2% for the same time period.

Fixed income returned 4.3% for the year, ranking in the 69th percentile, matching the Lehman Aggregate bond index return. For the five-year period, the cumulative bond return of 5.0% annualized ranked in the 83rd percentile, performing 0.1% below the Lehman Aggregate bond index return of 5.1% for the same period.

The real estate segment of the portfolio earned 14.4% for the fiscal year. For the cumulative five-year period, the real estate portfolio earned 12.9% annualized.



Portfolio Summary
As of December 31, 2006

Type of Investment	Par Value	Cost Value	Fair Value	% of Total Fair Value
Corporate and government bonds				
U.S. government bonds	$ 189,000,000	$ 189,000,000	$ 234,900,000	16%
Corporate bonds	74,800,000	74,800,000	93,100,000	6
Total	263,800,000	263,800,000	328,000,000	23
Common stock				
Domestic	627,700,000	627,700,000	747,200,000	51
International	184,400,000	184,400,000	259,900,000	18
Total	812,100,000	812,100,000	1,007,100,000	69
Other investments				
Real estate equity	74,800,000	74,800,000	97,000,000	7
Cash equivalents	21,000,000	21,000,000	21,000,000	1
Total	95,800,000	95,800,000	118,000,000	8
Grand total	$1,171,700,000	$1,171,700,000	$1,453,100,000	100%

Portfolio Quality
Two-Year Comparative Analysis
Years Ended December 31, 2006 and 2005

Bond Rating	Fair Value	% of Total Fair Value	% of Total Carrying Value
December 31, 2006			
AAA	$234,900,000	72%	72%
AA	93,100,000	28	28
A	0	0	0
Total bonds	$328,000,000	100%	100%
December 31, 2005			
AAA	$227,100,000	72	72
AA	87,300,000	28	28
A	0	0	0
Total bonds	$314,400,000	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 12/31/06	Period from 1/1/04 to 12/31/06 (Annualized)	Period From 1/1/02 to 12/31/06 (Annualized)
Total	**12.6%**	**11.4%**	**9.2%**
(Rank) [2]	(53)	(24)	(27)
Large Cap Equities	12.0	12.3	8.1
(Rank) [3]	(66)	(43)	(42)
Fixed Income	4.3	3.6	5.0
(Rank) [4]	(69)	(82)	(83)
Real Estate	14.4	16.5	12.9
International	24.4	19.6	14.8
(Rank)	(66)	(80)	(80)
Small Cap Equities	14.9	11.8	10.3
(Rank)	(51)	(72)	(72)
Inflation Rate			
Consumer Price Index	2.5	3.1	2.7
Market Indicators			
Standard and Poor's 500	15.8	10.4	6.2
Russell 2000	18.4	13.6	11.4
Lehman Aggregate Bond Index	4.3	3.7	5.1
Salomon World (International)	25.8	21.8	17.2
91-day Treasury Bills	4.7	3.2	2.5
ICC Universe (5) Median Rate of Return			
(Time-Weighted)	12.8	10.8	8.5

(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.

Ten Largest Common Stock Holdings

As of December 31, 2006
(Fair Value)

Stock	Shares	Fair Value	% of Stock Portfolio
Exxon Mobile Corp	317,900	$24,355,465	3.26%
Lockheed Martin Corp	146,600	13,496,541	1.80%
J.C. Penny Co Inc	164,400	12,720,614	1.70%
Pfizer Inc	423,000	10,955,700	1.47%
Citigroup Inc	195,200	10,872,640	1.45%
Chevron Corp	137,400	10,103,022	1.35%
Johnson & Johnson	152,800	10,087,261	1.35%
Bank of America Corp	181,600	9,695,624	1.30%
International Business Machines Corp	99,200	9,635,155	1.29%
Microsoft Corp	322,200	9,620,564	1.29%

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, 2006 and 2005

Firm Name	2006	2005
BlackRock Financial Management	$ 422,773	$ 385,678
Boston Company Asset Management	0	138,442
Century Capital Management	330,304	53,712
Chase Investment Counsel Corporation	903,934	839,412
DePrince, Race & Zollo, Inc.	297,812	66,136
Emerald Advisors	199,337	292,919
Forest Investment Associates	138,418	189,354
LSV Asset Management	680,320	553,948
Mercator Asset Management	703,203	562,589
Prudential Investments	672,048	560,510
Seix Investment Advisors	0	0
State Street Global Advisors	207,724	206,717
Waddell & Reed Investment Management	543,880	444,935
TimesSquare Real Estate	0	38,228
Total	$5,099,753	$4,332,580

Summary of Commissions Paid to Brokers

Year Ended December 31, 2006

Broker Name	Commissions Paid	Broker Name	Commissions Paid
A. G. Edwards & Sons Inc., St. Louis	$3,822	Credit Suisse, New York	$38,057
ABG Securities, Oslo	1,755	Cuttone, New York	496
ABN AMRO Securities LLC, New York	3,410	D Carnegie AB, Stockholm	5,607
Assent LLC, Hoboken	2,213	Daiwa Securities America Inc., New York	5,126
Avondale Partners LLC, Nashville	5,783	Deutsche Bank AG, Frankfurt	4,569
B Trade Services LLC, New York	30,411	Deutsche Bank Securities Inc., New York	29,566
Baird, Robert W & Co. Inc., Milwaukee	16,597	Dougherty Company, Brooklyn	1,096
Banc of America Securities LLC, Charlotte	30,241	Dowling & Partners, Jersey City	1,054
Banco Bilbao Vizcaya, Madrid	3,090	Dresdner Kleinwort Securities LTD (KBENGB22)	20,717
Banco Santander, New York	9,954	Dresdner Kleinwort Securities LTD, London	7,156
Bank Austria Creditanstalt AG, Austria	4,769	Dresdner Kleinwort Securities LLC, New York	165
Bear Stearns & Co. Inc., New York	35,824	Dresdner Kleinwort Wasserstein, London	1,589
Bear Stearns Securities Corp., Brooklyn	3,601	Dresdner Kleinwort Wasserstein, New York	28,478
Benchmark Co. Inc., New York	592	E Trade Securities Inc., Palo Alto	1,608
Bernstein Sanford C & Co., New York	2,271	Enskilda Securities AB, London	8,343
BNY Convergex Execution Solutions, New York	12,744	Exane, New York	14,097
Boenning & Scattergood Inc., W. Conshocken	1,188	Exane, Paris	8,234
Bridge Trading Company, St. Louis	340	First Analysis Securities Corp., Chicago	367
Canaccord Adams Inc., Boston	304	First Clearing LLC, Richmond	16
Cantor Fitzgerald & Co. Inc., New York	11,511	Fortis Bank Nederland, Amsterdam	11,452
CAP Institutional Services Inc.-Equities, Dallas	5,821	Fortis Securities LLC, New York	1,749
Carnegie ASA, Oslo	4,310	Fox Pitt Kelton Inc., New York	4,581
Carnegie Bank AS, Copenhagen	1,031	Fox Pitt Kelton LTD, London	901
Carnegie Fondcommission, New York	2,939	Friedman Billings, Washington DC	2,869
Carnegie Securities LTD., Helsinki	1,534	Goldman Sachs & Co., New York	32,845
Cazenove & Co., London	1,216	Goldman Sachs Execution & Clearing, New York	3,191
Chase Securities, New York	10	Goldman Sachs Intl., London	1,000
CIBC World Markets Corp., New York	8,634	Greentree Brokerage Services, Jersey City	225
Citigroup Global Markets Inc., New York	27,027	Gunnallen Financial, Jersey City	990
Citigroup Global Markets/Salomon, New York	8,924	Howard Weil Labouisse Friedrichs, New Orleans	775
Clearstream Banking AG, Frankfurt	1,074	Instinet Corp, New York	4,839
Cochran Caronia Securities LLC, Jersey City	3,635	Intermonte Securities Cim, Milan	8,659
Compass Point Research & Trading, New York	1,996	Intersecurities Inc., Jersey City	2,195
Craig Hallum, Minneapolis	1,172	Investment Technology Groups, New York	13,686
Credit Agricole Indosuez Chx, France	12,778	ISI Group Inc., New York	5,522
Credit Agricole Indosuez Chx, Milano	11,786	J P Morgan Securities LTD/Stock Lending, London	16,824
Credit Agricole Securities, New York	1,553	Janney Montgomery Scott, Philadelphia	3,098
Credit Lyonnais Securities (Asia), Hong Kong	4,175	Jefferies & Co. Inc., New York	18,093
Credit Lyonnais Securities, New York	2,300	JMP Securities, San Francisco	4,507
Credit Lyonnais Securities, Singapore	4,565	Johnson Rice & Co., New Orleans	1,455
Credit Suisse (Europe), London	15,697	Jones & Associates Inc., Westlake Village	4,970

Continued on next page

Broker Name	Commissions Paid
J P Morgan Securities Asia Pacific, Hong Kong	$2,274
KAS Bank NV, Amsterdam	1,883
Kaufman Brothers, Weehawken	2,685
Keefe Bruyette and Woods, Jersey City	28,065
King (CL) & Associates, Albany	852
Knight Securities Broadcort, Jersey City	34,071
La Branche Financial Services/HBI, New York	409
Leerink Swann & Co., Jersey City	6,555
Lehman Brothers Inc., New York	28,506
Liquidnet Inc. Brooklyn	42,784
Macquarie Equities LTD., Sydney	3,726
Mainfirst Bank AG, Frankfurt	24,421
McDonald & Co., New York	2,749
Merrill Lynch Intl. London Equities	15,108
Merrill Lynch Pierce Fenner Smith Inc., New York	26,751
Merrill Lynch Pierce Fenner, Wilmington	21,406
Merrill Lynch Professional Clrg., Purchase	3,232
Merriman Curhan Ford & Co., Brooklyn	1,458
Merriman Curhan Ford, Jersey City	2,230
Midwest Research Securities, Jersey City	646
Mizuho Securities USA Inc., New York	8,906
Morgan J P Securities Inc., New York	47,031
Morgan Keegan & Co. Inc., Memphis	500
Morgan Stanley & Co. Inc., New York	43,846
Morgan Sanley Hong Kong Sec. LTD.	1,142
Morgan Satanley Securities LTD, London	1,959
Natexis Bleichroeder Inc., New York	1,408
National Financial Services Corp., New York	1,146
Needham & Co., New York	11,071
NEUE Zurcher Bank, Zurich	4,773
Nomura Securities Intl. Inc., New York	5,750
Non-Broker Corp. Actions, Boston	3
NZB NEUE Zuercher Bank, Zurich	10,287
Oppenheimer & Co. Inc., New York	728
Pacific Crest Securities, Portland	314
Paribas, Milano	640
Penson Financial Services Inc., Dallas	3,758
Pershing Division of DLJ, New York	3,848
Pershing LLC, Jersey City	1,327
Pershing Securities LTD, London	3,171

Broker Name	Commissions Paid
Pipeline Trading Systems LLC, New York	$41
Piper Jaffray & Co., Minneapolis	24,217
Pritchard Capital Partners, Jersey City	1,152
Prudential Equity Group, New York	34,663
Pulse Trading LLC, Boston	36,785
Punk, Ziegel & Knoell, New York	1,100
Raymond James & Assoc. Inc., St. Petersburg	12,049
RBC Capital Markets Corp, New York	6,312
Roth Capital Partners LLC, Irvine	553
Ryan Beck & Co., West Orange	786
S G Cowen & Co. LLC, New York	1,819
Sandler O'Neill & Partners, New York	2,269
Sanford C Bernstein & Co. Inc., London	4,639
Scott Stringfellow Inc., Richmond	4,197
SH Americas Securities LLC, New York	4,790
Sidoti & Co. LLC., New York	2,744
SIS Segaintersettle AG, Zurich	1,281
Soleil Securities Corp., Jersey City	504
State Street Brokerage Svcs., Boston	48
Stephens Inc., Little Rock	1,844
Sterne Agee & Leach Inc.	2,628
Stifel Nicolaus	9,375
Suntrust Capital Markets Inc, Atlanta	11,578
Svenska Handelsbanken, New York	3,446
Thinkequity Partners LLC, Minneapolis	1,522
Thomas Weisel Partners, San Francisco	2,947
UBS AG, London	2,781
UBS Equities, London	34,213
UBS Financial Services Inc., Weehawken	95
UBS Securities Hong Kong LTD., Hong Kong	2,268
UBS Securities LLC, Stamford	23,867
UBS Warburg Asia, LTD., Hong Kong	13,903
Union Bank Of Switzerland, Zurich	2,342
Union Bank Switzerland Securities, London	3,587
Veritas Securities, New York	897
Wachovia Capital Markets LLC, Charlotte	13,597
Wedbush Morgan Securities Inc., Los Angeles	3,047
Weeden & Co., New York	753,589
William Blair & Co., Chicago	5,803
Total Brokerage Commissions Paid	**$2,058,050**

Investment Guidelines

Introduction

The following represents highlights from the Board's investment guidelines adopted on January 26, 2006. 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 daily management of the System's assets.

Background

The System is currently experiencing a positive cash flow, however, it is expected that this will gradually decline in the future. The System currently meets routine benefit payments 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 as well as current market trends, the Board established its allocation goals as follows:

Equities (large capitalized firms)	35%
Equities (small capitalized firms)	15%
Equities (non-US domiciled firms)	15%
Fixed income	20%
Real estate	15%

Objective

The Board's investment objective is to benefit PMRS 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 managers' performance measures rely on other characteristics that 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 manager 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, in turn, invests 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 manager other than a U.S. government bond is to account for more than 5% of the fair value of an investment manager'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 issuance, 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 sector 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 for all of that manager's clients shall account for no more than 5% of the outstanding voting common stock of a 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 manager'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 future 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 managers.

Investment managers are directed to execute orders on the best net execution/price basis. Transactional costs and the rate of turnover are monitored. Active equity managers 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 managers 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 managers. Reports required of investment managers 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. Active equity managers are required to report on a quarterly basis the average commission price per share traded during the quarter. In addition to the written reports, the investment managers are obligated to make periodic personal appearances before the Board as specifically spelled out in the investment manager's contract.

Investment managers' fees are paid in hard dollars. The cost for each investment manager is based on the fair value of the firm's assets in the System's portfolio at the end of each quarter.

Monitoring

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

Actuarial

Carefully monitoring financial obligations has enabled the System's assets to steadily grow over the years.

We are

Steady

SEGAL

THE SEGAL COMPANY
1920 N Street NW, Suite 400 Washington, DC 20036-1659
T 202.833.6400 F 202.833.6490 www.segalco.com

April 30, 2007

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, 2006, 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	Schedule of Retirees and Beneficiaries
EXHIBIT III	Actuarial Assumptions
EXHIBIT IV	Actuarial Methods

Individual municipality actuarial valuation results as of January 1, 2006, have been provided separately for 4 plans sponsored by counties that are required to redetermine contribution levels as of January 1, 2006 under the applicable Commonwealth statute (Act 293 of 1972). 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. Individual plan funding requirements for other municipal plans were not required and not redetermined; contribution requirements for such municipalities are determined on a biennial basis, most recently as of January 1, 2005.

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

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)
1/1/06	$60,678,307	$55,251,080	$(5,427,227)	109.8%
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, 2006 are shown in Exhibit II. The above information was derived from the following membership data, as provided by the System, regarding:

- 4 defined benefit plans required to redetermine contribution levels as of January 1, 2006;
- 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.

	As of January 1			
	2006	2005	2004	2003
a. Retirees currently receiving benefits	218	2,768	194	2,534
b. Beneficiaries currently receiving benefits	8	424	8	393
c. Terminated vested employees entitled to future benefits defined benefit plans	53	464	37	473
d. Terminated non-vested employees entitled to contribution refunds- defined benefit plans	7	165	4	177
e. Active employees in defined benefit plans	717	8,341	731	8,142
i. aggregate salary [2]	$23,905,899	$319,004,918	$22,249,329	$293,388,800
ii. vested	358	4,603	259	4,189
iii. non-vested	359	3,738	472	3,953
f. Participants in defined contribution-only plans	--	1,005	--	897
i. aggregate salary [3]	--	$26,807,519	--	$21,459,225
ii. active	--	867	--	797
iii. inactive	--	138	--	100

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

[2] Projected salary for actives under the latest retirement age for year following valuation date.

[3] Actual salary for year preceding valuation date.

Exhibit II - 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
2006	268	83	3,377	$37,943,181	9.4%	$11,236	3.4%
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

Exhibit III - 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.

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 given below.

Healthy Life Mortality Rates				
	Retirees Prior to January 1, 2005 [1]		New Retirees on or After January 1, 2005	
Age	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 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 minus number of members); for municipalities with 5 or fewer members, no terminations were assumed. The prior and current valuation rates are shown below.

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

[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.

Disability incidence rates:

(a) 40% of 1964 OASDI (Social Security) Experience for Males for municipal plans.

Age	Current Valuation Rate (%)
25	0.034%
35	0.059
45	0.144
55	0.404
65	0.928

Sample rates are at right:

(b) Uniformed plans - 60% of 1964 OASDI (Social Security) Experience for Males. Sample rates are listed at right.

Age	Current Valuation Rate (%)
25	0.051%
35	0.088
45	0.216
55	0.605
65	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 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. Two percent 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	Current Rate of Normal Retirement [2]
Under 46	5%
46 - 54	15
55 - 59	10
60 - 61	10
62	30
63 - 64	20
65	35
66 - 74	15
75	100

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

Marital Status and Spouse's age [1]: 85% of members will be married at time of retirement and females are four years younger than their spouses.

Social Security projections [1]:

a) The Social Security Taxable Wage Base will increase by 3.5% compounded annually.

b) The Consumer Price Index will increase by 3.0% compounded annually.

[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.

c) The Average Total Wages of All Workers will increase by 3.5% compounded annually.

Post-retirement cost-of-living increases*[1]*: 3.0% per year, subject to plan limitations

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

Exhibit IV - Actuarial Methods

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

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

Sum of all audited reserve accounts as of the valuation date, including 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. The excess interest allocation for 2005 was based on 29.90% of new surplus, resulting in an excess interest allocation during 2006 of 0.58% of eligible reserve accounts.

Actuarial Cost Method - Entry Age Normal Actuarial Cost Method

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

(b) the average assumed working lifetime of active employees as of the date the liability was established[2].

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).

[1] If applicable.

[2] If there are no active employees, the unfunded liability is amortized in one year from the date that the liability was established.

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[1], and
3. the actuarial accrued liability for service already rendered by active members.

In a system that has been following the entry age normal actuarial cost method financing discipline, the obligation for active member contributions on deposit and the liabilities for future benefits to present retired lives[1] 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] Includes terminated employees not yet receiving benefits.

STATISTICAL

Taking a conservative approach to managing the System's funds has helped to reinforce the System's reliable services.

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DEPENDABLE

Introduction

The objectives of the statistical section are to provide additional historical perspective, context, and relevant details to assist readers in using information in the financial statements, notes to the financial statements, and required supplementary information in order to understand and assess the System's overall financial condition. In support of these objectives, the System has implemented GASB Statement No. 44, Economic Condition Reporting: The Statistical Section. This statement establishes standardized reporting requirements relative to the supplementary information provided in this section.

The schedules beginning on page 59 compare the revenues versus expenses of the System and include total investments of the System for the past six years. The schedules also show operating information. The operating information is intended to provide contextual information about the System's operations to assist in assessing the System's economic condition. These schedules provide detailed information about the trends of key sources of additions and deductions to the System's assets, which assist in providing a context framing how the System's financial position has changed over time.

The schedules beginning on page 62 provide information relative to membership. The schedules and graphs reflect changes in active and retired members of the System. The information is intended to provide contextual information about the System's membership and framework for the ratio of funding versus obligations. The schedules beginning on page 64 provide information relative to pension payments and pensions awarded. The information is intended to provide contextual information about payment trends of the System.

All non-accounting data is derived from the System's internal sources.

Data presented in the statistical section is not available prior to 2001.

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
2006	$16,316,197	$21,148,089	$284,820	$161,140,029	$198,889,135
2005	16,046,984	19,890,494	277,640	100,261,568	136,476,686
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)

	Expenses by Type				
	Benefit Expenses				
Fiscal Year	Annuity	Disability	Termination	Administrative Expenses	Total Expenses
2006	$42,756,777	$1,380,018	$18,354,567	$2,920,868	$65,412,230
2005	37,021,910	1,184,295	10,331,707	3,108,239	51,646,151
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

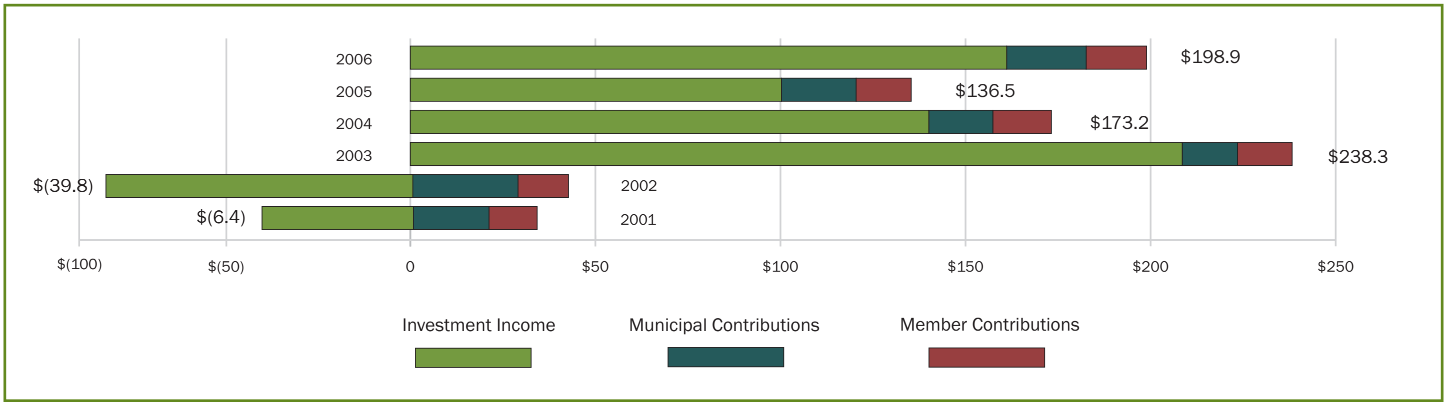
Changes in Net Assets

Fiscal Year	Contributions	Investment Income	Benefit Expenses	Administrative Expenses	Change in Net Assets
2006	$37,749,106	$161,140,029	$62,491,362	$2,920,868	$133,476,905
2005	36,215,118	100,261,568	48,537,912	3,108,239	84,830,535
2004	33,126,179	140,070,192	45,048,440	3,127,096	125,020,835
2003	29,726,673	208,542,292	39,791,186	2,610,839	195,866,940
2002	42,735,867	(82,539,549)	38,078,434	2,406,732	(80,288,848)
2001	34,267,145	(40,673,724)	40,627,800	2,555,114	49,589,493)

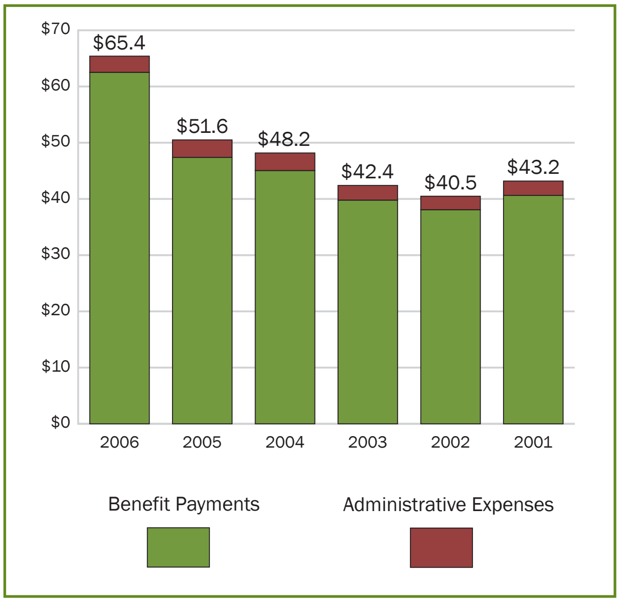
[1] Contributions were made in accordance with actuarially determined contribution requirements.

[2] Municipal assessments are receipts but not assets of the plans.

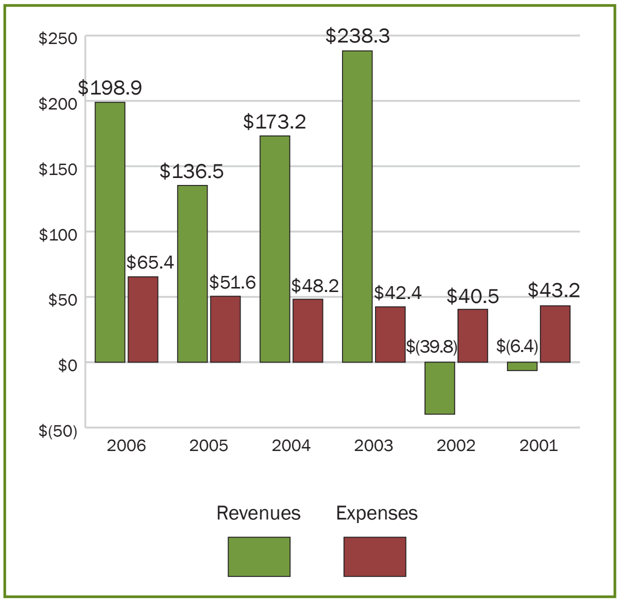
Revenues by Source - Six-Year Trend
(Amounts in Millions)



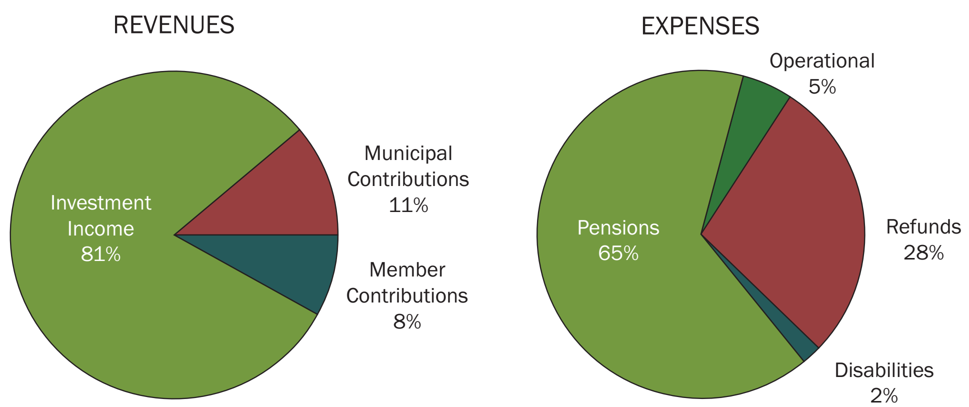
Expenses by Type Six-Year Trend
(Amounts in Millions)



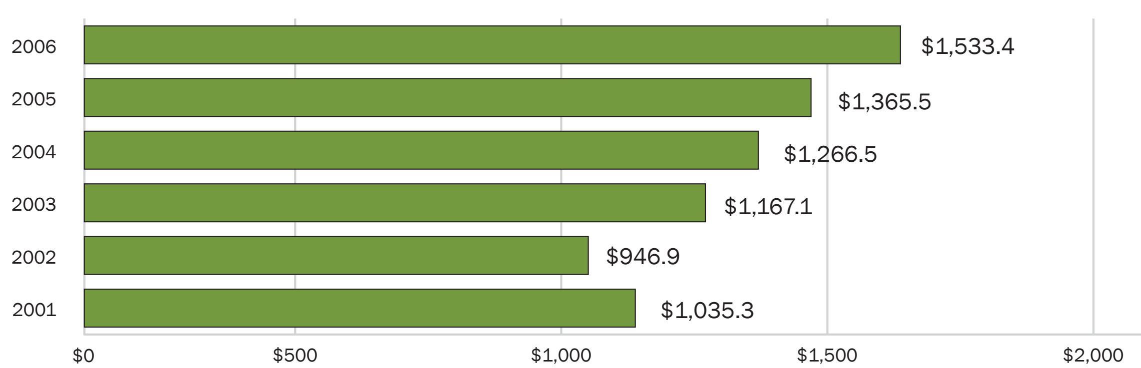
Revenues vs. Expenses Six-Year Trend
(Amounts in Millions)



Revenues and Expenses
(Amounts in Millions)



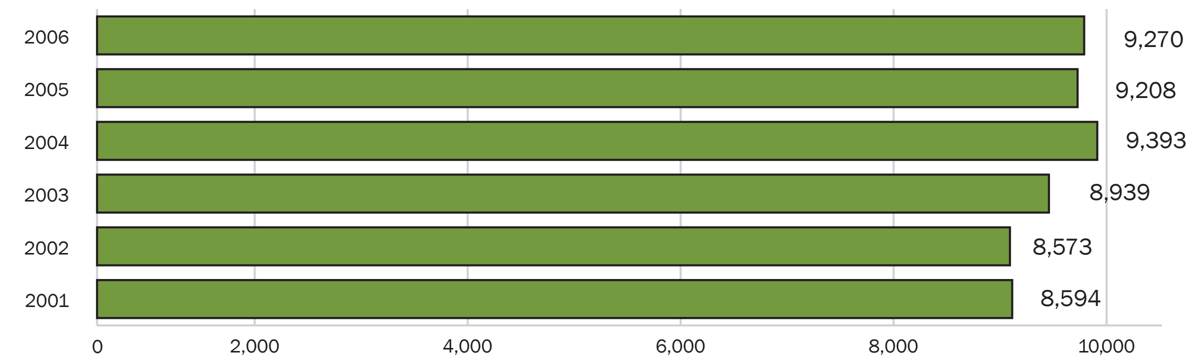
Total Investments - Six-Year Trend
(Fair Value - Amounts in Millions)



Part II - Membership

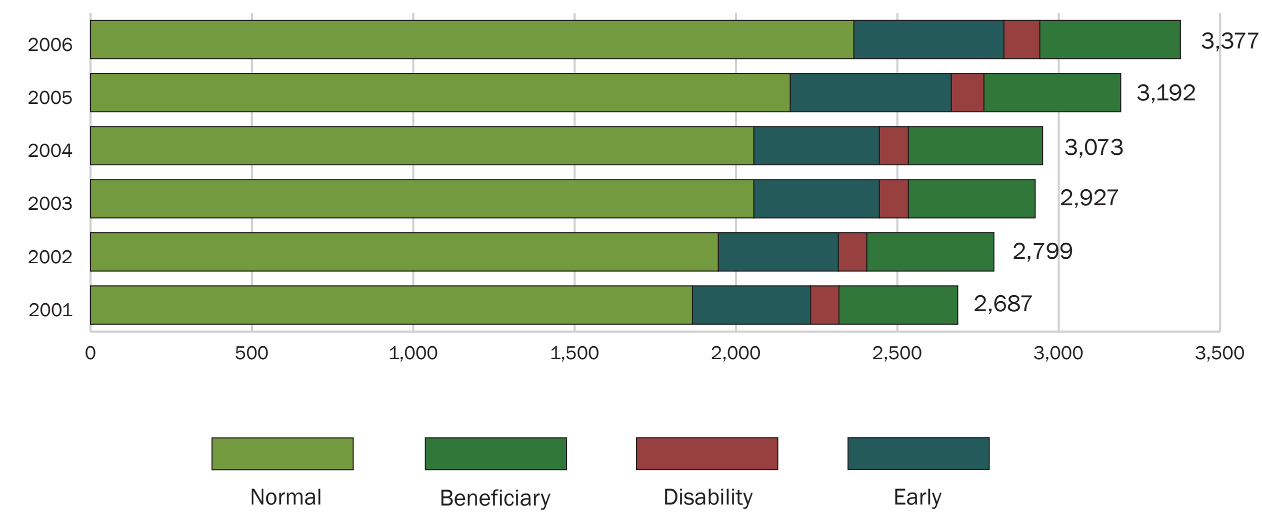
Active Members - Six-Year Trend

Valuation Date 1/1



Retired Members - Six-Year Trend

Valuation Date 1/1



Number of Employees In Active Service

as of January 1, 2006 by Age and by Years of Sevice

	Years of Service									
Age	Total	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 & Over
Total	9,270	2,998	1,903	1,327	1,327	682	591	333	91	18
Under 20	8	8	--	--	--	--	--	--	--	--
20 -24	169	163	6	--	--	--	--	--	--	--
25 - 29	528	435	90	3	--	--	--	--	--	--
30 - 34	676	366	240	68	2	--	--	--	--	--
35 - 39	1,074	450	315	200	108	1	--	--	--	--
40 - 44	1,330	429	286	250	262	89	14	--	--	--
45 - 49	1,667	416	313	246	282	213	180	17	--	--
50 - 54	1,686	355	287	224	300	153	201	158	8	--
55 - 59	1,218	230	199	182	217	134	112	98	45	1
60 - 64	634	104	116	107	111	60	58	46	27	5
65 - 69	194	29	38	27	32	24	22	9	4	9
70 & Over	86	13	13	20	13	8	4	5	7	3

Number of Members Per Plan

(Plan with 100 or more members)

Plan	Members
Allentown City	718
Bethlehem City	605
Adams County	520
Harrisburg City - Plan B	466
Jefferson County	244
Monroeville Municipality	185
Adams County - Green Acres	180
Lebanon City	165
Easton City	149
Pottstown Borough	140
Bucks County Water & Sewer Authority	139
Whitehall Township	114
Harrisburg City - Plan A	113
Tredyffrin Township	107
Upper Moreland Township	107
Harrisburg Fire - Plan A	102
Sharon City	101
Hermitage City	100

Pensions in Payment Status on January 1, 2006

by Type and by Monthly Amount

	Type of Pension					
Monthly amount	Total	Normal	Involuntary early	Voluntary early	Service disability	Non-service disability
Total	2,941	2,365	306	159	31	80
Under $100	128	107	8	11	1	1
$100 - $199	190	137	18	32	3	--
200 - 299	225	168	25	29	--	3
300 - 399	200	162	19	17	--	2
400 - 499	177	133	23	13	3	5
500 - 599	210	164	26	11	--	9
600 - 699	182	139	21	13	--	9
700 - 799	164	122	26	4	--	12
800 - 899	167	125	22	5	3	12
900 - 999	153	124	15	6	3	5
1,000 - 1,199	282	218	39	7	5	13
1,200 - 1,299	187	156	20	4	4	3
1,400 - 1,599	166	146	13	3	4	--
1,600 - 1,799	117	109	4	2	2	--
1,800 - 1,999	91	78	9	1	--	3
2,000 - 2,199	68	60	6	--	2	--
2,200 - 2,399	50	47	3	--	--	--
2,400 - 2,599	48	44	4	--	--	--
2,600 - 2,799	42	39	0	1	--	2
2,800 - 2,999	22	21	1	--	--	--
3,000 - 3,499	34	29	3	--	1	1
3,500 - 3,999	21	20	1	--	--	--
4,000 and over	17	17	--	--	--	--

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

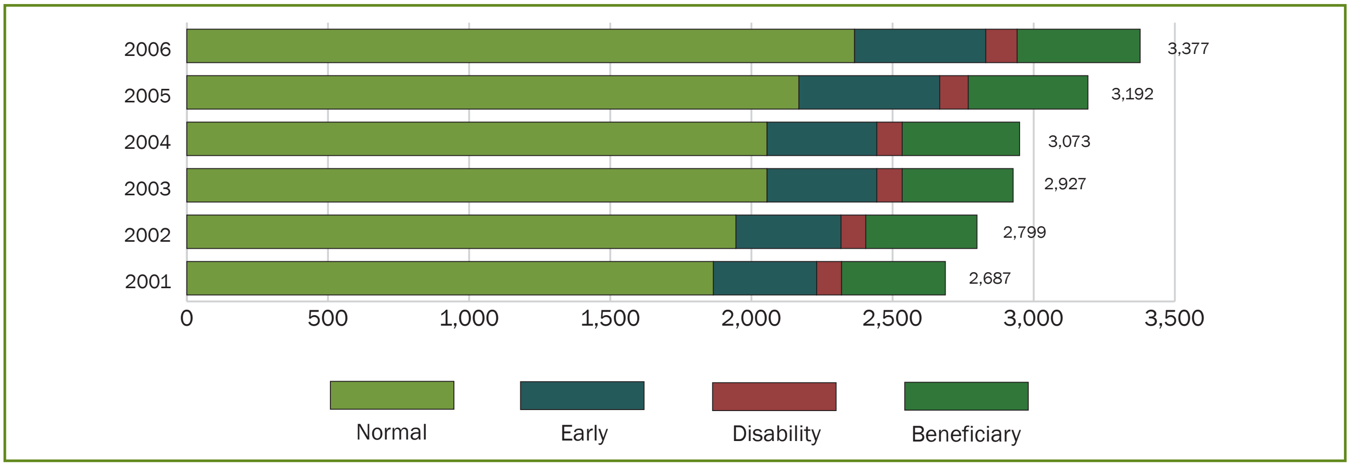
Year ended January 1:	Type of Pension									
	Total		Normal		Voluntary early		Involuntary early		Disability	
	Sum	AMA[1]	Sum	AMA	Sum	AMA	Sum	AMA	Sum[2]	AMA
2006	264	1,270	217	1,290	11	639	23	1,257	13(4)	1,493
2005	247	1,126	189	1,185	13	653	35	994	10(1)	1,100
2004	214	1,199	171	1,226	8	609	26	1,206	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

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
2006	8,374	896	2,941	436	675	66	13,388
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

[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)

Total Membership - 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
2006	8,374	0.4%	683	0.9%	$333,300,000	4.5%	$39,807	4.1%
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

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
2006	896	3.3%	172	1.8%	$27,970,000	4.3%	$31,218	0.1%
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

Schedule of Participating Pension Plans [1]
as of December 31, 2006

COUNTIES
Adams
Adams County - Green Acres
Forest
Jefferson

CITIES
Allentown
Bethlehem
Clairton
Connellsville
Dubois
Easton
Farrell
Greensburg
Harrisburg - Plan A
Harrisburg - Plan B
Hermitage
Jeannette
Lebanon
Lower Burrell
Nanticoke
New Kensington
Sharon
Sunbury
Uniontown

BOROUGHS
Adamstown
Ashland
Atglen
Avonmore
Bally
Bangor
Bedford
Bellefonte
Bellwood
Bentleyville
Berlin
Big Beaver
Biglerville
Bloomfield
Bowmanstown
Brackenridge
Bridgeville
Brockway
Brookville
California
Cambridge Springs
Camp Hill
Carnegie
Carroll Valley
Carrolltown
Castle Shannon
Centerville
Central City
Charleroi
Claysville
Clymer
Coaldale
Cochranton
Collegeville
Collingdale
Conneautville
Conshohocken
Conway
Coopersburg
Cressona
Dalton
Delmont
Derry
Doylestown
Dravosburg
Dublin
Duboistown
Duncannon
East Berlin
East Rochester
East Stroudsburg
East Washington
Emlenton
Emporium
Etna
Everett
Falls Creek
Ferndale
Forest City
Fountain Hill
Franklin
Franklintown
Freeburg
Freedom (Beaver Co)
Freeland
Greenville
Hollidaysburg
Homer City
Hughestown
Hummelstown
Huntingdon
Hyndman
Jim Thorpe
Johnsonburg
Kenhorst
Kennett Square
Kittanning
Knox
Kulpmont
Kutztown
Latrobe City
Lehighton
Lewistown
Lykens
Marcus Hook
Martinsburg
Marysville
Matamoras
Mayfield
Mercer
Meyersdale
Middleburg

[1] County names are in parentheses.

Millersburg
Millerstown
Minersville
Monaca
Monroeville Municipality
Mont Alto
Montrose
Moosic
Morrisville
Mount Jewett
Mount Pleasant
Mount Union
Mt. Gretna
Nanty Glo
Narberth
Nesquehoning
New Eagle
New Stanton
Newport
Newtown
Norristown
North East
Northumberland
Orwigsburg
Palmerton
Pen Argyl
Pennsburg
Perkasie
Pine Grove
Portage
Pottstown
Prospect Park
Ridley Park
Roaring Spring
Rochester
Rouseville
Royersford
Rural Valley
Salisbury
Sandy Lake
Saxton
Schuylkill Haven
Selinsgrove
Sellersville
Shamokin Dam
Sharpsburg
Sharpsville
Shenandoah
Slippery Rock
Souderton
South Waverly
Southmont
Springdale
Stewartstown
Summit Hill
Tarentum
Telford
Topton
Trainer
Turbotville
Turtle Creek
Verona
Versailles
Waterford
Waynesburg
West Grove
West Middlesex
West Newton
Wheatland
White Haven
Williamstown
Wilmerding
Wilson
Windsor
Yoe
York Springs
Youngwood

TOWNSHIPS OF THE FIRST CLASS

Caln
Collier
Crescent
East Deer
Elizabeth (Allegheny Co)
Harrison
Hopewell (Beaver Co)
North Huntingdon
North Versailles
Ridley
Rochester
Salisbury
Springdale
Swatara
Upper Moreland
Vanport
West Pottsgrove
Whitehall
Wilkins

TOWNSHIPS OF THE SECOND CLASS

Allegheny (Venango Co)
Allegheny (Westmoreland Co)
Antrim
Athens
Bald Eagle
Bedminster
Bell
Bethel
Black Creek
Blair
Bloomfield
Blooming Grove
Boggs (Centre Co)
Boggs (Clearfield Co)
Brecknock
Briar Creek
Brighton
Broad Top
Brothersvalley
Brown
Buckingham
Buffalo
Burnside
Burrell
Caernarvon
Cambria
Cambridge
Canton
Cass
Center (Greene Co)
Center (Indiana Co)
Center (Snyder Co)
Centre (Berks Co)
Centre (Perry Co)
Cherrytree
Clarion
Clearfield
Columbus
Concord
Conemaugh
Conewago
Corydon
Covington
Cranberry
Cross Creek
Darlington
Delaware
Derry (Dauphin Co)
Derry (Dauphin Co) - DC Plan
Derry (Mifflin Co)
Derry (Westmoreland Co)
Dickinson
Dingman
Donegal (Washington Co)
Donegal (Westmoreland Co)
Dorrance
Douglass (Montgomery Co)
East Allen
East Coventry
East Fallowfield

East Finley
East Hanover
East Huntingdon
East Manchester
East Marlborough
East Rockhill
Eldred (Jefferson Co)
Eldred (Monroe Co)
Eldred (Warren Co)
Elizabeth Twp (Lancaster Co)
Elk Creek
Elk
Fairfield
Fairview
Farmington
Forks
Forward
Franklin (Beaver Co)
Franklin (Butler Co)
Franklin (Carbon Co)
Franklin (Greene Co)
Freedom
Freehold
Frenchcreek
Girard
Glade
Greene
Greenfield (Blair Co)
Greenfield (Erie Co)
Greenfield (Lackawanna Co)
Hamilton
Hanover (Lehigh Co)
Haycock
Hemlock
Henderson
Hilltown
Hopewell (Cumberland Co)
Hopewell (Washington Co)
Hopewell (York Co)
Horsham
Howe
Hunlock
Huntington
Huston
Jackson (Greene Co)
Jackson (Lebanon Co)
Jackson (Luzerne Co)
Jackson (Snyder Co)
Jackson (Susquehanna Co)
Jefferson (Washington Co)
Jenks
Jenner
Jones
Keating
Kennett
Lancaster (Lancaster Co)
Lancaster (Butler Co)
Latimore
LeBoeuf
Lehman
Liberty
Limestone (Lycoming Co)
Limestone (Union Co)
Lincoln
Liverpool
London Britain
London Grove
Lower Mahanoy
Lower Towamensing
Lower Yoder
Loyalhanna
Mahoning
Manchester
Mead
Middle Smithfield
Middlesex
Milford
Millcreek
Monongahela
Monroe
Morris (Greene Co)
Morris (Washington Co)
Mount Joy
Mount Pleasant
Muncy Creek
New Garden
New Sewickley
Nockamixon
North Buffalo
North Coventry
North Franklin
North Strabane
Nottingham
Oakland
Oil Creek (Venango Co)
Oil Creek (Crawford Co)
Old Lycoming
Oliver
Paradise
Pennsbury
Perry
Pike
Pine Creek
Pine Grove
Pittsfield
Pleasant
Plumcreek
Plumstead
Pocopson
Point
Portage
Preston
Price
Providence
Pulaski
Pymatuning
Raccoon
Rice
Richhill
Richland
Ridgway
Rome
Rose
Rutland
Rye
Scott
Sewickley
Shade
Sheffield
Shippensburg
Shrewsbury
Slippery Rock
Solebury
South Abington
South Beaver
South Bend
South Franklin
South Huntingdon
South Manheim
South Middleton
South Pymatuning
South Strabane
Southampton
Southwest

Spring Creek
Springfield
Sugar Grove
Sullivan
Summit
Tinicum
Towamensing
Tredyffrin
Tunkhannock
Union (Berks Co)
Union (Lebanon Co)
Union (Snyder Co
Unity
Wallace
Warrington
Warsaw
Warwick
Washington (Berks Co)
Washington (Dauphin Co)
Washington (Erie Co)
Washington (Fayette Co)
Washington (Greene Co)
Washington (Northampton Co)
Washington (Schuylkill Co)
Washington (Wyoming Co)
West Bradford
West Brunswick
West Caln
West Carroll
West Lampeter
West Pennsboro
West Rockhill
West Salem
West Wheatfield
Westtown
Wetmore
Whiteley
Wiconisco
Williams
Windsor
Woodward
Wright
Wrightstown
Zerbe

AUTHORITIES AND OTHER UNITS

Allegheny Valley Joint Sewer
Ambridge Borough Municipal
Armstrong Conservation District
Avonmore Borough Mun Authority
B.A.R.T.A.
Bedford Borough Water
Bedford Municipal
Bedminster Municipal
Belle Vernon Municipal
Berks-Lehigh Regional Police NU
Bethlehem
Bethlehem City Redevelopment
Bloomfield Township Sewer
Bradford City Water
Bradford Regional Airport
Brighton Township Municipal
Brighton Township Sewer
Bristol Township
Brockway Area Sewage
Brockway Borough Municipal
Brodhead Creek Regional
Brookville Municipal
Bucks County Redevelopment
Bucks County Water & Sewer
Burrell Township Sewage
Butler Area Public Library
Cambria County Conservation & Recreation
Cambria Township Sewer
Cambria Township Water
Carbon County Conservation District
Carmichaels-Cumberland Joint Sewer
Carroll Township
Catawissa Borough Municipal Water
Centerville Borough Sanitary
Central Carbon Municipal
Central Indiana County Joint Sanitary
Centre County Library & Historical Museum
Clarion County Housing
Coaldale-Lansford-Summit Hill Sewer
Columbia County Conservation District
Concord Township Sewer
Connellsville Municipal
Connellsville Redevelopment
Conshohocken Borough
Coplay-Whitehall Sewer
Crescent South Heights M. A.
Cressona Borough
Creswell Heights Joint
Curwensville Municipal
Delaware Valley Municipal Management Association
Derry Township Municipal Authority
Derry Township Sanitary Sewer
DuBois City Redevelopment
East Norriton - Plymouth - Whitpain J.S.A.
Eastern Snyder County Regional
Economy Borough Municipal
Elizabeth Borough Municipal Authority
Elizabeth Township Sanitary
Emlenton Area Municipal
Erie County Housing
Everett Area Municipal
Falls Township
Fawn Township Sewage
Fawn-Frazer Joint Water
Fayette County Conservation District
Forward Township Municipal Authority
Franklin City Housing Authority

Franklin Township Municipal Sanitary
Franklin Township Sewer
Frazer Transportation
Fredericksburg Sewer & Water
Freeland Borough Municipal Authority
Greater Lebanon Refuse
Greenville Municipal
Guilford Township
Guilford Water
Harrison Township Water
Hawley Area
Hazleton Transit
Hellertown Borough
Hilltown Township Water & Sewer Aut
Horsham Township Sewer
Hughesville-Wolf Township Joint Municpal
Indiana County Conservation District
Indiana County Solid Waste
Jackson Township Water
Jeannette Municipal
Jefferson Conservation District
Johnsonburg Municipal
Juniata County Conservation District
Kiskiminetas Township Municipal Authority
Kittanning Suburban Joint Water
Kulpmont-Marion Heights JMA
Lancaster City Parking Authority
Lansford - Coaldale Joint Water
Lebanon Community Library
Leetsdale Borough Municipal
Lehigh County
Lehighton Water
Lower Bucks County Joint Municipal
Lower Bucks County Joint Municipal
Lower Indiana County Municipal
Lower Providence Township Sewer
Luzerne Conservation District
Lycoming Sanitary Committee
Mahanoy Township
Mahoning Township
Maidencreek Township
Manor Township Joint Municipal
Mary Meuser Memorial Library
Matamoras Municipal
McKean County Solid Waste Authority
Mercer County Regional Planning Commission
Mid Mon Valley Water
Middlesex Township Municipal
Middletown Township Sewer Authority
Mifflin County Regional Police NU
Mifflintown Municipal
Milford Water
Millcreek - Richland Joint Authority
Millersburg Area
Mon Valley Sewer
Monroe County Control Center
Montgomery County Sewer Authority
Montour County Conservation District
Montrose Municipal
Moon Township Municipal
Morrisville Borough Municipal
Mount Joy Township
Mount Pocono Municipal
Mt. Jewett Borough
Mt. Lebanon Parking
Myerstown Community Library Association
Myerstown Water
Nanty Glo Sanitary Sewer
Nanty Glo Water
Nesquehoning Borough
New Kensington Municipal Sanitary
New Kensington Redevelopment
Newport Borough Water
Norristown Municipal Waste
North & South Shenango Joint Municipal Authority
North Coventry Municipal
North Huntingdon Township Municipal
North Middleton
North Strabane Township Municipal
Northampton Borough Municipal
Northampton Borough Municipal
Northeastern Regional Police N-U
Northern Lancaster County
Northern York County Regional Police NU
Northumberland Sewer
Northwest Regional Lancaster County Police Comm NU
Oil City Housing
PA League Of Cities & Municipalities
Parks Township Municipal
Penn Township Sewage
Pennridge Regional Police N-U
Pennridge Waste Treat Authority
Perkasie Borough
Peters Creek Sanitary Authority
Peters Township Municipal
Portage Area Sewer

Portage Borough Municipal Authority
Possum Valley Municipal
Reynoldsville Water
Riverview Sanitary
Robesonia-Wernersville Municipal
Robinson Township Municipal
Rochester Area Jt. Sewer Authority
Rostraver Township Sewer
Seward/St. Clair Township Sanitary
Shamokin City Redev Auth
Shannock Valley General Services
Sheffield Township Municipal
Slippery Rock Municipal Authority
Somerset Conservation District
South Fayette Township Municipal Authority
Southern Police Commission NU
Southwest Regional Dispatch Center
Southwestern Pa Water
St. Marys Area Joint Water
Sunbury Municipal
Susquehanna Township
Swatara Township
Tower City Borough
Tri-County COG IBC
Tri-County Joint Municipal. Authority
Twin Boroughs Sanitary
Upper Allegheny Jnt San Authority
Upper Montgomery Joint Authority
Upper Southampton Municipal
Upper Southampton Sewer
Vanport Township Municipal
Vernon Township Water
Warren County Housing
Warren County Solid Waste Authority
Warrington Township Municipal Authority
Warwick Township Municipal Authority
Washington Area COG
Washington Township Municipal
Washington Township Municipal
Waterford Borough Municipal Authority
Wayne County Redelevopment
Wernersville Municipal Authority
West Carroll Township Water & Sewer
Western Butler County
Western Clinton County Municipal
Western Westmoreland Municipal
Westmoreland-Fayette Municipal San
White Run Regional Municipal Authority
Whitehall Township
Williamstown Borough
Womelsdorf-Robesonia Joint
York County Planning Commission

POLICE

Ashley Borough
Bally Borough
Barrett Township
Bedminster Township
Bellwood Borough
Bentleyville Borough
Berks-Lehigh Regional
Big Beaver Borough
Biglerville Borough
Birmingham Township
Blair Township
Brecknock Township
Briar Creek Township
Buckingham Township
Caernarvon Township
California Borough
Cambria Township
Cambridge Springs Borough
Camp Hill Borough
Carroll Township
Carroll Valley Borough
Central City Borough
Centre Township (Berks Co)
Clairton
Clymer Borough
Cochranton Borough
Colebrookdale Township
Conneaut Lake Regional
Coopersburg Borough
Covington Township
Crescent Township
Danville Borough
Darlington Township
Delmont Borough
Donegal Township
Douglass Township (Berks Co)
Douglass Township (Montgomery Co)
Dravosburg Borough
Dublin Borough
Duboistown Borough
Dunbar Borough
Duncannon Borough
East Bangor Borough
East Berlin Borough
East Coventry Township
East Deer Township
East Fallowfield Township
East Pennsboro Township
East Washington Borough
Elizabeth Township (Allegheny Co)
Ell-Co Regional
Emlenton Borough
Emporium Borough
Everett Borough
Factoryville Borough
Fairview Township
Falls Creek Borough
Forest City Borough
Forward Township
Franklin Borough
Franklin Township (Beaver Co)
Freedom Township
Gilpin Township
Greenfield Township
Greenville Borough
Harveys Lake Borough
Heidelberg Township

Hellam Township
Hemlock Township
Hilltown Township
Hummelstown Borough
Hyndman Borough
Independence Township
Jackson Township (Luzerne Co)
Johnsonburg Borough
Knox Borough
Lancaster Township
Larksville Borough
Liberty Borough
Linesville Borough
Locust Township
Lower Windsor Township
Lower Yoder Township
Lykens Borough
Mahoning Township
Manor Borough
Martinsburg Borough
Marysville Borough
Mayfield Borough
Mead Township
Mercer Borough
Middleburg Borough
Middlesex Township
Millcreek Township
Millersburg Borough
Montour Township
Moore Township
Moosic Borough
Morrisville Borough
Moscow Borough
Mount Jewett Borough
Mount Union Borough
Mt. Pleasant Borough
New Garden Township
New Wilmington Borough
Newport Borough
Newtown Borough
Nockamixon Township
North Coventry Township
North Huntingdon Township
North Middleton Township
North Sewickley Township
Northeastern Regional Department
Northumberland Borough
Northwest Lawrence Co. Reg Comm.
Ohio Township
Old Lycoming Township
Orangeville Area Board
Orwigsburg Borough
Paxtang Borough
Penbrook Borough
Pennridge Regional Department
Perkasie Borough
Pine Grove Borough
Point Township
Pulaski Township
Pymatuning Township
Red Lion
Richland Township
Roaring Spring Borough
Rochester Township
Rye Township
Sandy Lake Borough
Saxton Borough
Schuylkill Township
Schwenksville Borough
Scott Township
Scottdale Borough
Selinsgrove Borough
Shade Township
Shamokin Dam Borough
Sheffield Township
Shippingport Borough
Shiremanstown Borough
Sinking Spring Borough
Souderton Borough
South Beaver Township
South Centre Township
South Pymatuning Township
South Waverly Borough
South Williamsport Borough
Southern Commission
Springdale Township
Stewartstown Borough
Summit Hill Borough
Telford Borough
Tinicum Township
Tulpehocken Township
Tunkhannock Township
Vanport Township
Versailles Borough
Washington Township (Fayette Co)
West Grove Borough
West Lampeter Township
West Middlesex Borough
West Pikeland Township
West Pottsgrove Township
West Sadsbury Township
West Vincent Township
Westfield Borough
Wheatland Borough
White Haven Borough
Wiconisco Township
Williamstown Borough
Windsor Borough
Windsor Township
Wrightstown Township

FIREFIGHTERS

Clairton
Greenville Borough
Harrisburg - Plan A
Harrisburg - Plan B
Larksville Borough
Manchester Township
Upper Moreland
Wilson Borough

Pennsylvania Municipal Retirement System

P.O. Box 1165
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