STRS OHIO

State Teachers Retirement System of Ohio

Comprehensive Annual Financial Report 2007

Fiscal Year Ended
June 30, 2007

State Teachers Retirement System of Ohio
275 E. Broad St., Columbus, OH 43215-3771
614.227.4090 • www.strsoh.org

Comprehensive Annual Financial Report 2007

Fiscal Year Ended June 30, 2007

Prepared through the joint efforts of the STRS Ohio staff

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The State Teachers Retirement System of Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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

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Comprehensive Annual Financial Report 2007

Professional Consultants: Independent Public Accountants, Clifton Gunderson LLP, Toledo, Ohio; Investment Consultants, Russell Investment Group, Tacoma, Wash.; and Actuarial Consultants, Buck Consultants, Chicago, Ill. See Page 53 for a list of external domestic equity, international and fixed-income managers.

2006–2007 State Teachers Retirement Board

Guiding the members of the Retirement Board is their collective belief that Ohio's public educators deserve comprehensive benefits and quality service from their retirement system during their careers and in retirement. The Retirement Board provides the direction, fiduciary oversight and policies that enable STRS Ohio to fulfill its mission of assuring financial security for Ohio's educators.

During the 2006–2007 fiscal year, the Retirement Board was composed of 11 members as follows: five elected contributing members; two elected retired members; an investment expert appointed by the governor; an investment expert appointed jointly by the speaker of the Ohio House of Representatives and the Ohio Senate president; an investment expert designated by the treasurer of state; and the superintendent of public instruction or her designated investment expert. These individuals devoted hundreds of volunteer hours in service to STRS Ohio.

Thomas W. Johnson was appointed to the board by Gov. Bob Taft in September 2006. Johnson will serve on the board through Sept. 28, 2008, thus completing the four-year term begun by Judith Fisher, who resigned her position in July 2006. Mark H. Meuser also joined the board in September to begin the four-year term he was elected to during the spring 2006 election.

In November 2006 Taiyia L. Hayden was selected by the board to fill the contributing member seat vacated by Michael Billirakis in September. She was the only contributing member to file enough completed petitions for the spring 2007 election; therefore, according to Ohio statute, no election was required to be held. Hayden will continue in this seat through Aug. 31, 2011.

In January 2007, Treasurer of State Jennette Bradley named Craig C. Brooks to the Retirement Board. Brooks is completing the four-year term begun by Stephen Buser, who resigned in August 2006. Brooks will serve through Dec. 1, 2008.

One seat on the board remains unfilled following the resignation of Geoffrey G. Meyers in November 2006. The individual chosen for this seat is the joint appointment of the speaker of the House and the Senate president.

Constance K. Ramser, *Chair*
Contributing member since 2004.
Jackson Local Schools, Stark County

Jeffrey Chapman, *Vice Chair*
Retired teacher member since 2005.

Craig C. Brooks
Appointed by the Treasurer of State in 2007.

Mary Ann Quilter Cervantes
Contributing member since 2005.
Oregon City Schools, Lucas County

Taiyia L. Hayden
Contributing member since 2006.
Columbus City Schools, Franklin County

Thomas W. Johnson
Appointed by the Governor of Ohio in 2006.

John Lazares
Contributing member since 2004.
Warren County Educational Service Center, Warren County

Dennis Leone
Retired teacher member since 2005.

Mark H. Meuser
Contributing member since 2006.
Gahanna-Jefferson City Schools, Franklin County

Steven Puckett
Representing Susan Tave Zelman, Superintendent of Public Instruction. Ex officio member of the board since appointed to office in 1999.

Damon F. Asbury
Executive Director
State Teachers Retirement System of Ohio

STRS Ohio Senior Staff Members

Damon F. Asbury, Executive Director
Sandra L. Knoesel, Deputy Executive Director — Member Benefits
Stephen A. Mitchell, Deputy Executive Director — Investments
Robert A. Slater, Deputy Executive Director — Finance and Chief Financial Officer
Terri Meese Bierdeman, Director, Governmental Relations
Eileen F. Boles, Executive Assistant
Laura R. Ecklar, Director, Communication Services
Andrew J. Marfurt, Director, Human Resource Services
William J. Neville, General Counsel
David Tackett, Director, Internal Audit
Gregory A. Taylor, Director, Information Technology Services

STRS OHIO

State Teachers Retirement System of Ohio

275 East Broad Street
Columbus, OH 43215-3771
614-227-4090
www.strsoh.org

Dec. 10, 2007

Members of the State Teachers Retirement Board:

We are pleased to present the *Comprehensive Annual Financial Report* of the State Teachers Retirement System of Ohio for the fiscal year ended June 30, 2007. This report is intended to provide financial, investment, actuarial and statistical information in a single publication. STRS Ohio management is responsible for the accuracy of the data, as well as the completeness and fairness of the presentation.

STRS Ohio was created by legislative act on May 8, 1919, as an alternative to separate, often unstable local school district retirement plans. STRS Ohio is a cost-sharing, multiple-employer plan providing service retirement, disability and survivor benefits to teachers and faculty members of public boards of education, state-supported colleges and universities, and the state of Ohio and its political subdivisions. Optional health care coverage is available to eligible benefit recipients and their eligible family members.

Major Initiatives

Securing adequate funding for the health care program that STRS Ohio provides to its retirees continued to be a focal point for the State Teachers Retirement Board. In December 2006 House Bill 707, containing the health care funding proposal developed by the Retirement Board and endorsed by the Health Care Advocates for STRS, was introduced. This member-driven initiative calls for increasing public teachers' contributions to STRS Ohio by up to 2.5% and their employers' contributions by up to 2.5% of teacher payroll to create an ongoing, dedicated revenue stream for the STRS Ohio Health Care Program for current and future retired educators. These increases would be phased in over a five-year period, in .5% increments. No action was taken on the bill before the General Assembly adjourned, but the bill was reintroduced in September 2007 as House Bill 315.

Also in December 2006, Independent Fiduciary Services, Inc. (IFS) presented the results of its fiduciary performance audit of STRS Ohio to the Ohio Retirement Study Council (ORSC). IFS was chosen by the ORSC to review the system's investment and management practices, as well as those of the Ohio Police & Fire Pension Fund. In the executive summary that accompanied the detailed report about STRS Ohio, IFS noted that " . . . the results of this review demonstrate that STRS is generally in line with best practices with regard to much of its overall governance, administration and management of its investment program." Further, the report noted that "… STRS governance policies and rules are impressively comprehensive and they cover all of the significant aspects of governance a sophisticated public pension fund requires."

Many months of work in fiscal 2007 led to the Retirement Board approving a three-year contract with Express Scripts as the pharmacy benefits manager (PBM) for enrollees in the Aetna, Medical Mutual and Paramount health care plans. The contract extends from Jan. 1, 2008, through Dec. 31, 2010. The selection of Express Scripts resulted from a collaborative effort between STRS Ohio, the Ohio Public Employees Retirement System (OPERS), the School Employees Retirement System (SERS) and The Ohio State University to choose a common PBM for their respective health care programs. By joining together, the four groups have been able to leverage their collective purchasing power to stretch their respective health care dollars as much as possible.

In March 2007, AOL/Time-Warner agreed to terms with the five Ohio retirement systems and the Ohio Bureau of Workers' Compensation (BWC) to settle a securities fraud case. BWC and the state pension funds shared a gross settlement of $175 million and a net amount of $144 million after reductions for attorney fees and expenses. STRS Ohio received about $66.6 million. This is approximately $62 million more than what STRS Ohio would have received if it had not opted out of the federal class action suit and instead remained part of the class. The securities fraud case alleged that AOL inflated its stock price before merging with Time-Warner in January 2001. The suit sought recovery of funds lost by the pension systems and BWC when the price of AOL/Time-Warner stock fell dramatically in July 2002.

On March 29, 2007, Substitute House Bill 71 went into effect. This bill permits members of STRS Ohio, OPERS, SERS and the Highway Patrol Retirement System to purchase up to five years of credit for service with the Ohio National Guard or a reserve component of the United States armed forces. The cost is 100% of the additional liability to the system resulting from the purchase. The total maximum service credit a member may purchase for both active military service and Ohio National Guard or reserve duty is five years.

In May 2007, the Retirement Board approved rules which only allow STRS Ohio to provide secondary coverage to any health care plan enrollees who are employed in a public or private position and are eligible for health care coverage through their employer. These provisions apply if: (1) the employer provides coverage to other employees in comparable positions at a cost no more than the cost of coverage offered to full-time employees; and (2) the plan provides medical and prescription drug coverage. The rules apply only to individuals who are not eligible for Medicare and go into effect on Jan. 1, 2009.

For a number of years, STRS Ohio has participated in benchmarking studies developed by CEM, Inc., of Toronto, Ontario. Today, more than 50 retirement systems from the United States, Canada, Australia and the Netherlands participate in the annual studies that represent pension funds serving more than 18 million members. About 80% of STRS Ohio's total investment fund is internally managed by STRS Ohio associates. The value of this organizational structure continued to be confirmed by a CEM study covering calendar year 2006. It indicated that STRS Ohio saved more than $88.4 million through internal management of its investment assets. Another CEM comparative study covering fiscal year 2006 showed that STRS Ohio earned the No. 2 ranking in overall quality of services to its members for the second consecutive year.

Work continues on the replacement of STRS Ohio's pension management computer system. The project, which began in fiscal 2005, is scheduled to be completed during calendar year 2008.

Investments

Total investments (including short-term investments) increased to $79.6 billion as of June 30, 2007. The Investment Review starting on Page 35 discusses the investment environment during fiscal 2007. The allocation of investment assets is designed to provide high long-term yields while minimizing risk. A summary of the asset allocation can be found on Page 50.

For the fiscal year ended June 30, 2007, investments provided a 20.73% return. STRS Ohio's annualized rate of return was 15.51% over the last three years and 13.17% for the last five years. Similar benchmark returns over the same one-, three- and five-year periods were 19.49%, 14.34% and 12.16%, respectively.

2007 Additions to Plan Net Assets

Member and employer contributions, as well as income from investments, provide funds for pension benefits and health care coverage. Employer contributions include amounts paid by employers of participants in alternative retirement plans (ARPs). ARP participants are not members of STRS Ohio; however, their employers are required to contribute 3.5% of salaries to STRS Ohio to help pay for unfunded liabilities. Total additions to plan net assets were $16.1 billion in fiscal 2007, an increase of $5.5 billion from the previous year due to greater investment returns. Effective Jan. 1, 2006, STRS Ohio began receiving Medicare Part D reimbursements for participant prescription costs. Fiscal 2007 represents the first full year of receiving Medicare Part D reimbursements. This federal subsidy helps offset the overall cost of managing the post-employment health care program.

Additions to Plan Net Assets
(in thousands)

	2007
Net Investment Income	$ 13,444,328
Contributions:	
Member	$ 1,039,585
Employer	$ 1,390,491
Health Care Premiums	$ 201,537
Medicare Part D Reimbursement	$ 36,312
Other	$ 20,468
Total Contributions	$ 2,688,393
Total Additions to Plan Net Assets	**$ 16,132,721**

2007 Deductions From Plan Net Assets

The principal purpose for STRS Ohio is to provide retirement, survivor and disability benefits to qualified members and their beneficiaries. Benefit payments, including refunds to terminated members, totaled more than $4.6 billion. Administrative expenses decreased by $3.7 million from 2006.

Deductions From Plan Net Assets
(in thousands)

	2007
Benefits	$ 4,511,112
Withdrawals	$ 134,994
Administrative Expenses	$ 63,387
Total Deductions From Net Assets	**$ 4,709,493**

Funding

Contribution rates are actuarially determined to provide a level basis of funding using the entry age normal cost method, and an actuarial valuation is performed annually by Buck Consultants, Chicago, Ill. The July 1, 2007, valuation shows that the amortization period for the unfunded accrued liability decreased to 26.1 years from 47.2 years, and the ratio of assets to total accrued liabilities increased to 82.2% from 75.0%.

A detailed discussion of funding is provided in the Actuarial Section of this report beginning on Page 54.

Internal Controls

STRS Ohio management is responsible for and has implemented internal controls designed to provide reasonable assurances for the safeguarding of assets and the reliability of financial records. We believe that the internal controls currently in place adequately meet the purpose for which they were intended.

Certificate of Achievement and Other Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to STRS Ohio for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2006. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report that conforms to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for one year. STRS Ohio has received a Certificate of Achievement for the last 17 years. We believe our current report continues to meet the Certificate of Achievement program requirements and will be submitted to the GFOA.

Acknowledgments

The preparation of this report is possible only through the combined efforts of the STRS Ohio staff. It is intended to provide complete and reliable information as a basis for making management decisions, complying with legal provisions and determining responsible stewardship of the assets contributed by members and their employers.

Respectfully submitted,

Damon F. Asbury
Executive Director

Robert A. Slater, CPA
Deputy Executive Director
Chief Financial Officer

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditors' Report

The Retirement Board
State Teachers Retirement System of Ohio
and
The Honorable Mary Taylor
Auditor of State

We have audited the accompanying statements of plan net assets of the State Teachers Retirement System of Ohio (STRS Ohio) as of June 30, 2007 and 2006, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of STRS Ohio'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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of STRS Ohio's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 plan net assets of STRS Ohio as of June 30, 2007 and 2006, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 7, 2007, on our consideration of STRS Ohio's internal control over financial reporting and on our test of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 9 through 15 and the schedules of funding progress and employer contributions and related notes on pages 31 and 32 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 whole. The supplementary information included on pages 33 and 34 is presented for the purpose of additional analysis and is not a required part of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introduction section on pages 1 through 7, the Investments section on pages 35 through 53, the Actuarial section on pages 54 through 62, and the Statistical section on pages 63 through 70 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

Toledo, Ohio
December 7, 2007

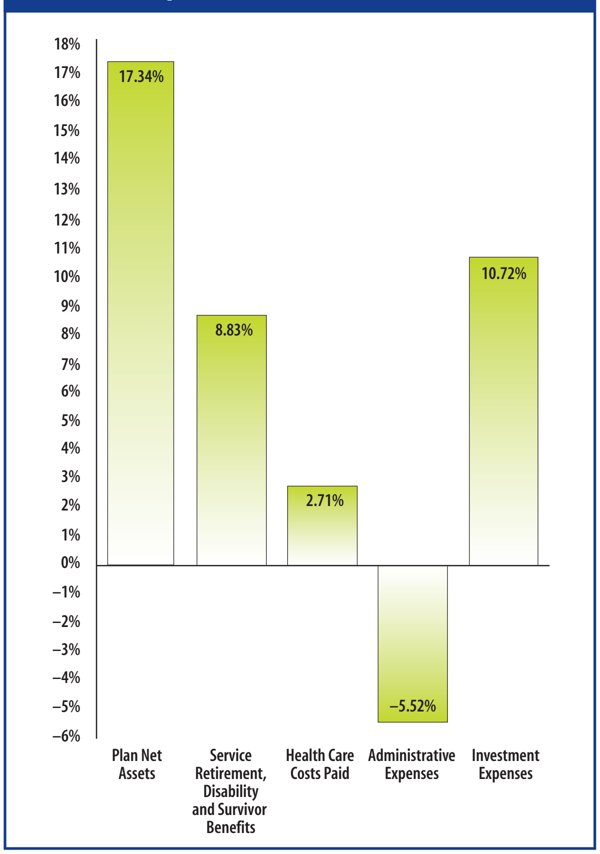
Management is pleased to provide this overview and analysis of the financial activities of the State Teachers Retirement System of Ohio (STRS Ohio) for the years ended June 30, 2007 and 2006. This information is intended to supplement the financial statements, which begin on Page 17 of this report. We encourage readers to consider additional information and data in STRS Ohio's 2007 *Comprehensive Annual Financial Report*.

Financial Highlights

The chart below illustrates the percentage changes in plan assets and expenses for fiscal 2007. Highlights of the fiscal year include:

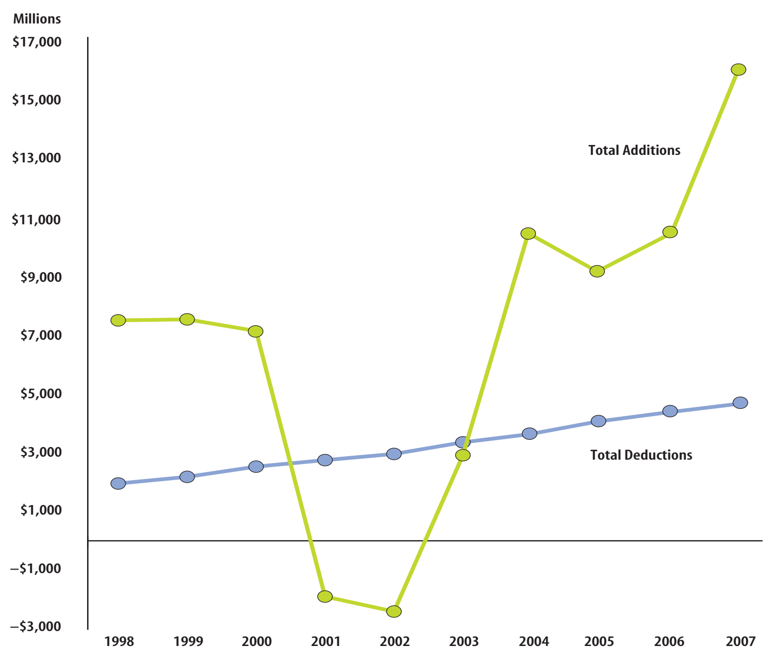
- The investment rate of return was 20.73% in fiscal 2007. The investment rate of return for fiscal 2006 was 13.73% following a 12.25% return in 2005. Five- and 10-year total fund annualized returns are 13.17% and 8.58%, respectively.
- Plan net assets increased 17.3% from the prior fiscal year, ending at $77.3 billion as of June 30, 2007. Plan assets increased 10.5% from fiscal 2005 to fiscal 2006, ending at $65.9 billion as of June 30, 2006.

Percentage Changes in Plan Assets and Expenses for Fiscal 2007

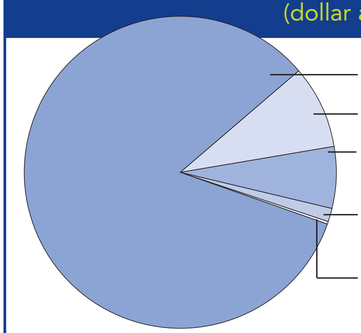


- The post-employment health care balance was $4.1 billion as of June 30, 2007, an increase of 15.3% from the prior fiscal year. Net investment income for the fund was $713 million in 2007. The post-employment health care balance increased 7.4% from fiscal 2005 to fiscal 2006, ending at $3.5 billion as of June 30, 2006.
- Defined contribution accounts finished the year with $297 million in net assets, an increase of 32.5% from 2006. Investment management and administrative fees paid by plan participants reduced the accrued Defined Contribution and Combined Plan costs by $3.6 million during fiscal 2006. The defined contribution accounts ended at June 30, 2006, with $224 million in assets, an increase of 41.6% from fiscal 2005.
- Total benefit payments were $4.5 billion during fiscal 2007, an increase of 8.1% from fiscal 2006. STRS Ohio paid members slightly more than $4.0 billion in service retirement, disability and survivor benefits plus $503 million for health care coverage during fiscal 2007. Total benefit payments were $4.2 billion during fiscal 2006, an increase of 9.1% from fiscal 2005.
- Total additions to plan net assets were $16.1 billion during fiscal 2007, an increase of $5.5 billion from 2006 additions to plan net assets. Net investment income during fiscal 2007 totaled $13.4 billion, most of it coming from market appreciation in investment values. Total additions to plan net assets were $10.6 billion during fiscal 2006, an increase of $1.6 billion over fiscal 2005.
- Member and employer contributions totaled more than $2.4 billion during fiscal 2007. Total covered payroll, which is the combined salaries for all plan participants, increased 2.3%. During fiscal 2006, member and employer contributions totaled almost $2.4 billion.
- Administrative expenses decreased 5.5% to $63.4 million for fiscal 2007. Investment expenses, which include salaries and benefits for investment personnel, increased 10.7% to $30.7 million in fiscal 2007. In fiscal 2006, administrative expenses increased 5.3% and investment expenses increased 11.3%.

Historical Plan Asset Additions and Deductions
(years ended June 30)

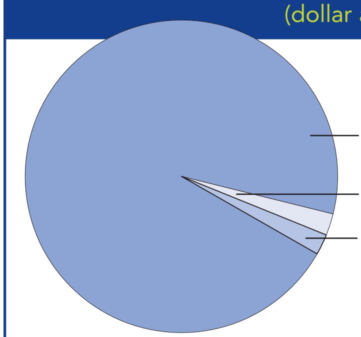


Plan Asset Additions by Source — Year Ended June 30, 2007
(dollar amounts in thousands)



Net Investment Income:	**$13,444,328**	83.34%
Employer Contributions:	**$1,390,491**	8.62%
Member Contributions:	**$1,039,585**	6.44%
Health Care Premiums and Medicare Part D Reimbursement:	**$237,849**	1.47%
Other:	**$20,468**	0.13%
Total Revenue:	**$16,132,721**	

Plan Asset Deductions by Type — Year Ended June 30, 2007
(dollar amounts in thousands)



Benefits (includes optional health care):	**$4,511,112**	95.79%
Refunds:	**$134,994**	2.87%
Administration:	**$63,387**	1.34%
Total Expenses:	**$4,709,493**	

Annual Financial Review

The combined portfolio delivered a 20.73% rate of return in fiscal 2007. Every asset class yielded a positive return, led by the international equities return of 30.79%. Domestic stocks achieved a 21.24% return, real estate generated a 26.72% return and fixed income had a 7.14% return. Diversification of investments among the different asset classes enables STRS Ohio to reduce risk by offsetting short-term fluctuations in individual asset classes. STRS Ohio is a long-term investor. Looking at annualized investment returns for the period of July 1, 1998, to June 30, 2007, STRS Ohio had a total fund return of 8.58%, exceeding the actuarial assumption of 8% by 58 basis points.

The unfunded pension liability for STRS Ohio, as of July 1, 2007, is $14.5 billion, down $4.9 billion from $19.4 billion as of July 1, 2006. The expected amortization period to pay off the unfunded liability is 26.1 years at current contribution rates. The funded ratio at July 1, 2007, is 82.2%, an increase from 75.0% at July 1, 2006. Actuarial gains resulted from investment returns being greater than expected and individual salary increases being less than expected. Members' retirement patterns, retirees living longer and payroll growth being less than expected generated actuarial losses. STRS Ohio recorded a net actuarial gain of $5.2 billion.

Historical additions to and deductions from plan assets indicate a pattern of steadily increasing deductions compared to fluctuating additions as shown in the chart at the top of this page. Although varying from year-to-year, growth in assets exceeded deductions over the longer term. Plan asset additions by source and deductions by type for fiscal year ended June 30, 2007, are shown in the pie charts to the left.

Pension benefit payments and health care costs exceed member and employer contributions. Investment income compensates for the difference between benefit payments and contributions.

Investment market returns increased the net assets for post-employment health care to $4.1 billion at June 30, 2007, from $3.5 billion at June 30, 2006. Small modifications were made to the health care program for calendar year 2007. Premiums charged to health care recipients in fiscal 2007 increased to $201.5 million from $189.4 million. Medicare Part D reimbursements of $36.3 million were received for the first full year. Eligibility to collect Medicare Part D reimbursements became effective Jan. 1, 2006, and STRS Ohio received $17.9 million in the first half-year of reimbursements. Health care payments grew 2.7% from fiscal 2006. In fiscal 2006, health care premiums rose slightly to $189.4 million from $188.8 million. Health care payments grew 10.5% from fiscal 2005.

Governmental Accounting Standards Board (GASB) issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement is effective for fiscal 2007 and requires STRS Ohio to calculate and disclose the estimated health care liability for all current and future retirees in a manner similar to calculating the liability for pension benefits. Even though post-employment health care is not a guaranteed benefit, STRS Ohio is required by accounting standards to provide information based on parameters established by GASB. This information appears in the footnotes and the required supplementary information beginning on Page 31. The funded ratio of the post-employment health care fund is 28.1% as of Jan. 1, 2007.

Administrative expenses decreased by $3.7 million in fiscal 2007 from fiscal 2006. Associate benefits, computer support services and depreciation expenses decreased from fiscal 2006 levels. A one-time litigation settlement of $3.8 million paid in fiscal 2006 resulted in administrative expenses increasing from 2005 levels.

Overview of the Financial Statements of STRS Ohio

The two basic financial statements are the *Statements of Plan Net Assets* and the *Statements of Changes in Plan Net Assets*. Amounts are shown for the most recent and previous fiscal years for comparison and analysis of changes in individual line items. The statements are prepared in conformity with generally accepted accounting principles.

The *Statements of Plan Net Assets* are a measure of STRS Ohio's assets and liabilities at the close of the fiscal year. Total assets less current liabilities equal the net assets held in trust for future benefits.

The *Statements of Changes in Plan Net Assets* show additions and deductions for the fiscal year. The net increase (or decrease) is the change in net assets available for benefits since the end of the previous fiscal year.

For financial reporting purposes, STRS Ohio assets are divided into three primary funds: the Defined Benefit (DB) Plan, the Defined Contribution (DC) Plan and post-employment health care.

- The Defined Benefit Plan is the largest fund and includes member contributions, employer contributions and investment earnings for DB participants. The DB Plan pays service retirement benefits using a fixed formula based on age, years of service and salary. In addition to service retirement, DB participants are eligible for disability and survivor benefits.
- The Defined Contribution Plan began on July 1, 2001. It is an optional plan available to new members. DC participants allocate both member and employer contributions in investment choices provided by STRS Ohio. Benefits are based on the member's account value.

  As an alternative to the Defined Benefit or Defined Contribution Plan, new members may elect the Combined Plan. Combined Plan participants allocate their member contributions among the same investment choices as DC members, and employer contributions are used to provide a reduced formula service retirement benefit along with disability and survivor protection. Assets to provide benefits to Combined Plan members are divided between the Defined Benefit Plan and the Defined Contribution Plan.

Investment Performance

(total returns, annualized on a fiscal-year basis, July 1–June 30)

1-Year Returns (2007)*

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Equities	21.24%	Russell 3000**	20.07%
International	30.79%	International Equity Composite***	30.07%
Fixed Income	7.14%	Lehman Universal	6.62%
Real Estate	26.72%	Real Estate Composite****	16.27%
Total Fund	20.73%	Total Fund Composite Benchmark	19.49%

5-Year Returns (2003–2007)

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Equities	11.65%	Russell 3000**	11.38%
International	20.49%	International Equity Composite***	19.06%
Fixed Income	5.73%	Lehman Universal	5.17%
Real Estate	19.65%	Real Estate Composite****	14.70%
Total Fund	13.17%	Total Fund Composite Benchmark	12.16%

STRS Ohio Long-Term Policy Objective (20 Years)

Total Fund: 8.40%

Investment performance is calculated using a time-weighted rate of return.

*The one-year returns for fiscal year ended June 30, 2007, have been examined by Vincent Performance Services LLC. A copy of the examination report is available upon request.

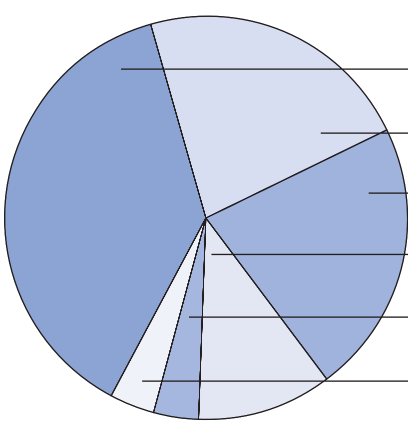
**The domestic equities benchmark is calculated using the Russell 3000 Index for all periods beginning on or after Aug. 1, 2003; the Domestic Equity Composite for April 1, 2003, through July 31, 2003; and the S&P 1500 Index for all periods before April 1, 2003.

***The international equities benchmark is calculated using 80% of the MSCI World ex USA Index (50% hedged) and 20% of the MSCI EMF Index for all periods beginning on or after Jan. 1, 2006; 75% MSCI World ex USA Index (50% hedged) and 25% MSCI EMF Index from July 1, 2003, through Dec. 31, 2005; and 75% EAFE (50% hedged) and 25% EMF from Oct. 1, 2000, through June 30, 2003.

****The real estate benchmark is calculated using 80% NCREIF Property Index (NPI), 10% NCREIF Timberland Index and 10% Wilshire REIT Index beginning July 1, 2002.

Investment Distribution by Fair Value — as of June 30, 2007

(dollar amounts in thousands)



Domestic Equities:	$30,107,173	37.82%
International:	$17,777,792	22.33%
Fixed Income:	$17,512,194	22.00%
Real Estate:	$8,520,789	10.71%
Short-Term Investments:	$2,951,211	3.71%
Alternative Investments:	$2,730,080	3.43%
Total Investments:	**$79,599,239**	

- Net assets for post-employment health care consist of funds set aside to subsidize health care coverage for members enrolled in the Defined Benefit and Combined Plans.

The *Notes to Financial Statements* are a fundamental part of the financial statements and provide important information to augment the figures in the financial statements. The notes describe accounting policies along with plan membership and benefits. Supplementary disclosures of selected financial data are included in the notes.

In addition to the basic financial statements and footnotes, a *Schedule of Pension Plan Funding Progress*, a *Schedule of Employer Contributions Related to Pension Plan* and *Notes to Pension Plan Trend Data* are included as "required supplementary information." These schedules emphasize the long-term nature of pension plans and show the progress of STRS Ohio in accumulating sufficient assets to pay benefits when due.

The *Schedule of Pension Plan Funding Progress* shows actuarial trend information for the past six years. It includes the ratio of valuation assets to actuarial accrued liability (funded ratio). The funded ratio increases over time as the funding status of a pension plan improves and vice versa. The *Schedule of Pension Plan Funding Progress* also shows the unfunded actuarial accrued liability as a percentage of member payroll. This percentage decreases as a pension plan grows financially stronger.

The *Schedule of Employer Contributions Related to Pension Plan* shows the amount of required employer contributions determined in accordance with parameters established by Governmental Accounting Standards Board (GASB) Statement No. 25 and the percentage actually contributed. Employers have met their obligation by contributing at the legally required contribution rates for each of the six years shown in the schedule.

The *Notes to Pension Plan Trend Data* provide the actuarial method and assumptions used to determine the data in the *Schedule of Pension Plan Funding Progress* and the *Schedule of Employer Contributions Related to Pension Plan*.

A separate *Schedule of Health Care Funding Progress*, *Schedule of Employer Contributions Related to Health Care* and *Notes to Health Care Trend Data* are included as required by GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The health care information is included for the first time and shows the status of STRS Ohio in accumulating sufficient assets to pay health care benefits.

Schedules of Administrative Expenses, *Schedules of Investment Expenses* and *Schedules of Fees to External Asset Managers by Asset Class* are included to detail the administrative and investment costs to operate STRS Ohio.

Investment Allocation and Fiscal Year Performance

For fiscal 2007, total investments achieved a 20.73% rate of return. The relative benchmark for STRS Ohio returned 19.49%. STRS Ohio generated 124 basis points of additional value compared to the passively managed benchmark. The target allocations during the fiscal year were 0% in short-term investments, 20.5% fixed income, 42% domestic stock, 25% international, 9.5% real estate and 3% alternative investments. Amounts actually invested in these categories at the end of June 2007 represent an investment over/underweight if different from the target allocation. Over/underweighting occurs as fair values change and as investment managers determine allocation entry and exit timing strategies. See Page 12 for detailed investment performance.

External asset management fees are shown separately in the *Statements of Changes in Plan Net Assets* as a reduction of investment income. Coupled with direct internal investment costs, the cost to manage investments was $151 million in fiscal 2007 and $151 million in fiscal 2006.

Financial Statement Analysis

The tables on Page 14 show condensed information from the *Statements of Plan Net Assets* and the *Statements of Changes in Plan Net Assets*.

The plan net assets increased 17.3% from fiscal 2006. The plan net assets increased 10.5% from fiscal 2005 to fiscal 2006. The increase in plan net assets since fiscal 2005 is a result of improvements in the fair value of investments.

Plan Net Assets
(dollar amounts in thousands)

	2007	2006	2005	Amount Increase (Decrease) From 2006 to 2007	Percentage Change From 2006 to 2007
Cash and investments	$ 79,607,931	$ 67,394,431	$ 61,625,103	$ 12,213,500	18.12%
Receivables	839,474	2,308,407	867,138	(1,468,933)	(63.63%)
Securities lending collateral	3,970,484	3,214,660	2,810,118	755,824	23.51%
Capital assets	128,804	127,943	128,124	861	0.67%
Total net assets	84,546,693	73,045,441	65,430,483	11,501,252	15.75%
Liabilities	7,247,801	7,169,777	5,806,848	78,024	1.09%
Plan net assets	**$ 77,298,892**	**$ 65,875,664**	**$ 59,623,635**	**$ 11,423,228**	**17.34%**

Additions to Plan Net Assets
(dollar amounts in thousands)

	2007	2006	2005	Amount Increase (Decrease) From 2006 to 2007	Percentage Change From 2006 to 2007
Contributions:					
Member contributions	$ 1,039,585	$ 1,020,970	$ 997,867	$ 18,615	1.82%
Employer contributions	1,390,491	1,368,943	1,341,653	21,548	1.57%
Health care premiums	201,537	189,432	188,835	12,105	6.39%
Other	56,780	36,921	20,488	19,859	53.79%
Total contributions	2,688,393	2,616,266	2,548,843	72,127	2.76%
Total investment income	13,444,328	8,004,571	6,476,822	5,439,757	67.96%
Total additions to plan net assets	**$ 16,132,721**	**$ 10,620,837**	**$ 9,025,665**	**$ 5,511,884**	**51.90%**

Deductions From Plan Net Assets
(dollar amounts in thousands)

	2007	2006	2005	Amount Increase (Decrease) From 2006 to 2007	Percentage Change From 2006 to 2007
Deductions:					
Benefit payments	$ 4,007,705	$ 3,684,385	$ 3,383,605	$ 323,320	8.78%
Health care coverage	503,407	490,122	443,615	13,285	2.71%
Refunds to members	134,994	127,208	114,551	7,786	6.12%
Administrative expenses	63,387	67,093	63,705	(3,706)	(5.52%)
Total deductions	**$ 4,709,493**	**$ 4,368,808**	**$ 4,005,476**	**$ 340,685**	**7.80%**

Change in Net Assets From Plan Additions and Deductions
(dollar amounts in thousands)

	2007	2006	2005	Amount Increase (Decrease) From 2006 to 2007	Percentage Change From 2006 to 2007
Change in plan net assets	**$ 11,423,228**	**$ 6,252,029**	**$ 5,020,189**	**$ 5,171,199**	**82.71%**

The value of capital assets increased from 2006 because costs for information technology systems and other asset purchases exceeded depreciation costs during the year. Depreciation expense on capital items exceeded new capital purchases in fiscal 2005 and 2006.

Total investment income increased $5.4 billion from fiscal 2006. Total investment income increased $1.5 billion from fiscal 2005.

Member contributions increased 1.8% as participation in programs to purchase service credit slowed. Member contributions increased 2.3% in fiscal 2006. The member and employer rate remained at 10% and14%, respectively, of earned compensation for fiscal 2006 and 2007.

Health care premiums helped to offset some of the increases in health care costs. Of the $503.4 million paid to health care providers in fiscal 2007, health care enrollees paid $201.5 million of the total costs through premium deductions. Health care enrollees were also responsible for additional health care costs paid through deductibles, coinsurance, copayments and other out-of-pocket expenditures. Employer contributions of $96.3 million were allocated to help pay health care costs. The remaining health care costs of $205.6 million were paid by investment income allocated to post-employment health care. For fiscal 2006, benefit recipients and employers contributed $189.4 million and $94.6 million, respectively.

STRS Ohio was created to provide retirement, disability and survivor benefits to members and eligible beneficiaries. Expenditures include monthly payments to eligible recipients, refunds of contributions to members who terminate employment, and the administrative costs of operating STRS Ohio.

Total deductions from plan net assets were $4.7 billion in fiscal 2007, a 7.8% increase over fiscal 2006. Total deductions from plan net assets were $4.4 billion for fiscal 2006, a 9.1% increase over 2005. The largest component was monthly benefit payments for service retirement, disability and survivor benefits. Total pension benefit payments increased 8.8% in fiscal 2007 and 8.9% in fiscal 2006 as a result of new retirees and cost-of-living adjustments.

Health care costs increased a modest 2.7% in fiscal 2007 primarily as a result of litigation settlements and Medicare Part D reimbursements. Health care costs increased 10.5% in fiscal 2006.

Funding Analysis

In fiscal 2007, the funding period decreased by 21.1 years to 26.1 years from 47.2 years in fiscal 2006. The funding period was 55.5 years at the end of fiscal 2005. In fiscal 2007, actuarial gains resulted from investment returns being greater than expected and individual salary increases being less than expected. Members' retirement patterns, retirees living longer and payroll growth being less than expected generated actuarial losses.

The unfunded accrued liability for STRS Ohio pension benefits is $14.5 billion at July 1, 2007, down from $19.4 billion at July 1, 2006. Market changes in investment assets are smoothed over a four-year period for valuation proposes. Valuation assets ended fiscal 2007 at $66.7 billion, up from $58.0 billion the prior year. The present value of promised benefits to current and future benefit recipients (the actuarial accrued liability) at fiscal 2007 and 2006 was $81.1 billion and $77.4 billion, respectively. The funded ratio, which is the valuation assets divided by the actuarial accrued liability, was 82.2% at July 1, 2007, up from 75.0% at July 1, 2006.

Requests for Information

Questions about any information provided in this report should be addressed to:

State Teachers Retirement System of Ohio
ATTN: Chief Financial Officer
275 E. Broad St.
Columbus, OH 43215-3771

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Statements of Plan Net Assets

(in thousands)

	June 30, 2007				June 30, 2006			
	Defined Benefit	Defined Contribution	Post-employment Health Care	Totals	Defined Benefit	Defined Contribution	Post-employment Health Care	Totals
Assets:								
Cash and short-term investments	$ 2,763,735	$ 40,467	$ 155,701	$ 2,959,903	$ 1,173,394	$ 25,182	$ 67,673	$ 1,266,249
Receivables:								
Accrued interest and dividends	193,962		10,927	204,889	186,712		10,768	197,480
Employer contributions	205,052	49	11,552	216,653	205,708	11	11,864	217,583
Retirement incentive	1,018			1,018	1,481			1,481
Member contributions	139,714	91		139,805	132,587	25		132,612
Due from defined contribution plans	49			49	3,642			3,642
Securities sold	260,462		14,674	275,136	1,657,982		95,620	1,753,602
Miscellaneous receivables	1,924			1,924	2,007			2,007
Total receivables	802,181	140	37,153	839,474	2,190,119	36	118,252	2,308,407
Investments, at fair value:								
Fixed income	16,529,598	51,367	931,229	17,512,194	14,414,438	51,747	831,320	15,297,505
Domestic common and preferred stock	28,368,647	140,319	1,598,207	30,107,173	24,940,837	104,198	1,438,407	26,483,442
International	16,795,439	36,147	946,206	17,777,792	14,471,305	23,476	834,600	15,329,381
Real estate	8,039,487	28,381	452,921	8,520,789	6,676,650	23,008	385,061	7,084,719
Alternative investments	2,584,478		145,602	2,730,080	1,827,725		105,410	1,933,135
Total investments	72,317,649	256,214	4,074,165	76,648,028	62,330,955	202,429	3,594,798	66,128,182
Invested securities lending collateral	3,758,728		211,756	3,970,484	3,039,371		175,289	3,214,660
Capital assets, at cost, net of accumulated depreciation of $93,747 and $86,521, respectively	128,804			128,804	127,943			127,943
Total assets	79,771,097	296,821	4,478,775	84,546,693	68,861,782	227,647	3,956,012	73,045,441
Liabilities:								
Securities purchased and other investment liabilities	790,783		44,551	835,334	1,606,737		92,665	1,699,402
Debt on real estate investments	2,268,654		127,809	2,396,463	2,070,608		119,418	2,190,026
Accrued expenses and other liabilities	17,499		986	18,485	18,992		1,095	20,087
Due to defined benefit plans		49		49		3,642		3,642
Medical benefits payable			26,986	26,986			41,960	41,960
Obligations under securities lending program	3,758,728		211,756	3,970,484	3,039,371		175,289	3,214,660
Total liabilities	6,835,664	49	412,088	7,247,801	6,735,708	3,642	430,427	7,169,777
Net assets held in trust for defined benefit, defined contribution and post-employment health care coverage: (An unaudited schedule of funding progress is presented on Page 31.)	$ 72,935,433	$ 296,772	$ 4,066,687	$ 77,298,892	$ 62,126,074	$ 224,005	$ 3,525,585	$ 65,875,664

See accompanying Notes to Financial Statements.

Statements of Changes in Plan Net Assets
(in thousands)

	Year Ending June 30, 2007				Year Ending June 30, 2006			
	Defined Benefit	Defined Contribution	Post-employment Health Care	Totals	Defined Benefit	Defined Contribution	Post-employment Health Care	Totals
Additions								
Contributions:								
Member	$ 1,002,876	$ 36,709		$ 1,039,585	$ 987,900	$ 33,070		$ 1,020,970
Employer	1,272,559	21,645	$ 96,287	1,390,491	1,255,053	19,280	$ 94,610	1,368,943
Transfers between retirement plans	15,845	(15,845)						
Retirement incentive	8,435			8,435	5,959			5,959
Medicare Part D reimbursement			36,312	36,312			17,947	17,947
Benefit recipient health care premiums			201,537	201,537			189,432	189,432
Other retirement systems	12,033			12,033	13,015			13,015
Total contributions	2,311,748	42,509	334,136	2,688,393	2,261,927	52,350	301,989	2,616,266
Investment income from investing activities:								
Net appreciation in fair value of investments	10,984,675	35,601	617,541	11,637,817	6,034,535	19,100	347,038	6,400,673
Interest	765,556	1,540	42,985	810,081	659,997	826	37,883	698,706
Dividends	853,271		47,815	901,086	724,397		41,528	765,925
Real estate income	216,339		12,123	228,462	260,456		14,931	275,387
	12,819,841	37,141	720,464	13,577,446	7,679,385	19,926	441,380	8,140,691
Less investment expenses	(28,936)	(118)	(1,628)	(30,682)	(26,113)	(96)	(1,503)	(27,712)
Less external asset management fees	(113,603)		(6,366)	(119,969)	(116,541)		(6,681)	(123,222)
Net income from investing activities	12,677,302	37,023	712,470	13,426,795	7,536,731	19,830	433,196	7,989,757
From securities lending activities:								
Securities lending income	207,547		11,630	219,177	133,327		7,643	140,970
Securities lending expenses	(190,944)		(10,700)	(201,644)	(119,316)		(6,840)	(126,156)
Net income from securities lending activities	16,603		930	17,533	14,011		803	14,814
Net investment income	12,693,905	37,023	713,400	13,444,328	7,550,742	19,830	433,999	8,004,571
Total additions	15,005,653	79,532	1,047,536	16,132,721	9,812,669	72,180	735,988	10,620,837
Deductions								
Benefits:								
Service retirement	3,708,919			3,708,919	3,393,968			3,393,968
Disability benefits	198,581			198,581	193,329			193,329
Survivor benefits	90,092			90,092	86,023			86,023
Health care			503,407	503,407			490,122	490,122
Other retirement systems	10,019			10,019	10,906			10,906
Additional death benefits (net)	94			94	159			159
Total benefit payments	4,007,705		503,407	4,511,112	3,684,385		490,122	4,174,507
Refunds to members who have withdrawn	128,587	6,407		134,994	121,290	5,918		127,208
Administrative expenses	60,002	358	3,027	63,387	63,398	491	3,204	67,093
Total deductions	4,196,294	6,765	506,434	4,709,493	3,869,073	6,409	493,326	4,368,808
Net increase	10,809,359	72,767	541,102	11,423,228	5,943,596	65,771	242,662	6,252,029
Net assets held in trust for defined benefit, defined contribution and post-employment health care coverage:								
Beginning of year	62,126,074	224,005	3,525,585	65,875,664	56,182,478	158,234	3,282,923	59,623,635
End of year	$ 72,935,433	$ 296,772	$ 4,066,687	$ 77,298,892	$ 62,126,074	$ 224,005	$ 3,525,585	$ 65,875,664

See accompanying Notes to Financial Statements.

Notes to Financial Statements

Years ended June 30, 2007 and 2006

1. Summary of Significant Accounting Policies

The financial statements of the State Teachers Retirement System of Ohio (STRS Ohio) presented herein have been prepared on the accrual basis of accounting following the accounting policies set forth below.

Organization — STRS Ohio is a cost-sharing, multiple-employer plan that operates under Chapter 3307 of the Ohio Revised Code (Revised Code) and is administered by a board comprised of 11 members as follows: five elected contributing members; two elected retired teacher members; an investment expert appointed by the governor; an investment expert appointed jointly by the speaker of the House and the Senate president; an investment expert designated by the treasurer of state; and the superintendent of public instruction or her designated investment expert.

The accompanying financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 39, an amendment of GASB Statement No. 14, *The Financial Reporting Entity*. This statement requires that financial statements of the reporting entity include all of the organizations, activities, functions and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the reporting entity's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. STRS Ohio does not have financial accountability over any entities.

Investment Accounting — Purchases and sales of investments are recorded as of their trade date. Dividend income is recognized on the ex-dividend date. Interest and rental income are recognized as the income is earned.

STRS Ohio has no individual investment that exceeds 5% of net assets available for benefits.

Contributions and Benefits — Employer and member contributions are recognized when due based on statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Capital Assets — Capital assets are recorded at historical cost. Depreciation is provided on a straight-line basis over estimated useful lives of five to 10 years for equipment and 40 years for building and building improvements. Capital assets include purchases of $500 or more with a useful life of at least five years.

Method Used to Value Investments — Investments are reported at fair value. Short-term investments, with maturities less than one year, are reported at amortized cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at the then current exchange rates. Fixed-income investments are valued based on their coupon rate relative to the coupon rate for similar securities. The fair value of real estate investments is based on independent appraisals and internal valuations. The fair value of alternative investments is determined by the alternative investment partnership based on the valuation methodology outlined in the partnership agreement.

Federal Income Tax Status — Under Section 401(a) of the Internal Revenue Code, STRS Ohio is exempt from federal income taxes.

Use of Estimates — In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, the board makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Recently Issued Accounting Pronouncement — In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes uniform financial reporting standards for postemployment benefits other than pension plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*.

STRS Ohio implemented Statement No. 43 for the year ended June 30, 2007. Additional disclosures related to the estimated liability of health care benefits for current and future retirees is included in this year's report.

2. Description of the STRS Ohio Plan

Plan Membership — STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio (the state) or any school, college, university, institution or other agency controlled, managed and supported, in whole or part, by the state or any political subdivision thereof.

See charts to the right for member and retiree data and participating employers.

Plan Options — New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan or a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated among investment choices by the member. Employer contributions in the Combined Plan are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis.

DB Plan Benefits — Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (1) five years of service credit and attained age 60; (2) 25 years of service credit and attained age 55; or (3) 30 years of service credit regardless of age.

The maximum annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is determined by multiplying final average salary by 2.2% for the first 30 years of credited service. Each year over 30 years is incrementally increased by .1%, starting at 2.5% for the 31st year of contributing service up to a maximum allowance of 100% of final average salary. Upon reaching 35 years of Ohio service, the first 31 years of Ohio contributing service are multiplied by 2.5%, and each year over 31 years is incrementally increased by .1% starting at 2.6% for the 32nd year. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts.

Member and Retiree Data at July 1, 2007 and 2006

	2007	2006
Current active members	174,110	175,065
Inactive members eligible for refunds only	127,351	123,698
Terminated members entitled to receive a benefit in the future	18,346	18,333
Retirees and beneficiaries currently receiving a benefit	122,934	119,184
Defined Contribution Plan members	6,103	5,595
Reemployed retirees	20,631	19,749
Total Plan Membership	**469,475**	**461,624**

Participating Employers at June 30, 2007 and 2006

	2007	2006
City school districts	194	194
Local school districts	369	369
County educational service centers	60	60
Exempted village school districts	49	49
Joint vocational schools	49	49
Colleges and universities	36	37
County boards of mental retardation and developmental disabilities	73	73
Community schools	255	246
State of Ohio	1	1
Other	8	8
Total	**1,094**	**1,086**

Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from contributed employer funds. This total is then divided by an actuarially determined annuity factor to compute the maximum annual retirement allowance.

Since the plan is tax-qualified, benefits are subject to limits established by Section 415 of the Internal Revenue Code. Benefits are increased annually by 3% of the original base amount.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

DC Plan Benefits — Benefits are established under Chapter 3307.80 to 3307.89 of the Revised Code.

For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. The member receives a quarterly statement of his or her account activity and balance. The remaining 3.5% of the 14.0% employer rate is allocated to the defined benefit unfunded liability.

A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into member accounts are vested after the first anniversary of the first day of paid service.

Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan — In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund a defined benefit payment.

A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity.

Both DC and Combined Plan members transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. During fiscal 2007, the first year transfers were possible, $15,845,000 was transferred from the DC and Combined Plan accounts to the Defined Benefit Plan.

Death, Survivor and Disability Benefits — A Defined Benefit Plan or Combined Plan member with five or more years of credited service who becomes disabled (illness or injury preventing individual's ability to perform regular job duties for at least 12 months) is entitled to a disability benefit. Additionally, eligible survivors of members who die before service retirement may qualify for monthly benefits.

A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Health Care Coverage After Retirement — Ohio law authorizes the State Teachers Retirement Board to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans and their eligible family members.

Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by the plan. All benefit recipients, for the year ended June 30, 2007, pay a portion of the heath care costs in the form of a monthly premium. Benefit recipients contributed $201.5 million or 40% of the total health care costs (excluding deductibles, coinsurance and copayments). For the year ended June 30, 2006, benefit recipients contributed 38% of the total health care costs.

Under Ohio law, funds to pay health care costs may be deducted from employer contributions, currently 14% of compensation. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. For the years ended June 30, 2007 and 2006, employer contributions allocated to health care totaled $96.3 million and $94.6 million, respectively.

Medicare Part D is a federal program to help cover the costs of prescription drugs for Medicare beneficiaries. Effective Jan. 1, 2006, this program allows STRS Ohio to recover part of the cost for providing prescription benefits since all eligible STRS Ohio health care plans include creditable prescription drug coverage. For the years ended June 30, 2007 and 2006, STRS Ohio received $36.3 million and $17.9 million in Medicare Part D reimbursements, respectively.

Pension and post-employment health care assets are commingled for investment purposes. Consequently, amounts reported for individual asset classes are allocated between pension and post-employment health care based upon ending net assets.

The funded status and funding progress of the health care plan require an actuarial valuation. The funded status and funding progress of the health care plan as of Jan. 1, 2007, is as follows:

Schedule of Health Care Funding Progress
(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
Jan. 1, 2007	$3,821,687	$13,599,374	$9,777,687	28.1%	$9,665,780	101.2%

The actuarial assumptions and methods used in the Jan. 1, 2007, health care valuation were selected in compliance with the parameters established under GASB Statement No. 43. The interest rate assumption used for the Jan. 1, 2007, valuation is 5.5%. As noted above, health care plan net assets are commingled with pension plan net assets for investment purposes.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of health care employer contributions, presented as required supplementary information following the notes to the financial statements, present information about the amounts contributed to the plan by employers in comparison to the actuarially required contribution (ARC), an amount that is actuarially determined in accordance with parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan participants), and include the types of benefits provided at the time of the valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Refunds — Withdrawal cancels a member's rights and benefits in STRS Ohio.

Upon termination of employment, a Defined Benefit Plan member may withdraw accumulated contributions made to STRS Ohio. Refunds of member contributions may include interest and 50% matching payments.

A Combined Plan member is eligible for the present value of future benefits from the defined benefit portion of the account if he or she terminates employment after at least five years of service. For the defined contribution portion of the account, the refund consists of member contributions plus any investment gains or losses on those contributions.

Defined Contribution Plan members receive their contributions plus any investment gains or losses until they have completed one year of membership. After one year of membership, members receive the balance in their accounts, including employer contributions and related gains or losses.

Alternative Retirement Plan — Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer.

Notes to Financial Statements

Years ended June 30, 2007 and 2006

Employees have 120 days from their date of hire to select a retirement plan.

For employees who elect an ARP, employers are required to remit employer contributions to STRS Ohio at a rate of 3.5% of payroll. For the year ended June 30, 2007, the ARP participant payroll totaled $365,837,000, and there were 9,047 participants. For the year ended June 30, 2006, the ARP participant payroll totaled $332,334,000, and there were 8,274 participants.

Administrative Expenses — The costs of administering the Defined Benefit and post-employment health care plans are financed by investment income. The administrative costs of the Defined Contribution Plan are financed by participant fees.

3. Contribution Requirements and Reserves

Employer and member contribution rates are established by the Retirement Board and limited by Chapter 3307 of the Revised Code. The employer rate is limited to 14% and the member rate is limited to 10% of covered payroll.

Various funds are established under the Revised Code to account for contributions, reserves, income and administrative expenses.

The Teachers' Savings Fund (TSF) is used to accumulate member contributions in trust.

The Employers' Trust Fund (ETF) is used to accumulate employer contributions in trust. The ETF includes assets allocated to post-employment health care from which payments for health care coverage are made.

The Annuity and Pension Reserve Fund (APRF) is the fund from which all annuities and pension payments to retired members are made. Reserves are transferred to this fund from the TSF and ETF funds at the time of retirement.

The Survivors' Benefit Fund is the fund from which all survivor benefit payments are made for which reserves have been transferred from the TSF and the ETF.

The Defined Contribution Fund accumulates DC member and employer contributions, Combined Plan member contributions, investment earnings and DC plan expenses.

The Guarantee Fund is used to accumulate income derived from gifts, bequests and investments for the year.

The Expense Fund is the fund from which all expenses for the administration and management of STRS Ohio are paid each year.

After interest is allocated to the various funds, the Guarantee Fund and the Expense Fund are closed into the ETF at year-end.

At June 30, 2007 and 2006, plan net assets were included in the various funds as shown in the chart below.

Fund Balances (in thousands)

	June 30, 2007	June 30, 2006
Teachers' Savings Fund	$ 9,563,125	$ 9,284,076
Employers' Trust Fund	20,599,555	12,771,284
Annuity and Pension Reserve Fund	45,923,897	42,715,163
Survivors' Benefit Fund	915,543	881,136
Defined Contribution Fund	296,772	224,005
Total	$ 77,298,892	$ 65,875,664

4. Commitments and Contingencies

STRS Ohio has made commitments to fund various real estate investments totaling approximately $682,096,199 as of June 30, 2007. The commitments as of June 30, 2007, have expected funding dates from July 2007 to February 2011.

STRS Ohio has made commitments to fund various alternative investments totaling approximately $2,156,526,819 as of June 30, 2007. The expected funding dates for the commitments as of June 30, 2007, range from July 2007 to June 2013.

STRS Ohio is a party in various lawsuits. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on the net assets available for benefits.

5. Deposit and Investment Risk Disclosure

Investment Authority — The investment authority of the Retirement Board is governed by Section 3307.15 of the Revised Code that also requires the Retirement Board to publish its investment policies annually and make copies available to interested parties. This section requires that investments be made with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Investments held at fair value by STRS Ohio at June 30, 2007 and 2006, are summarized in the chart below.

Investments Held at Fair Value by STRS Ohio at June 30, 2007 and 2006 (summarized and in thousands)

Category	June 30, 2007	June 30, 2006
Short-term:		
Commercial paper	$ 2,856,211	$ 1,258,851
Short-term investment funds	95,000	1,000
Total short-term	2,951,211	1,259,851
Fixed income:		
Guaranteed mortgages	7,804,648	6,528,715
U.S. government obligations	2,524,918	2,387,279
U.S. government agency bonds	671,995	1,026,560
Corporate bonds	5,230,977	4,174,899
Canadian bonds	38,702	38,610
High yield and emerging market	1,240,954	1,141,442
Total fixed income	17,512,194	15,297,505
Domestic common and preferred stock	30,107,173	26,483,442
International: (See Note 6)	17,777,792	15,329,381
Real estate: (See Note 7)		
East region	2,420,671	1,995,772
Midwest region	1,123,493	1,085,950
South region	775,950	709,109
West region	2,081,172	1,767,834
REITs	632,036	547,827
Other	1,487,467	978,227
Total real estate	8,520,789	7,084,719
Alternative investments: (See Note 8)	2,730,080	1,933,135
Invested securities lending collateral	3,970,484	3,214,660
Total investments and invested securities lending collateral	$ 83,569,723	$ 70,602,693

GASB Statement No. 40 — GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

Credit Risk — The quality ratings of investments in fixed-income securities as described by Standard & Poor's or Moody's, which are nationally recognized statistical rating organizations, at June 30, 2007, are shown in the chart on Page 25. U.S. government fixed-income securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

Custodial Credit Risk — Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk is the risk that, in the event of a failure of the counterparty, STRS Ohio will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of STRS Ohio, and are held by either the counterparty or the counterparty's trust department or agent but not in the name of STRS Ohio.

All investments are held in the name of STRS Ohio or its nominee by the Treasurer of the State of Ohio as custodian. At June 30, 2007 and 2006, the bank cash balances were approximately $17,294,000 and $16,213,000, respectively. The bank balances are insured up to $100,000 by the Federal Deposit Insurance Corporation. The remaining bank deposits are covered by collateral held in the name of STRS Ohio's pledging financial institution, as required by state statute.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Duration is a measure of a debt investment's exposure to fair value

Notes to Financial Statements

Years ended June 30, 2007 and 2006

Quality Ratings of Fixed-Income Investments Held at June 30, 2007 and 2006 (in thousands)

Investment Type	Quality Rating	June 30, 2007 Fair Value	June 30, 2006 Fair Value
U.S. Government Agency	AAA	$ 641,855	$ 989,109
Obligations	AA	30,140	37,451
Total U.S. Government Obligations		671,995	1,026,560
Canadian Bonds	AA	23,579	23,517
	A	15,123	15,093
Total Canadian Bonds		38,702	38,610
Corporate Bonds	AAA	2,178,187	270,270
	AA	1,221,840	1,315,841
	A	1,342,293	1,726,593
	BBB	482,111	549,901
	BB		22,221
	CCC and below		40,022
	NR	6,546	250,051
Total Corporate Bonds		5,230,977	4,174,899
High Yield and Emerging	AAA	7,613	
Market Fixed Income	A	7,229	
	BBB	145,630	122,187
	BB	290,645	314,772
	B	561,406	482,223
	CCC and below	158,013	111,319
	NR	70,418	110,941
Total High Yield and Emerging Market Fixed Income		1,240,954	1,141,442
Total Credit Risk Debt Securities		7,182,628	6,381,511
U.S. Government Fixed-Income Securities		10,329,566	8,915,994
Total Fixed-Income Investments		**$ 17,512,194**	**$ 15,297,505**

changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The longer the maturity, the more the value of the fixed-income investment will fluctuate with interest rate changes. The table below shows the maturities by weighted-average duration at June 30, 2007 and 2006.

Concentration of Credit Risk — STRS Ohio is guided by statute and policy in the selection of security investments. No investment in any one organization represents 5% or more of plan net assets.

Significant investment guidelines that relate to investment concentration, interest rate risk and foreign currency risk by major asset class are as follows:

Overall Investment Portfolio — The Retirement Board has approved a target risk budget range of 0.60% to 1.40% annualized for active investment management for the total fund. A risk budget is the amount the Retirement Board has approved for returns to vary from an unmanaged passive investment profile. The total actively managed fund is expected to add 0.40% of annualized excess return over a moving five-year period.

Fixed Income — The portfolio will seek diversification by market sector, quality and issuer. The risk budget range for fixed income is 0.10% to 1.30% using the Lehman

Duration of Fixed-Income Investments Held at June 30, 2007 and 2006 (in thousands)

	June 30, 2007		June 30, 2006	
Investment Type	Fair Value	Weighted-Average Duration	Fair Value	Weighted-Average Duration
U.S. Government Obligations	$ 2,524,918	8.203	$ 2,387,279	8.182
U.S. Government Agency Obligations	671,995	3.306	1,026,560	3.790
Corporate Bonds	5,230,977	2.719	4,174,899	3.110
Canadian Bonds	38,702	1.315	38,610	2.173
Guaranteed Mortgages	7,804,648	4.349	6,528,715	4.739
High Yield and Emerging Market Fixed Income	1,240,954	6.121	1,141,442	5.948
Total Fixed Income	**$ 17,512,194**		**$ 15,297,505**	

Universal Index as the benchmark. Derivatives may be used to adjust the exposure to interest rates, individual securities or to various market sectors in the portfolio. Underlying exposure of derivatives for internally managed fixed-income investments will not exceed 5% of total fund assets.

Domestic Equities — The risk budget range for domestic equities is 0.20% to 1.50% using the Russell 3000 as the benchmark. Derivatives may be used in management of the equity portfolio. The use of leverage is prohibited. Underlying exposure of equity derivatives cannot exceed 10% of total fund assets.

International — International assets will be a diversified portfolio including both developed and emerging countries. The risk budget range for international equity is between 1.00% to 2.50% using a blended benchmark of 80% MSCI World ex USA Index (50% hedged) and 20% MSCI Emerging Market Free Index. Derivatives may be used in management of the portfolio and underlying exposure of derivatives for international investments will not exceed 10% of total fund assets.

Real Estate — The real estate portfolio shall be diversified between property type, geographic location and investment structure. The risk budget range for real estate investments is 2.00% to 7.00% using a benchmark of 80% NCREIF Property Index, 10% NCREIF Timberland Index and 10% Wilshire Real Estate Investment Trust Index. Investments in non-core real estate, which includes domestic and international opportunity funds and real estate development projects, shall not exceed 20% of total real estate assets. Derivatives may be used and cannot exceed 1% of total fund assets. STRS Ohio may borrow funds on a secured or unsecured basis and leverage is limited to 50% of internally managed real estate assets excluding publicly traded real estate investment trusts (REITs).

Foreign Currency Held at June 30, 2007 and 2006 (in thousands)

Foreign Currency Denomination	June 30, 2007 International Equity	June 30, 2007 High Yield & Emerging Market Fixed Income	June 30, 2006 International Equity	June 30, 2006 High Yield & Emerging Market Fixed Income
Argentina Peso	$ 941	$ 713	$ 1,315	$ 421
Australian Dollar	327,970		137,703	
Brazilian Real	279,295	10,283	279,151	1,174
British Pound Sterling	1,017,095		575,443	
Canadian Dollar	322,980		346,333	
Cayman Island Dollar				2,286
Chilean Peso	19,346		26,797	
China Renminbi Yuan	59,447		53,773	
Colombian Peso	3,857		2,978	4,561
Czech Koruna	30,017		18,020	
Danish Krone	97,680		16,496	
Egyptian Pound	37,054	739	34,976	1,764
Euro Currency	1,481,479	345	1,270,655	7,485
Hong Kong Dollar	375,929		310,065	
Hungarian Forint	33,881		36,616	
Indian Rupee	118,039		75,890	
Indonesian Rupiah	80,407	377	88,600	453
Israeli Shekel	62,117		94,201	
Japanese Yen	615,549	25	820,984	1
Jordan Dollar	1		1	
Malaysian Ringgit	141,523	7,525	104,922	
Mexican Nuevo Peso	110,174	5,919	115,656	1,127
New Zealand Dollar	72,932		(6,486)	
Norwegian Krone	139,097		71,486	
Philippines Peso	43,781		27,341	
Polish Zloty	32,717		18,048	
Russian New Ruble	46,303	529	14,793	655
Singapore Dollar	163,295		68,687	
South African Rand	296,506		347,089	
South Korean Won	577,020		588,468	
Sri Lanka Rupee	8,674		14,994	
Swedish Krona	85,094		49,112	
Swiss Franc	73,713		173,758	
Taiwan Dollar	376,390		383,128	
Thai Baht	118,118		97,305	
Turkish Lira	107,901	8,556	92,446	2,957
Uruguayo Peso		1,712		
Zimbabwian Dollar	1,283		3,926	
Held In Foreign Currency	7,357,605	36,723	6,354,670	22,884
Held In U.S. Dollars	10,420,187	1,204,231	8,974,711	1,118,558
Total	$ 17,777,792	$ 1,240,954	$ 15,329,381	$ 1,141,442

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. Through internal or external international equity management, the investment portfolio is exposed to foreign currency risk. STRS Ohio has exposure to foreign currency as shown in the chart above.

Securities Lending — STRS Ohio participates in a domestic and international securities lending program whereby securities are loaned to investment brokers/dealers (borrower). Securities loaned are collateralized by the borrower at 102% of the domestic equity and U.S. dollar-denominated international fixed-income loaned securities' fair value and 105% of the international loaned securities' fair value.

STRS Ohio lends domestic equities, international equities, U.S. Treasuries, agencies and corporate bonds. The collateral received is cash, U.S. Treasuries or related agency securities. STRS Ohio cannot sell or pledge collateral received. If a borrower defaults, then the collateral can be liquidated.

A custodial agent bank administers the program and STRS Ohio receives a fee from the borrower for the use of loaned securities. Cash collateral from securities lending is invested in repurchase agreements, commercial paper and U.S. corporate obligations.

The credit quality of the invested cash collateral is the same as the credit quality on STRS Ohio direct holdings. There are slight mismatches between the duration of the cash invested and the length of time the securities are on loan. As of June 30, 2007, the average maturity of the invested cash collateral is 91 days. Because much of the cash collateral is invested in floating rate securities, interest rates are reset every seven days on average as of June 30, 2007. STRS Ohio has minimized its exposure to credit risk due to borrower default by having the custodial agent bank determine daily that the required collateral meets the specified collateral requirements. There are no restrictions on the amount of securities that can be loaned. The fair value of the loaned securities was approximately $3,867,809,000 and $3,151,784,000 as of June 30, 2007 and 2006, respectively. The fair value of the associated invested cash collateral as of June 30, 2007 and 2006, was approximately $3,970,484,000 and $3,214,660,000, respectively.

6. International Investments

Externally Managed — STRS Ohio has investments in international equity securities through the use of external money managers. It is the intent of STRS Ohio and the money managers to be fully invested; however, cash and short-term fixed-income investments may be held temporarily. The portfolios are managed in accordance with various mandates based on Morgan Stanley Capital International's (MSCI) indexes. Investments are held in both developed and emerging international markets.

Internally Managed:

Developed Markets, Emerging Stock and Country Funds — STRS Ohio actively invests in developed and emerging markets through individual stock selection and traded country funds. Each country fund consists of individual equity securities pooled together in an attempt to match or exceed the local country's index.

Europe, Australia and Far East (EAFE) Index Fund — To increase diversification in international developed markets, STRS Ohio invests in an EAFE Index Fund. The EAFE Index Fund purchases foreign equities, futures and other traded investments to replicate the makeup of the EAFE benchmark.

Equity Swaps — Seven EAFE and seven Emerging Market Free (EMF) international equity swap agreements were contracted during fiscal 2007 with maturity dates in fiscal 2008. In exchange for LIBOR (London Interbank Offered Rate) minus a negotiated spread, STRS Ohio will receive or pay the difference of the change in the total return of the various market indices included in the swap agreements. Fixed-income securities with a notional amount of $2.01 billion have been set aside at the Bank of New York as security.

The fair values of international investments held at June 30, 2007 and 2006, are shown in the chart below.

Fair Values of International Investments Held at June 30, 2007 and 2006 (in thousands)

	June 30, 2007	June 30, 2006
Externally managed		
International stocks	$ 10,184,186	$ 8,730,112
International fixed income	104,057	113,611
International currency and liquidity reserves	325,885	194,942
Forward contracts	4,581	17,146
Total externally managed	**10,618,709**	**9,055,811**
Internally managed		
Developed markets	4,008,184	3,175,824
Emerging stock and country funds	1,112,609	769,183
EAFE Index Fund	1,806,549	2,156,932
EAFE equity swaps	225,597	148,860
EMF equity swaps	6,144	22,771
Total internally managed	**7,159,083**	**6,273,570**
Total international	**$ 17,777,792**	**$ 15,329,381**

7. Real Estate Investments

General — STRS Ohio properties are geographically distributed throughout the United States. Real estate investments include retail single-tenant stores and malls; single and multitenant office properties and warehouses; apartments; real estate investment trusts (REITs); and other investments such as timberland.

REITs — REITs are real estate company stocks with a high dividend-income component. REITs divide the ownership of the real estate company and its properties among all the shareholders. REITs are required to distribute 95% of the company's taxable income to their shareholders. Distributions are taxable to shareholders rather than the real estate company. STRS Ohio is exempt from federal and state income taxes.

Other — Other real estate investments include farmland, timberland and opportunity funds, that are externally managed. Farmland investments generate income primarily as a result of harvest proceeds. Income is generated from the sale of timber on timberland investments. Opportunity funds generate income as a result of operations and property sales, which are distributed to the investors.

Debt on Real Estate Investments and Interest Rate Swaps — STRS Ohio uses debt to lower the cash outlay in acquiring real estate assets and to positively impact the performance of the real estate portfolio. Of the debt on real estate investments at June 30, 2007 and 2006, $400 million was recourse debt. This debt is recourse to STRS Ohio with a covenant not to mortgage a specific pool of real estate assets. The remainder of the debt on real estate investments at June 30, 2007 and 2006, is non-recourse debt, which means that in the event of default, the specific real estate holding is used as collateral for the loan and general assets of STRS Ohio are not pledged as collateral.

At June 30, 2007, the recourse loans of $400 million have a maturity date of May 2008. Interest on the recourse loans are based on LIBOR plus a spread. Of the total recourse debt at June 30, 2007, $200 million of the variable interest rate loans was swapped for a fixed interest of 5.6%. At June 30, 2006, one recourse loan of $400 million had a maturity date of May 2008, and another loan for $220 million matures in December 2007.

Of the non-recourse debt at June 30, 2007, loan maturities ranged from July 2008 to December 2034. Non-recourse debt at June 30, 2006, had loan maturities ranging from September 2006 to December 2034.

8. Alternative Investments

Alternative investments are primarily investments in private equities, which include venture and buyout/growth opportunities. STRS Ohio invests as a limited partner in closed-end partnerships along with other pension funds, endowments and high-net-worth individuals. Individual alternative investments tend to be limited to a particular industry to take advantage of the general partner's knowledge and skill.

9. Derivatives

Equity Swap Agreements — As discussed in Note 6, STRS Ohio has entered into international equity swap agreements. No funds are required as collateral by either party; however, STRS Ohio has purchased fixed-income securities equivalent to the initial exposure, which are located in a subcustodial account at the Bank of New York. The notional amount of the fixed-income securities is $2.01 billion. The market risk of the swap is the same as if STRS Ohio owned the underlying stocks that comprise the indexes. The revenues and expenses resulting from these agreements have been recorded in the basic financial statements.

Forward Contracts — Forward contracts in various currencies were used to transact and hedge direct foreign equity investments that STRS Ohio maintains through the use of outside managers. Additionally, forward contracts were used to hedge currency exposure as a result of the EAFE and EMF equity swap agreements. STRS Ohio is obligated to deliver the foreign currency at a certain dollar price sometime in the future. To fulfill this obligation at maturity, STRS Ohio must obtain the currency in the open market. Before the contract matures, STRS Ohio can enter into an offsetting forward contract that nets out the original contract. These events expose STRS Ohio to currency market risk, which can fluctuate. STRS Ohio is also subject to the risk that the counterparty will fail to fulfill the contract.

Futures — STRS Ohio had investments in S&P 500 Index futures during the year. Index futures are designed to offer lower cost and more efficient alternatives to buying individual stocks that comprise the index. The market and credit risk of the futures were the same as if STRS Ohio had owned the underlying stocks that comprise the index.

Additionally, futures were used in the EAFE Index Fund and by external money managers. The values of the future and forward contracts at June 30, 2007 and 2006, are shown in the chart below.

Value of Future and Forward Contracts Held at June 30, 2007 and 2006
(in thousands)

	June 30, 2007	June 30, 2006
Forward contracts		
Externally managed	$ 4,255,500	$ 2,885,700
Internally managed	4,130,500	3,659,500
Total forward contracts	$ 8,386,000	$ 6,545,200
Future contracts		
S&P 500	$ 60,600	$ 977,200
EAFE Index Fund	23,200	28,300
Externally managed	41,200	24,600
Total future contracts	$ 125,000	$ 1,030,100

Options — STRS Ohio writes option contracts on existing stock positions to enhance the return on the stock portfolio. In exchange for a premium, STRS Ohio gives the option buyer the right to buy or sell the underlying stock. Options are also purchased to "cover" existing written open option positions.

Fixed-Income Credit Default Swaps — During fiscal 2006, STRS Ohio had investments in credit default swaps. Credit default swaps held by STRS Ohio are derivative instruments constructed to replicate the effect of investing in debt obligations of corporate bond issuers. Credit default swaps are used to manage corporate bond exposure. Fixed-income collateral is allocated to equal the notional value of the contracts. The risk of the credit default swaps and paired collateral is comparable to the underlying debt obligations of corporate issuers that comprise the credit default swaps. STRS Ohio receives fixed premium payments on a quarterly basis in exchange for assuming the credit risk of the bond from the bond holder. At June 30, 2007, and June 30, 2006, STRS Ohio did not hold credit default swaps in its portfolio.

Fixed-Income Interest Rate Swaps — Interest rate swaps are derivative instruments in which one party exchanges a stream of fixed-interest rate cash flows for floating-interest rate cash flows. A notional amount of principal is required to compute the actual cash amounts and is determined at the inception of the contract. At June 30, 2007, STRS Ohio held six interest rate swaps with a notional amount of $600 million. STRS Ohio will receive fixed rates ranging from 5.50% to 5.88%, and pay a floating LIBOR rate.

10. Pension Plan

Substantially all STRS Ohio employees are required to participate in a contributory retirement plan administered by the Ohio Public Employees Retirement System of Ohio (OPERS). OPERS is a cost-sharing, multiple-employer public employee retirement system.

Eligible employees are entitled to a retirement benefit, payable monthly for life, equal to 2.2% of their final average salary for each year of credited service up to 30 years and 2.5% for each year of service over 30 years. Final average salary is the employee's average salary over the highest three years of earnings. Benefits fully vest on reaching five years of service. Vested employees may retire at any age with 30 years of credited service; at age 55 with a minimum of 25 years of credited service; and at age 60 with a minimum of five years of service. Employees retiring with less than 30 years of service and under age 65 receive reduced retirement benefits. Benefits are established by state law.

Employees covered by OPERS were required by Ohio law to contribute 8.5% of their salary to the plan. Effective Jan. 1, 2007, the member and employer contribution rates increased to 9.5% and 13.85% of covered payroll, respectively. Effective Jan. 1, 2006, the member and employer contribution rates increased to 9.0% and 13.7% of covered payroll, respectively. The required employer contributions for the current year and the two preceding years are shown in the chart on Page 30.

STRS Ohio Required Employer Contributions to OPERS

Year Ended June 30	Annual Required Contributions	Percentage Contributed
2005	$ 5,521,000	100%
2006	$5,795,000	100%
2007	**$6,352,000**	**100%**

Historical trend information showing the progress of OPERS in accumulating sufficient assets to pay benefits when due is presented in the OPERS *Comprehensive Annual Financial Report*. OPERS issues a publicly available financial report for the plans. The report may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642.

OPERS also provides post-employment health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for funding post-employment health care. The Revised Code provides statutory authority for employer contributions. For calendar years 2006 and 2005, the portion of the employer rate set aside for post-employment health care was 4.5% and 4%, respectively.

Required Schedule of Pension Plan Funding Progress
For the Years Ended June 30, 2002–2007 (dollar amounts in thousands)

Valuation Year	Actuarial Accrued Liability (AAL)*	Valuation Assets*	Unfunded Actuarial Accrued Liability (UAAL)*	Ratio of Assets to AAL	Covered Payroll**	UAAL as % of Covered Payroll
2002	$63,215,643	$48,958,824	$14,256,819	77.4%	$8,747,102	163%
2003	$65,936,357	$48,899,215	$17,037,142	74.2%	$9,206,086	185%
2004	$69,867,425	$52,253,798	$17,613,627	74.8%	$9,565,978	184%
2005	$73,817,114	$53,765,570	$20,051,544	72.8%	$9,775,159	205%
2006	$77,371,024	$58,008,050	$19,362,974	75.0%	$9,974,061	194%
2007	**$81,126,642**	**$66,671,511**	**$14,455,131**	**82.2%**	**$10,199,505**	**142%**

*The amounts reported in this schedule do not include assets or liabilities for post-employment health care coverage.

**Covered payroll includes salaries for alternative retirement plan participants and defined contribution plan participants. For 2007 and 2006, alternative retirement plan participant payroll totaled $365,837 and $332,334, respectively. For 2007 and 2006, defined contribution plan payroll totaled $205,023 and $180,805, respectively.

Required Schedule of Employer Contributions Related to Pension Plan
For the Years Ended June 30, 2002–2007 (dollar amounts in thousands)

Year Ended June 30	Annual Required Contributions*	Percentage Contributed
2002	$814,647	100%
2003	$1,163,732	100%
2004	$1,270,388	95%
2005	$1,281,546	96%
2006	$1,417,598	88%
2007	**$1,539,805**	**83%**

*The amounts reported in this schedule do not include contributions for post-employment health care coverage. The Government Accounting Standards Board (GASB) requires disclosure of the Annual Required Contributions (ARC) using a maximum amortization period of 40 years; reduced to 30 years effective July 1, 2007. Amounts shown as the ARC for each year may be different from the contributions required by state statute. The information here was determined as part of the actuarial valuations for the dates indicated. Additional information as of the latest actuarial valuation is shown in the table below.

Notes to Pension Plan Trend Data

Valuation date	July 1, 2007	July 1, 2006
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent open	Level percent open
Remaining amortization period (for GASB disclosure)	26.1 years	40.0 years
Asset valuation method	4-year smoothed market with 91%/109% corridor	4-year smoothed market with 91%/109% corridor
Actuarial assumptions:		
Investment rate of return	8.00%	8.00%
Projected salary increases	10.45% at age 20 to 3.85% at age 65	10.45% at age 20 to 3.85% at age 65
Payroll increase	4.50%	4.50%
Inflation assumption	3.50%	3.50%
Cost-of-living adjustments	3% simple	3% simple

The information presented in the required supplemental schedules was determined as part of the actuarial valuations for the dates indicated. See accompanying independent auditors' report.

Required Schedule of Health Care Funding Progress, 2007

(dollar amounts in thousands)

Actuarial Valuation Date*	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Funded (UAAL)	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
Jan. 1, 2007	$3,821,687	$13,599,374	$9,777,687	28.1%	$9,665,780	101.2%

*Valuations prior to Jan. 1, 2007 are not available.

Required Schedule of Employer Contributions Related to Health Care For the Year Ended June 30, 2007 (dollar amounts in thousands)

Year Ended June 30*	Annual Required Contributions	Percentage Contributed
2007	$668,068	15.3%

*Information prior to the year ended June 30, 2007, is not available.

Notes to Health Care Trend Data

Valuation date	Jan. 1, 2007
Actuarial cost method	Entry age
Amortization method	Level percent of payroll, open
Remaining amortization period	30.0 years
Asset valuation method	Fair market value
Actuarial assumptions:	
Investment rate of return	5.50%
Projected salary increases	10.45% at age 20 to 3.85% at age 65
Payroll increase	4.5%
Inflation assumption	3.50%
Trend rates	8.97%–13.40% initial; 5.00% ultimate

The information presented in the required supplemental schedules was determined as part of the actuarial valuations for the dates indicated. See accompanying independent auditors' report.

Schedules of Administrative Expenses
For the Years Ending June 30, 2007 and 2006

	2007	2006
Personnel		
Salaries and wages	$ 29,798,296	$ 28,981,651
Retirement contributions	4,068,525	3,862,251
Benefits	3,881,433	4,285,191
Total personnel	**37,748,254**	**37,129,093**
Professional and technical services		
Computer support services	3,557,443	4,030,302
Health care services	1,106,048	1,214,238
Actuary	407,419	492,771
Auditing	120,683	122,082
Defined contribution administrative fees	1,018,870	996,478
Legal	230,017	322,921
Temporary employment services	12,583	25,084
Total professional and technical services	**6,453,063**	**7,203,876**
Communications		
Postage and courier services	1,426,889	1,406,948
Printing and supplies	1,793,035	1,801,943
Telephone	477,174	497,633
Total communications	**3,697,098**	**3,706,524**
Other expenses		
Equipment repairs and maintenance	4,376,489	3,973,321
Litigation settlement		3,756,432
Building utilities and maintenance	1,474,849	1,426,700
Transportation and travel	252,812	297,156
Recruitment fees	256,277	63,189
Equipment rental	19,254	27,747
Depreciation	7,225,683	7,602,532
Member and staff education	235,277	258,983
Insurance	807,845	766,701
Memberships and subscriptions	175,439	163,584
Ohio Retirement Study Council	362,404	428,815
Miscellaneous	302,553	288,715
Total other expenses	**15,488,882**	**19,053,875**
Total administrative expenses	**$ 63,387,297**	**$ 67,093,368**

Note: Above amounts do not include investment administrative expenses, which are deducted from investment income and shown in a separate schedule on Page 34.

See accompanying independent auditors' report.

Schedules of Investment Expenses
For the Years Ending June 30, 2007 and 2006

	2007	2006
Personnel		
Salaries and wages	$ 17,202,668	$ 14,491,224
Retirement contributions	2,283,269	1,932,537
Benefits	1,771,518	1,916,567
Total personnel	**21,257,455**	**18,340,328**
Professional and technical services		
Investment research	2,036,542	1,189,228
Financial asset advisors	668,675	921,907
Banking fees	5,040,071	6,317,067
Total professional and technical services	**7,745,288**	**8,428,202**
Other expenses		
Printing and supplies	16,246	36,282
Building utilities and maintenance	323,262	297,574
Travel	284,366	305,090
Investment quotation systems	967,879	147,750
Memberships and subscriptions	67,187	95,904
Miscellaneous	20,534	60,874
Total other expenses	**1,679,474**	**943,474**
Total investment expenses	**$ 30,682,217**	**$ 27,712,004**

See accompanying independent auditors' report.

Schedules of Fees to External Asset Managers by Asset Class
For the Years Ending June 30, 2007 and 2006

	2007	2006
Asset class		
Domestic common and preferred stock	$ 11,542,135	$ 12,679,083
International	39,723,518	37,747,110
Fixed income	5,207,320	5,242,598
Alternative investments	46,829,532	54,845,271
Real estate	16,666,949	12,708,094
Total external manager fees	**$ 119,969,454**	**$ 123,222,156**

See accompanying independent auditors' report.

Investment Review

For Fiscal Year July 1, 2006, through June 30, 2007
Prepared by STRS Ohio's Investments Associates

Fears that the "worst of all worlds" would develop were premature

The 1990s decade-long expansion was often characterized as having been the "best of all worlds" because of solid real economic growth with low inflation. In the early months of fiscal 2007, many economists worried that the "worst of all worlds" — slow economic growth with the threat of higher inflation — was about to appear. The yearlong warnings that a five-year home price bubble was about to burst and drag consumer spending down with it (as consumers felt less financially secure) appeared more evident to some after the first fiscal quarter results were announced.

Fiscal 2007 started off slowly with real gross domestic product (GDP) advancing only 1.1% in the first quarter — well below the 3.2% growth registered in fiscal 2006 and the average annualized growth of 3% over the first 18 quarters of the current economic expansion that preceded fiscal 2007. While consumer spending grew 2.7% (just short of its long-term potential) in that quarter, most other economic sectors were drags on the economy's growth. The housing sector, in particular, took 1.33 percentage points off of economic activity as residential investment fell 20.4% during that quarter. At the same time, inflation fears were growing as energy prices continued to soar and businesses faced the problem of trying to pass along price increases to consumers in a slowing economy.

Yet, a negative wealth effect from falling home prices was not reinforced by rising unemployment and falling incomes. Instead, employment continued to grow by 1.4% over the fiscal year — equivalent to nearly two million new jobs being created in fiscal 2007, marginally less than the results of the prior two fiscal years when the economy grew a solid average annualized rate of 3.1%. Meanwhile, worker wages accelerated from a 2.5% clip in fiscal 2005 to 2.9% in fiscal 2006 to 3.4% in fiscal 2007, coinciding with a drop in the unemployment rate from 5.6% at the beginning of fiscal 2005 to 4.5% at the end of fiscal 2007.

What is evident now is that the U.S. economy was not solely dependent upon soaring home prices to support a wealth effect that would prop up consumer spending. The fundamental building blocks — employment and income growth — were already there. In fact, while the economy grew a soft 1.9% in fiscal 2007, consumer spending continued at a solid clip of 2.9% — nearly two years after the housing sector began its decline.

Inflation swung wildly even as core inflation remained well-behaved

While parts of the U.S. economy weakened and other segments continued to chug along, news from the inflation front in fiscal 2007 remained quite similar to what it was in recent years — overall inflation swung wildly due to energy cost changes while core inflation (excluding energy and food costs) measures fell into the upper bound of the Federal Reserve's acceptable target range. The U.S. and global economies are still reaping the benefits of increasing globalization and technological changes that were first introduced in the mid-1990s. At the same time, central banks around the world improved their monetary policy operations by focusing on containing inflation pressures before they erupted into uncontrollable fits of actual inflation. As a result, businesses and consumers have been able to make better long-term decisions from the guarantee that central banks will run responsible monetary policies. It is that guarantee, along with greater global opportunities, that has allowed the U.S. economy to reach historic lengths for its robust expansions while growth in core prices remain well-behaved.

Recession risks have grown, but the U.S. economy will likely rebound with support from the Federal Reserve

It is increasingly evident that a collapse in home prices will not likely trigger a recession in either fiscal 2007 or fiscal 2008 as some have feared. Macroeconomic models and business and consumer surveys all point to a future economy that may stay somewhat subdued in the near term, but is set to accelerate as we advance through fiscal 2008. While future growth prospects have perked up, underlying inflation pressures have not. In fact, inflation models remain in a mild cyclical downtrend, affirming that inflation pressures are still in check.

If near-term growth modestly rebounds as expected, the U.S. mid-cycle economic slowdown will have lasted six quarters with an average annualized growth rate over that period of 2% — well below the economy's long-term potential growth rate of roughly 3.25%. That length and magnitude of slower economic growth would be comparable to the other mid-cycle slowdowns recorded in the two recent historically long economic expansions. In the 1990s expansion, a five-quarter slowdown from the first quarter of 1995 through the first quarter of 1996 occurred in which average annualized growth was 2.2%. In the 1980s expansion, a four-quarter slowdown from the second quarter of 1986 through the first quarter of 1987 occurred in which average annualized growth was 2.5%.

The Federal Reserve will make some changes in monetary policy during fiscal 2008. It has already cut short-term interest rates 0.50% in the early part of the fiscal year from the July 1 federal funds rate of 5.25%. Significantly slower growth, consistently below 2% for real GDP, may be needed for the Federal Reserve to lower short-term rates even more. Any interest rate reductions would probably be geared toward restoring slipping confidence in the economy and financial markets instead of trying to prevent the economy from slipping into a recession. Because we expect economic activity to rebound toward its long-term potential late in the fiscal year, the Federal Reserve might have to take back part of the rate cuts late in the year or, at a minimum, warn about future rate hikes so that inflation and inflation expectations do not once again pick up.

Interest rates remain stable for much of the fiscal year

The Federal Reserve held the federal funds rate steady at 5.25% during the fiscal year. They maintained this rate to keep inflation expectations at an acceptable level. Stable short-term rates supported relatively stable 10-year Treasury yields as they began the year at 5.14% and finished the year at 5.03%. Since bond prices rise when interest rates fall, total returns (price change plus coupon income) were more than coupon income, which resulted in attractive bond returns in fiscal 2007.

The STRS Ohio fixed-income portfolio returned 7.14% versus the benchmark's return of 6.62%. Over the three prior fiscal years, the STRS Ohio fixed-income portfolio returned an annual average of 4.83% versus the benchmark's return of 4.53%. The STRS Ohio performance over the prior five fiscal years was 5.73% versus the benchmark's 5.17%. A more complete report of STRS Ohio performance appears on Page 49.

Total returns surge for domestic equities

The U.S. equity markets had an extremely strong fiscal 2007, generating a total return of 20.4% as measured by the Russell 1000. The telecommunications sector was the best performer as investors were drawn to the growing free cash flow in the sector. Materials and energy were also among the leaders with oil and other commodity prices rising strongly throughout the year. The emerging economies continue to grow rapidly, particularly China and India, and demand for energy and commodities remains robust.

Better-than-expected earnings growth has been the main driver of the strong performance, with earnings up 12% over the prior fiscal year. Valuations also increased in reaction to a surge in leveraged buyout (LBO) activity toward the end of the fiscal year. Earnings growth decelerated in the last half of the year, however, and growth may slow further in fiscal 2008.

The STRS Ohio domestic equities portfolio returned 21.24% versus the Russell 3000 benchmark's return of 20.07%. Over the three prior fiscal years, the STRS Ohio domestic equities portfolio returned an annual average of 12.98% versus the benchmark's return of 12.44%. The STRS Ohio performance over the prior five fiscal years was 11.65% versus the benchmark's 11.38%. A more complete report of STRS Ohio performance appears on Page 49.

Strong earnings and global growth help international equities overcome higher interest rates

Equity markets rose strongly around the world during the year ended June 30, 2007. The developed markets, represented by the Morgan Stanley Capital International (MSCI) World ex USA Index, rose 26.4%, and the emerging markets, represented by the MSCI Emerging Market Free (EMF) Index rose a stunning 45.5%. The continued strength in the global economy and corporate earnings allowed investors to downplay the importance of rising interest rates. Monetary policies were considerably less accommodating over the prior 12 months, but investors seemed willing to overlook high energy prices and rising short-term interest rates in favor of lower volatility, strong corporate earnings and increased risk tolerances. The result was exceptional returns for the fourth consecutive year.

The returns in the international markets were strong across every region for the year with every market but one — Jordan — having positive returns. Of the developed markets, the leaders were Singapore, which rose 60.7%, New Zealand (+51.9%) and Portugal (+49.7%). Among the emerging markets, Peru rose 111.4%, the Philippines were up 102.4%, China grew 79.8% and Hungary was up 69.9%. Currency played a mixed role in returns for fiscal 2007 as the euro appreciated another 5.6%, giving a modest boost to returns for U.S. dollar-based investors. However, the yen fell 7% against the dollar.

The STRS Ohio international portfolio returned 30.79% versus the benchmark's return of 30.07%. Over the past three fiscal years, the STRS Ohio international portfolio returned an annualized 27.30% versus the benchmark's return of 25.99%. The STRS Ohio performance over the prior five fiscal years was 20.49% versus the benchmark's 19.06%. A more complete report of STRS Ohio performance appears on Page 49.

Real estate continues to post healthy gains

During fiscal 2007, both private market real estate and public market real estate (REITs) returns exceeded their long term expected averages. For the first time in four years, the private market significantly outperformed the public market as REITs gave back some of the extraordinary gains of the prior several years. However, the public market, represented by the Wilshire REIT Index, still turned in an attractive return of 11.6% for the fiscal year.

The primary driver of real estate returns in fiscal 2007 was improving property-level fundamentals. Investor demand for tangible assets that then led to a flow of funds into the sector still played a role but, as expected, to a lesser degree. Next year, overall returns should continue to moderate as well.

The STRS Ohio real estate portfolio returned 26.72% versus the benchmark's return of 16.27%. Over the three prior fiscal years, the STRS Ohio real estate portfolio returned an annual average of 25.19% versus the benchmark's return of 18.27%. The STRS Ohio performance over the prior five fiscal years was 19.65% versus the benchmark's 14.70%. A more complete report of STRS Ohio performance appears on Page 49.

Total fund returns outperformed benchmark returns in fiscal 2007

During fiscal 2007, the STRS Ohio fund returned 20.73% versus the benchmark's (hybrid index of industry benchmarks) return of 19.49%. All the STRS Ohio portfolios registered gains during the fiscal year. Over the three prior fiscal years, the STRS Ohio fund returned an annual average of 15.51% versus the benchmark's return of 14.34%. The STRS Ohio fund performance over the prior five fiscal years was 13.17% versus the benchmark's 12.16%. The strong performance in fiscal 2007 was the fourth consecutive year that the fund's total return exceeded the absolute long-term policy standard for STRS Ohio investments. A more complete report of STRS Ohio fund performance appears on Page 49.

Statement of Investment Objectives and Policy

Effective Nov. 17, 2006

1.0 Purpose

1.1 The State Teachers Retirement Board of Ohio (the "Board") is vested with the operation and management of the State Teachers Retirement System of Ohio ("STRS Ohio") (ORC Section 3307.04). The Board has the full power to invest the assets (the "Fund") of STRS Ohio (ORC Section 3307.15). The Board is required to ". . . adopt in a regular meeting, policies, objectives or criteria for the operation of the investment program . . ." (ORC Section 3307.15).

1.2 To fulfill the statutory requirement of ORC Section 3307.15, the Board has adopted this Statement of Investment Objectives and Policy (the "Statement") to govern the investment of the Fund. This Statement summarizes the objectives and policies for the investment of the Fund.

1.3 The Board has approved these objectives and policies after careful consideration of STRS Ohio benefit provisions, and the implications of alternative objectives and policies.

1.4 The Statement has been prepared with five audiences in mind: incumbent, new and prospective Board members; STRS Ohio investment staff; STRS Ohio active and retired members; Ohio General Assembly and Governor; and agents engaged by the Board to manage and administer the Fund.

1.5 The Board regularly, but in no event less than annually, will assess the continued suitability of this Statement, initiate change as necessary and update this Statement accordingly.

1.6 The Board may authorize its administrative officers and committees to act for it in accord with its policies (ORC Sections 3307.04 and 3307.15). The Board, no less frequently than annually, adopts a resolution delegating to the Executive Director and the Deputy Executive Director — Investments, the authority to acquire, dispose, operate and manage the Fund, subject to the Board's policies and to subsequent approval by the Board. Consequently, the Executive Director, the Deputy Executive Director — Investments and the investment staff are responsible for preparing and maintaining numerous supporting management documents that govern the implementation of Board policies, including, but not limited to, individual investment manager mandates and guidelines, agent agreements and limited partnership documents.

1.7 In carrying out the operation and management of STRS Ohio, the Board, the Executive Director, his/her investment staff and others that are considered fiduciaries as defined in ORC Section 3307.01(K) are subject to various fiduciary responsibilities in ORC Chapter 3307, including those found in ORC Sections 3307.15, 3307.151, 3307.181 and 3307.18. This Statement incorporates, and is subject to, all of the provisions of ORC Chapter 3307.

1.8 The Board acknowledges its responsibilities under ORC Chapter 3307 and to the extent that this Statement is inconsistent with ORC Chapter 3307, Chapter 3307 shall control.

1.9 The Board approved this Statement on Nov. 17, 2006.

2.0 Investment Objective

2.1 Subject to the Ohio Revised Code, the investment objective for the total fund is to earn, over moving 20-year periods, an annualized return that equals or exceeds the actuarial rate of return (ARR) approved by the Board to value STRS Ohio liabilities. The current actuarial rate of return is 8.0%.

2.2 The Board believes, based on the assumptions in this Statement, that the investment policies summarized in this Statement will achieve this long-term actuarial objective, at an acceptable level of risk. The Board evaluates risk in terms of the probability of not achieving the ARR over a 20-year time horizon.

3.0 Asset Mix Policy, Risk Diversification and Return Expectations

3.1 After careful consideration of the investment objectives, liability structure, funded status and liquidity needs of STRS Ohio, and the return, risk and risk-diversifying characteristics of different asset classes, the Board approved the asset mix policy presented in Exhibit 1. The exhibit also summarizes the Board's return expectations for the asset mix policy and active management.

3.2 Seventy percent of the Fund is targeted for investment in equities, inclusive of alternative investments. Equity investments have provided the highest returns over long time periods, but can produce low and even negative returns over shorter periods.

3.3 The risk of low returns over shorter time periods makes 100% equity policies unsuitable for most pension funds, including STRS Ohio. By investing across multiple equity asset classes, and in lower return but less risky fixed income and real estate, the Board is managing and diversifying total fund risk.

3.4 Forecasts of capital market and active management returns undertaken by the Board's asset management consultant indicate that the Board's investment policy summarized in Exhibit 1 has an expected 20-year annualized return of 8.4%. The expected 8.4% annualized return is 0.4% above the Board-approved 8.0% actuarial rate of return.

3.5 From the 2005 Asset/Liability Study, the 7.42% expected asset mix policy return was developed with reference to the observed long-term relationships among major asset classes. The Board believes this return expectation is reasonable, but recognizes that the actual nine-year asset mix policy return can deviate significantly from this expectation — both positively and negatively.

3.6 Fund assets are invested using a combination of passive and active management strategies. Active management of public market securities and real estate assets is expected to earn net 0.40% per annum of additional returns over moving five-year periods. The Board recognizes that unsuccessful active management can reduce total fund returns.

Exhibit 1: Asset Mix Policy and Return Expectations for STRS Ohio Total Fund

Asset Class	Target Allocation	Rebalancing Range	Expected Nine-Year Policy Returns[1, 2]	Expected Five-Year Management Returns[3]	Expected Total Return
Equity					
Domestic	42%	35–50%	8.00%	0.25%	8.25%
International	25%	20–30%	8.00%	1.00%	9.00%
Alternatives	3%	2-5%	10.70%		10.70%
Total Equity	70%				
Fixed Income	20%[4]	15–30%	5.50%	0.35%	5.85%
Real Estate	10%[4]	6–12%	6.70%	0.75%	7.45%
Liquidity Reserve	0%	0–5%	4.20%		4.20%
Total Fund	100%		7.42%	0.40%	7.82%

[1] Based on the 2005 Asset/Liability Study.

[2] The 20-year return forecast is 8.4% per year.

[3] Individual asset classes are gross value added; the total fund is net value added.

[4] Due to illiquidity, the target allocation for real estate will be phased in over the next 18 months. The real estate target weight will be 9.0% on Jan. 1, 2006 (fixed income at 21%); 9.5% on July 1, 2006 (fixed income at 20.5%); and 10% on July 1, 2007 (fixed income at 20%).

3.7 Investment objectives and guidelines for individual asset classes have been approved by the Board, and are summarized below.

3.8 Liquidity reserves are kept at a minimum level, but sufficient to cover the short-term cash flow needs. STRS Ohio investment staff may utilize a derivative overlay to maintain the level at 0%.

3.9 The Board reviews at least annually its expectations for asset class and active management performance, and assesses how the updated expectations affect the probability that the Fund will achieve the established investment objectives.

4.0 Rebalancing

4.1 Exposures to selected asset classes are actively managed within the rebalancing ranges specified in Exhibit 1. Rebalancing ensures that the Fund's actual asset allocation remains close to the target asset mix policy.

4.2 The Fund's actual asset allocation is monitored at least monthly relative to established asset allocation policy targets and ranges. The timing and magnitude of rebalancing are decided with due consideration to the liquidity of the investments and the associated transaction costs.

4.3 In its Annual Investment Plan prepared for the Board, staff explains how it is managing asset class exposures based on short- and intermediate-term capital forecasts.

4.4 The impact of rebalancing decisions on total fund returns is included in investment performance reports to the Board.

5.0 Passive and Active Management Within Risk Budgets

5.1 STRS Ohio investment staff has been delegated the responsibility for managing the Fund's exposure to passive and active investment strategies, subject to the constraint that active risk does not exceed Board-approved target risk budgets for the total fund and individual asset classes.

5.2 The Board has approved a target risk budget range of 0.60% to 1.40% annualized for active management for the total fund. In exchange for assuming this level of active risk, the Board expects active management to add net 0.40% of annualized excess return over moving five-year periods.

5.3 The Board realizes that actual management returns will likely be above or below the net 0.40% target over any five-year moving period, and therefore will evaluate the success of the STRS Ohio active management program within this context. The Board recognizes that any amount of management return in excess of the associated investment costs improves the security of STRS Ohio plan members.

5.4 Passive management uses low-cost index funds to access the return streams available from the world's capital markets. Indexed funds control costs, are useful tools for evaluating active management strategies, capture exposure to the more efficient markets and facilitate rebalancing to the policy asset mix.

5.5 Active management tries to earn higher returns than those available from index funds by making value-adding security selection and asset mix timing decisions. Unsuccessful active management earns below index fund returns.

5.6 Because there are no index fund products for real estate and alternative investments, these asset classes must be actively managed.

6.0 Global Equities — Domestic

6.1 Domestic equity is being managed relative to a Board-approved risk budget range of 0.20% to 1.50%, and is expected to earn at least 0.25% of annualized excess return above the Russell 3000 Index over moving five-year periods.

6.2 Key elements of the strategy:

(a) The portfolio's active management adds value primarily through security selection. Sector tilts by style, economic sectors or market capitalization are managed in accordance with the risk budget for domestic equities.

(b) The portfolio utilizes a variety of portfolio management approaches including quantitative and fundamental techniques to diversify the source of excess return.

(c) The portfolio utilizes a combination of internal and external management, utilizing multiple internal portfolio managers and multiple external manager firms to improve the likelihood of achieving excess returns, to diversify risk and to control costs.

6.3 Short sales may be used in the management of STRS Ohio domestic equity portfolios.

7.0 Global Equities — International

7.1 International equity is being managed relative to a Board-approved risk budget range of 1.0% to 2.5%, and is expected to earn at least 1.0% of annualized excess return above a blended benchmark of 80% MSCI World ex US (50% hedged) and 20% MSCI Emerging Market Free Index over moving five-year periods.

7.2 Key elements of the strategy:

(a) The portfolio emphasizes fundamental management approaches and exposures to security selection and country allocation decisions. These decisions have been shown to be the principal sources of the excess return in international equity portfolios. Managers have the ability to add value through currency management.

(b) Aggregate exposures to countries, currencies, equity styles and market capitalization are monitored and managed relative to their benchmark exposures.

(c) The portfolio utilizes a combination of internal and external management, with multiple internal portfolio managers and multiple external manager firms to improve the likelihood of achieving excess returns, to diversify risk and to control costs.

7.3 Short sales may be used in the management of STRS Ohio international equity portfolios.

8.0 Fixed Income

8.1 Fixed income is being managed relative to a Board-approved risk budget range of 0.10% to 1.30%, and is expected to earn at least 0.35% of annualized excess returns above the Lehman Brothers Universal Bond Index over moving five-year periods.

8.2 All of fixed income is actively managed because active management is generally low cost and market opportunities exist for skilled managers to generate excess returns.

8.3 Key elements of the strategy:

(a) The portfolio will primarily be managed internally, with multiple external managers utilized in specialist segments of the market such as high yield and emerging market debt.

(b) The portfolio will emphasize issue selection, credit analysis, sector allocations and duration management.

(c) Aggregate exposures to duration, credit and sectors are monitored and managed relative to corresponding exposures in the asset class benchmark.

8.4 Short sales may be used in the management of STRS Ohio fixed-income portfolios.

9.0 Real Estate

9.1 Real estate investments are being managed relative to a Board-approved risk budget range of 2.0% to 7.0%, and are expected to earn at least 0.75% of annualized excess returns above a composite benchmark over moving five-year periods. The composite benchmark is 80% NCREIF Property Index, 10% NCREIF Timberland Index and 10% Wilshire Real Estate Investment Trust Index.

9.2 Key elements of the strategy:

(a) Real estate is 100% actively managed because index funds replicating the real estate broad market are not available. The portfolio is primarily managed internally.

(b) Direct property investments represent most of the real estate portfolio. Specialist managers are utilized. Risk is diversified by investing across major property types and geographic areas.

(c) Leverage of up to 50% is permitted with the core real estate portfolio.

(d) Publicly traded real estate investment trusts (REITs) are targeted at 10% of the real estate portfolio to enhance liquidity, diversification and excess returns.

(e) Non-core real estate investments are limited to 20% of the real estate portfolio. Investment strategies will be characterized as "opportunistic" based on the market conditions prevailing at the time of investment.

(f) Leverage is employed within REITS and non-core real estate investments, and these leverage levels are monitored by STRS Ohio investment staff.

9.3 Short sales may be used in the management of REITs.

10.0 Alternative Investments

10.1 Alternative investments are being managed with the objective of earning at least 5% net of fees above domestic public equity markets over very long time horizons, typically moving 10-year periods. Because alternative investments are traded infrequently, risk budget concepts are not applicable.

10.2 Key elements of the strategy:

(a) Alternative investments are 100% actively managed because index funds are not available.

(b) Asset class risk is diversified by investing across different types of alternative investments including private equity (venture capital, leverage buyouts, mezzanine debt, sector and international funds), distressed debt and hedge funds.

(c) Private equity risk is also diversified by investing across vintage years, industry sectors, investment size, development stage and geography.

(d) Private equity investments are managed by general partners with good deal flow, specialized areas of expertise, established or promising net-of-fees track records, and fully disclosed and verifiable management procedures.

11.0 Derivatives

11.1 Derivatives may be used in the management of STRS Ohio internal and external liquidity reserves, fixed-income, equity and real estate portfolios. Derivatives are typically, but not exclusively, futures contracts, equity swaps, credit default swaps, option contracts and option contracts on futures for market indexes. Options on individual securities, baskets of securities and equity-linked notes, and shortening for positioning purposes are further examples. Derivatives are both exchange traded and traded over the counter.

11.2 Derivative exposures must be of a hedging or positioning nature. As a percentage of Fund assets, the underlying exposure of all positioning derivatives will not exceed:

(a) 5% for fixed-income investments;

(b) 10% for domestic equity investments;

(c) 10% for international equity investments; and,

(d) 1% for real estate investments.

Hedging derivatives will not be included in the limits above, but must be footnoted.

11.3 Any use of leverage will adhere to asset allocation restrictions and asset class active management risk range constraints.

12.0 Proxy Voting

12.1 Common stock proxies are valuable and should be voted in the best interest of STRS Ohio active and retired members.

12.2 The Board shall maintain stock proxy voting policies and has directed staff and the proxy voting agents to use these policies as guidelines for voting common stock proxies held by the Fund.

13.0 Ohio Investments

13.1 The Board will give due consideration to investments that enhance the general welfare of the state and its citizens provided that assets are invested in the best interest of STRS Ohio active and retired members. Preference will be given to Ohio investments offering competitive returns at risk levels comparable to similar investments currently available to the Board.

13.2 STRS Ohio investment staff shall maintain and implement an Ohio Investment Plan. The plan shall set forth procedures to assure that a special effort will be made by the investment staff to examine and evaluate all legal investment opportunities in the state and, where policy criteria are satisfied, to acquire such investments.

14.0 Broker-Dealers

14.1 Purchases and sales of publicly traded securities shall be executed with broker-dealers from a list reviewed by the Board. In those rare situations where best execution cannot be achieved through a broker-dealer on the list, the Deputy Executive Director — Investments, may approve the use of a broker-dealer not on the list.

14.2 Selection shall be based on an evaluation by the investment staff as to financial soundness, underwriting capabilities, research services, execution capabilities and other factors required by the staff to fulfill its assigned investment responsibilities.

14.3 Specific transactions will be directed to the broker on that list most capable of providing brokerage services necessary to obtain both the best available price and the most favorable execution.

14.4 The Board shall give equal consideration to smaller Ohio-headquartered broker-dealers or smaller broker-dealers with at least one Ohio office, and broker-dealers owned and controlled by minorities and/or women.

14.5 The Board has a goal to increase the use of Ohio-qualified broker-dealers for the execution of domestic equity and fixed-income securities transactions, when the services that Ohio-qualified broker-dealers provide are equal in quality, cost, scope and execution capabilities to all broker-dealers approved to transact securities transactions on behalf of the Board.

14.6 Each firm listed shall file with the Board on an annual basis such evidence of financial responsibility as required by the Board. This information shall include, but not be limited to, an audited financial statement.

14.7 When stocks are purchased during underwriting, allocations may be made to dealers not on the approved list provided the managing underwriter is so listed.

14.8 When entering into real estate transactions, the Board shall give equal consideration to Ohio firms providing associated professional services, minority-owned and controlled firms, and firms owned and controlled by women.

15.0 Securities Lending

15.1 The Board may operate a securities lending program to enhance the income of the Fund. The program must be operated by a bank trustee who follows the custodial requirements of the Treasurer of State and each security lent must be fully collateralized. Results of the program must be reported to the Board annually.

16.0 Securities Litigation

16.1 Involvement in securities litigation is an important responsibility for institutional investors with major public market exposure. The Board shall maintain a policy to determine the appropriate action to be taken when class action litigation is initiated against a company that generates a significant loss for the Board during the class period.

17.0 Security Valuation

17.1 Valuation of investments shall be the total of:

(a) The primary closing price on the principal registered stock exchange for all common and preferred stocks so listed.

(b) The NASDAQ Official Closing Price (NOCP) as reflected by NASDAQ for common and preferred stocks not listed on a registered stock exchange.

(c) The current value as determined by a qualified independent service for all bonds, notes and certificates of indebtedness.

(d) Amortized cost for commercial paper, certificates of deposit, repurchase agreements and other short-term investments with a maturity of 270 or fewer days.

(e) Real estate valued through a combination of independent appraisals and manager valuations. Methodology underlying internal valuations will be reviewed by the real estate consultant. REIT shares are valued at primary closing prices on the principal registered stock exchange.

(f) The most recent manager valuations for alternative investments.

(g) International investments are valued by the subcustodian using relevant closing market prices and exchange rates.

18.0 Performance Monitoring and Evaluation

18.1 The Board and its agents use a variety of compliance, verification and performance measurement tools to monitor, measure and evaluate how well STRS Ohio assets are being managed. Monitoring, reporting and evaluation frequencies range from hourly, to daily, weekly, monthly, quarterly and annually.

18.2 The Board has developed a performance monitoring and evaluation system that answers two fundamental fiduciary questions:

(a) Are the assets being prudently managed? More specifically, are assets being managed in accordance with established laws, policies and procedures, and are individual investment managers in compliance with their mandates?

(b) Are the assets being profitably managed? More specifically, has performance affected benefit security, has capital market risk been rewarded and has active management risk been rewarded?

18.3 If there is a deviation from Board policies, STRS Ohio investment staff is required to provide the Board with a report explaining how the deviation was discovered, the reasons for the deviation, the impact on Fund performance, if any, and steps taken to mitigate future occurrences.

18.4 Exhibit 2 is one of many reports used by the Board to monitor and evaluate performance of the total fund. Panel one indicates if the total fund return exceeded the 8.0% actuarial rate of return over the one-year period ending Sept. 30, 2003. Panel two indicates if the Fund was rewarded for investing in higher return but more risky equity investments over the same period. Panel three indicates if active management added or subtracted returns.

Exhibit 2: EXAMPLE
Total Fund Board Report

STRS Ohio Total Fund Board Report
One-Year Return, Gross of Fees, Ending Sept. 30, 2003

Have returns affected benefit security?	
1. Total fund total return	19.81%
2. Actuarial rate of return	8.00%
3. Out-performance (1–2)	11.81%
Has plan been rewarded for capital market risk?	
4. Total fund total policy return	18.70%
5. Minimum risk/high cost policy of 91-day T-bills	1.22%
6. Impact of asset mix policy (4–5)	17.48%
Has plan been rewarded for active management risk?	
7. Active management effect (1–4)	1.11%

18.5 Additional reports provide the Board with a multilevel view of investment activities at different levels and over different time horizons. These include:

(a) Performance of the total fund;

(b) Performance of individual asset class strategies;

(c) Performance of internal and externally managed portfolios; and

(d) Performance of individual external managers.

Statement of Fund Governance
Effective Nov. 17, 2006

1.0 Purpose

1.1 This Statement of Fund Governance (the "Statement") summarizes the governance structure established by the State Teachers Retirement Board of Ohio (the "Board") to ensure the prudent, effective and efficient management of the assets of the State Teachers Retirement System of Ohio ("STRS Ohio").

1.2 The fund governance structure was approved by the Board after careful consideration of alternative approaches to governing a very large and growing pension fund within an increasingly complex financial and investment environment.

1.3 The Statement has been prepared with five audiences in mind: incumbent, new and prospective Board members; STRS Ohio investment staff; STRS Ohio active and retired members; Ohio General Assembly and Governor; and agents engaged by the Board to manage, administer or advise on STRS Ohio assets.

1.4 The Statement summarizes more detailed policy and procedure documents prepared and maintained by STRS Ohio investment staff, and numerous other documents that govern the day-to-day management of STRS Ohio assets.

1.5 The Board regularly assesses the continued suitability of the STRS Ohio fund governance structure, initiates change as necessary and updates this Statement accordingly.

1.6 The Board may authorize its administrative officers and committees to act for it in accord with its policies (ORC Sections 3307.04 and 3307.15). The Board, no less frequently than annually, adopts a resolution delegating to the Executive Director and the Deputy Executive Director — Investments, the authority to acquire, dispose, operate and manage the Fund, subject to the Board's policies and to subsequent approval by the Board.

1.7 In carrying out the operation and management of STRS Ohio, the Board, the Executive Director, his/her investment staff and others that are considered fiduciaries as defined in ORC Section 3307.01(K) are subject to various fiduciary responsibilities in ORC Chapter 3307, including those found in ORC Sections 3307.15, 3307.151, 3307.181 and 3307.18. This Statement incorporates, and is subject to, all of the provisions of ORC Chapter 3307.

1.8 The Board acknowledges its responsibilities under ORC Chapter 3307 and to the extent that this Statement is inconsistent with ORC Chapter 3307, Chapter 3307 shall control.

1.9 The Board approved this Statement on Nov. 17, 2006.

2.0 Governance Principles

2.1 Three principles guided the Board's development of the STRS Ohio fund governance structure:

(a) As STRS Ohio governing fiduciary, the Board is ultimately accountable for all investment decisions. Section 3307.15 of the Ohio Revised Code (the "Code") vests the investment function in the Board and requires the Board to ". . . adopt, in regular meetings, policies, objectives, or criteria for the operation of the investment program . . ." Section 3307.15 of the Code sets forth the fiduciary responsibility of the Board in discharging its duties with respect to the fund.

(b) To ensure STRS Ohio assets are prudently, profitably and efficiently managed on a day-to-day basis, the Board needs to delegate the management and implementation of Board investment policies to qualified managing and operating fiduciaries. Sections 3307.04 and 3307.15 of the Code empower the

Board to authorize its committees and administrative officers to act for it in accord with Board policies. The fiduciary responsibility of Board delegates in discharging their duties with respect to the fund is specified in Section 3307.15.

(c) To ensure effective oversight of delegates, the Board requires informative and timely performance reports that reveal if managing and operating fiduciaries have complied with established policies, and indicate how assets under their care have performed relative to Board-approved investment objectives.

3.0 Investment Decisions Retained by the Board

3.1 The Board approves the following investment policies:

(a) Statement of Investment Objectives and Policy, which includes the following:

(i) Total fund risk and return objectives;

(ii) Total fund target asset mix policy;

(iii) Total fund asset mix policy rebalancing ranges;

(iv) Active management risk and return objectives at the total fund and asset class levels; and

(v) Performance measurement criteria and evaluation standards.

(b) Proxy voting;

(c) Ohio investments;

(d) Securities lending;

(e) Broker-dealer selection criteria and procedures;

(f) Ohio-qualified investment managers and brokers; and

(g) Securities litigation

3.2 Before approving or amending policy decisions, the Board seeks advice, guidance and recommendations from STRS Ohio investment staff, Board-retained investment consultants, and other experts or sources as considered prudent by the Board.

4.0 Investment Decisions Delegated to Investment Staff

4.1 The Board, through the Executive Director, has delegated to qualified STRS Ohio investment staff the following investment management and implementation decisions:

(a) Buying, selling, managing and monitoring individual securities, real assets and/or other investment transactions to achieve the total fund and asset class investment objectives approved by the Board;

(b) Retaining, managing and terminating external investment managers within each asset class as required to achieve the total fund and asset class investment objectives approved by the Board;

(c) Ensure total fund, asset class and individual manager portfolios comply with established parameters and risk levels; and

(d) Preparing, negotiating and executing external investment manager mandates, guidelines and fee agreements.

4.2 In making these decisions, STRS Ohio investment staff seeks the advice, guidance and recommendations of Board-retained investment consultants, external investment managers, and other experts and sources as considered prudent by STRS Ohio staff.

5.0 Board Oversight

5.1 The Board requires investment staff to prepare and deliver an Annual Investment Plan that explains how STRS Ohio assets will be managed in order to achieve the Board-established investment objectives. This provides the Board a focused opportunity to:

(a) Question and comment on staff’s investment management plans;

(b) Request additional information and support about staff’s investment intentions; and

(c) Express its confidence in the Annual Investment Plan.

5.2 The Board meets at least quarterly to assess how assets are being managed relative to the Annual Investment Plan, to monitor and evaluate investment performance relative to objectives and to address other investments as are warranted.

5.3 The Board approves the criteria and standards for monitoring and evaluating the impact different investment decisions have on total fund, asset class and manager-level performance. Performance is monitored and evaluated with respect to risk and return objectives established by the Board.

(a) Investment risks are monitored and evaluated quarterly by comparing total fund and asset class risk characteristics relative to suitable benchmarks.

(b) Investment returns are monitored monthly and evaluated quarterly by comparing total fund and asset class returns relative to suitable benchmarks.

5.4 Before approving or amending the criteria for monitoring and evaluating investment decisions, the Board seeks advice, guidance and recommendations from STRS Ohio investment staff, Board-retained investment consultants, and other experts and sources as considered prudent by the Board.

Investment Performance

(total returns, annualized on a fiscal-year basis, July 1–June 30)

1-Year Returns (2007)*

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Equities	21.24%	Russell 3000**	20.07%
International	30.79%	International Equity Composite***	30.07%
Fixed Income	7.14%	Lehman Universal	6.62%
Real Estate	26.72%	Real Estate Composite****	16.27%
Total Fund	20.73%	Total Fund Composite Benchmark	19.49%

3-Year Returns (2005–2007)

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Equities	12.98%	Russell 3000**	12.44%
International	27.30%	International Equity Composite***	25.99%
Fixed Income	4.83%	Lehman Universal	4.53%
Real Estate	25.19%	Real Estate Composite****	18.27%
Total Fund	15.51%	Total Fund Composite Benchmark	14.34%

5-Year Returns (2003–2007)

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Equities	11.65%	Russell 3000**	11.38%
International	20.49%	International Equity Composite***	19.06%
Fixed Income	5.73%	Lehman Universal	5.17%
Real Estate	19.65%	Real Estate Composite****	14.70%
Total Fund	13.17%	Total Fund Composite Benchmark	12.16%

STRS Ohio Long-Term Policy Objective (20 Years)

Total Fund: 8.40%

Investment performance is calculated using a time-weighted rate of return.

*The one-year returns for fiscal year ended June 30, 2007, have been examined by Vincent Performance Services LLC. A copy of the examination report is available upon request.

**The domestic equities benchmark is calculated using the Russell 3000 Index for all periods beginning on or after Aug. 1, 2003; the Domestic Equity Composite for April 1, 2003, through July 31, 2003; and the S&P 1500 Index for all periods before April 1, 2003.

***The international equities benchmark is calculated using 80% of the MSCI World ex USA Index (50% hedged) and 20% of the MSCI EMF Index for all periods beginning on or after Jan. 1, 2006; 75% MSCI World ex USA Index (50% hedged) and 25% MSCI EMF Index from July 1, 2003, through Dec. 31, 2005; and 75% EAFE (50% hedged) and 25% EMF from Oct. 1, 2000, through June 30, 2003.

****The real estate benchmark is calculated using 80% NCREIF Property Index (NPI), 10% NCREIF Timberland Index and 10% Wilshire REIT Index beginning July 1, 2002.

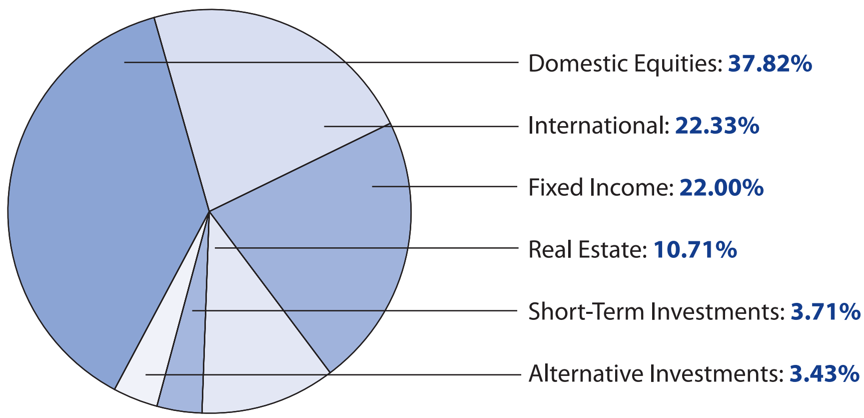
State Teachers Retirement System of Ohio is defined and created by the Ohio Revised Code, Chapter 3307.15. The STRS Ohio Total Fund performance results consist of all assets of the fund, including both internally and externally managed accounts. All results are calculated in U.S. dollars and net of brokerage commissions, expenses related to trading, and applicable foreign withholding taxes on dividends, interest and capital gains. Performance results are generally gross of fees. Net of fees results are available upon request. Investment management fees vary among asset class. The STRS Ohio real estate return includes the use of leverage. Dispersion data is not applicable. All measurements and comparisons have been made using standard performance evaluation methods, and results are presented in a manner consistent with the investment industry in general and public pension funds in particular.

Summary of Investment Assets
As of June 30, 2007 and 2006 (dollar amounts in thousands)

	June 30, 2007 Fair Value	%	June 30, 2006 Fair Value	%
Short term				
Commercial paper	$ 2,856,211	3.59%	$ 1,258,851	1.87%
Short-term investment funds	95,000	0.12%	1,000	0.00%
Total short term	2,951,211	3.71%	1,259,851	1.87%
Fixed income				
Guaranteed mortgages	7,804,648	9.81%	6,528,715	9.69%
U.S. government and governmental agencies	3,196,913	4.02%	3,413,839	5.07%
Corporate bonds	5,230,977	6.57%	4,174,899	6.20%
Canadian bonds	38,702	0.04%	38,610	0.06%
High yield and emerging market	1,240,954	1.56%	1,141,442	1.68%
Total fixed income	17,512,194	22.00%	15,297,505	22.70%
Domestic common and preferred stock	30,107,173	37.82%	26,483,442	39.30%
Real estate				
East region	2,420,671	3.04%	1,995,772	2.96%
Midwest region	1,123,493	1.41%	1,085,950	1.61%
South region	775,950	0.98%	709,109	1.05%
West region	2,081,172	2.61%	1,767,834	2.62%
REITs	632,036	0.79%	547,827	0.81%
Other	1,487,467	1.88%	978,227	1.46%
Total real estate	8,520,789	10.71%	7,084,719	10.51%
Alternative investments	2,730,080	3.43%	1,933,135	2.87%
International	17,777,792	22.33%	15,329,381	22.75%
Total investments	**$ 79,599,239**	**100.00%**	**$ 67,388,033**	**100.00%**

Investment asset schedule excludes invested securities lending collateral.

Investment Distribution by Fair Value — as of June 30, 2007



Ohio Investment Profile — as of June 30, 2007 (in thousands)

STRS Ohio continues to engage in quality Ohio investments. As of June 30, 2007, STRS Ohio investments in companies with headquarters in Ohio are valued at more than $1.6 billion.

Liquidity reserves	$ 69,914
Fixed income	218,903
Common stock	979,003
Alternative investments	180,774
Real estate	183,189
Total Ohio-headquartered investments	**$ 1,631,783**

Schedule of U.S. Stock Brokerage Commissions Paid
(for the year ended June 30, 2007)

Brokerage Firm	Shares Traded*	Commissions Paid	Avg. Cents Per Share
Instinet Corporation	128,675,136	$ 1,507,977	1.2
Lehman Brothers	38,461,012	1,094,718	2.8
Cantor Fitzgerald	27,298,735	747,905	2.7
Bear, Stearns & Company	19,990,175	713,971	3.6
Citigroup	16,676,395	659,702	4.0
Deutsche Bank Securities	25,780,438	648,727	2.5
JP Morgan Securities	15,824,473	628,284	4.0
Liquidnet Inc.	30,734,045	609,831	2.0
Banc of America Securities	14,286,240	539,090	3.8
ITG, Inc.	35,795,713	499,955	1.4
Credit Suisse First Boston	33,179,718	485,414	1.5
Merrill Lynch	13,868,527	475,443	3.4
UBS Investment Bank	11,351,494	431,365	3.8
Nomura Securities	28,931,566	395,200	1.4
Cowen & Company	8,225,228	360,837	4.4
Bernstein (Sanford C.) & Company	7,131,873	340,852	4.8
Prudential Securities	6,772,221	322,866	4.8
Bank of NY Direct Execution	10,590,838	305,089	2.9
Baird (Robert) & Company	7,788,221	291,932	3.7
Jefferies & Company	11,246,954	291,572	2.6
Wachovia Securities	9,367,546	266,283	2.8
Morgan Stanley	6,460,523	264,335	4.1
Goldman Sachs	5,940,495	261,613	4.4
Edwards (A.G.) & Sons	6,167,995	256,554	4.2
Piper Jaffray	6,963,762	212,164	3.1
Others (includes 57 brokerage firms and external managers)	200,874,080	5,369,964	2.7
Total	**728,383,403**	**$17,981,643**	**2.5**

* Includes option equivalent shares

Schedule of Largest Investment Holdings*
(as of June 30, 2007)

Domestic Equities — Top 20 Holdings

	Shares	Fair Value
Exxon Mobil Corp.	9,596,300	$ 804,937,644
General Electric Co.	19,541,000	$ 748,029,480
Microsoft Corp.	18,070,100	$ 532,525,847
Citigroup Inc.	10,324,000	$ 529,517,960
AT&T Inc.	10,691,714	$ 443,706,131
Pfizer Inc.	14,416,396	$ 368,627,246
Bank of America Corp.	7,535,357	$ 368,403,604
JPMorgan Chase & Co.	7,478,210	$ 362,319,274
Procter & Gamble Co.	5,861,149	$ 358,643,707
Johnson & Johnson	5,782,500	$ 356,317,650
Chevron Corp.	4,202,248	$ 353,997,371
Cisco Systems	12,596,300	$ 350,806,955
American International Group	4,972,500	$ 348,224,175
International Business Machines Corp.	3,203,200	$ 337,136,800
Altria Group Inc.	4,490,800	$ 314,984,712
Intel Corp.	13,142,099	$ 312,256,272
Verizon Communications	6,476,207	$ 266,625,442
Hewlett-Packard Co.	5,809,500	$ 259,219,890
ConocoPhillips	3,004,228	$ 235,831,898
Merck & Co., Inc.	4,595,177	$ 228,839,814

International Equities — Top 20 Holdings

	Shares	Fair Value
Total SA (France)	2,174,184	$ 176,963,719
Arcelor Mittal (Netherlands)	2,331,155	$ 146,571,539
Munchener Rueckvers (Germany)	644,120	$ 118,487,031
Vodafone (United Kingdom)	34,582,798	$ 116,442,967
Credit Suisse Group (Switzerland)	1,551,102	$ 110,575,989
Siemens AG (Germany)	750,463	$ 108,024,699
ABB Ltd. (Switzerland)	4,613,803	$ 104,679,445
Royal Bank of Scotland Group (United Kingdom)	8,077,299	$ 102,596,147
Toyota Motor Corp. (Japan)	1,591,076	$ 100,505,287
BASF SE (Germany)	754,494	$ 99,096,782
ENI SPA (Italy)	2,716,862	$ 98,713,982
JFE Holdings Inc. (Japan)	1,588,000	$ 98,639,132
Rio Tinto PLC ORD (United Kingdom)	1,246,260	$ 95,703,605
Fortis NPV (Belgium)	2,230,818	$ 95,005,101
Renewable Energy Corp. AS (Norway)	2,376,175	$ 92,564,657
BNP Paribas (France)	770,655	$ 91,976,000
NOKIA OYJ (Finland)	3,209,663	$ 90,217,405
ING Groep (Netherlands)	1,946,267	$ 86,199,084
Canon Inc. (Japan)	1,466,550	$ 85,869,424
Xstrata PLC (United Kingdom)	1,427,942	$ 85,586,836

Fixed Income — Top 20 Holdings

	Par Value	Fair Value
TBA 30YR FN, 6.00%, due 08/25/2032, AAA	240,778,640	$ 238,231,202
U.S. Treasury, 4.12%, due 05/15/2015, AAA	215,300,000	$ 202,877,190
Federal Home Loan, 5.165%, due 03/14/2008, AAA	190,000,000	$189,994,300
U.S. Treasury, 8.75%, due 05/15/2017, AAA	141,770,000	$ 181,736,381
U.S. Treasury, 4.25%, due 08/15/2015, AAA	181,385,000	$ 172,108,971
U.S. Treasury, 5.375%, due 02/15/2031, AAA	163,700,000	$ 168,303,244
CSFB 2001-CP4 A4, 6.18%, due 12/15/2035, NR	162,699,000	$ 165,461,629
FUBOA 2001-C1 A2, 6.136%, due 03/15/2033, AAA	154,725,737	$ 157,305,015
U.S. Treasury, 4.50%, due 11/15/2015, AAA	161,153,000	$ 155,411,119
U.S. Treasury, 4.625, due 02/15/2017, AAA	160,400,000	$ 155,381,084
Federal Home Loan Bank, 5.204%, due 12/15/2008, AAA	150,000,000	$ 149,980,050
U.S. Treasury, 6.00%, due 02/15/2026, AAA	135,760,000	$ 148,320,515
TBA 30YR FG, 6.00%, due 08/15/2032, AAA	146,910,000	$ 145,108,058
U.S. Treasury, 5.50%, due 08/15/2028, AAA	115,940,000	$ 120,436,153
U.S. Treasury, 4.25%, due 11/15/2014, AAA	120,100,000	$ 114,606,626
JPMCC 2001-C1 A3, 5.857%, due 10/12/2035, NR	106,425,000	$ 107,118,891
U.S. Treasury, 4.00%, due 02/15/2015, AAA	113,000,000	$ 105,809,810
CSFB 2001-CK3 A4, 6.53%, due 06/15/2034, AAA	101,635,000	$ 104,511,271
U.S. Treasury, 8.75%, due 08/15/2020, AAA	76,760,000	$ 102,545,219
Key 2000-C1 A2, 7.72%, due 05/17/2032, AAA	97,884,353	$ 102,272,509

*A complete list of investment holdings is available from STRS Ohio.

Schedule of External Managers
(as of June 30, 2007)

Domestic Equity

Large Cap Enhanced	Goldman Sachs Asset Management
	Intech
Small Cap	Chartwell Investment Partners
	David J. Green & Company
	Eagle Asset Management
	Fuller & Thaler Asset Management
	Lord, Abbett & Company
	M.A. Weatherbie & Company
	Next Century Growth Investors

International

EAFE	Arrowstreet Capital
	Alliance Bernstein
	Marvin & Palmer Associates
Emerging Market	First State Investments
	Genesis Asset Managers
	Marvin & Palmer Associates
	Alliance Bernstein

Fixed Income

High Yield	Pacific Investment Company
	Oaktree Capital Management
Emerging Market	Pyramis Global Advisors
	Stone Harbor Investment Partners

buckconsultants
an ACS company

November 5, 2007

The Retirement Board
State Teachers Retirement System of Ohio
275 East Broad Street
Columbus, Ohio 43215

Ladies and Gentlemen:

This report presents the results of the annual actuarial valuation of the assets and liabilities of the State Teachers Retirement System of Ohio (STRS Ohio) as of July 1, 2007, prepared in accordance with Section 3307.51 of Chapter 3307 of the Ohio Revised Code. The valuation takes into account all of the promised benefits to which members are entitled, including pension and survivor benefits.

The valuation was based on the actuarial assumptions and methods as adopted by the Board of Trustees, including a valuation interest rate of 8% per annum compounded annually. The assumptions and methods are unchanged from the prior valuation.

The actuarial assumptions and methods comply with the parameters set forth in Governmental Accounting Standards No. 25.

Assets and Membership Data
STRS Ohio reported to the actuary the individual data for members of the System as of the valuation date. While we did not verify the data at their source, we did perform tests for internal consistency and reasonableness. The amount of assets in the trust fund taken into account in the valuation was based on statements prepared for us by STRS Ohio.

Funding Adequacy
The current total contribution rate from employers and members is 24%. The Board allocates the total contribution rate between pension and survivor benefits and health care. For fiscal 2007 and after, the Board has allocated 1% toward health care, leaving 23% for pension and survivor benefits. The valuation indicates that the contribution rates of 23% for fiscal 2007 and after is sufficient to provide for the payment of the promised pension and survivor benefits, with a 26.1-year funding period to amortize the unfunded accrued liability. The funding period has decreased 21.1 years from 47.2 years as of July 1, 2006 to 26.1 years as of July 1, 2007, primarily as a result of the actuarial gains incurred during the fiscal year ending June 30, 2007.

The valuation indicates that for the fiscal year ending June 30, 2007, the actuarial experience of STRS Ohio was favorable and generated net actuarial gains of $5.2 billion.

Financial Results and Membership Data
The valuation report shows detailed summaries of the financial results of the valuation and membership data used in preparing this valuation. The actuary prepared supporting schedules included in the Actuarial and Statistical Sections of the STRS Comprehensive Annual Financial Report. The actuary prepared the trend data schedules included in the Financial Section of the STRS Comprehensive Annual Financial Report.

Qualified actuaries completed the valuations in accordance with accepted actuarial procedures as prescribed by the Actuarial Standards Board. The qualified actuaries are members of the American Academy of Actuaries and are experienced in performing actuarial valuations of public employee retirement systems. To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice.

Respectfully submitted,

Janet Cranna, FSA
Principal, Consulting Actuary

One North Dearborn Street, Suite 1400 • Chicago, IL 60602-4336
312.846.3000 • 312.846.3999 (fax)

Statement of Actuarial Assumptions and Methods

The assumptions below have been adopted by the State Teachers Retirement Board after consulting with the actuary.

Financing Objective: To establish contributions as a level percentage of active member payroll which, when invested, will be sufficient to provide specified benefits to STRS Ohio members and retirees.

Interest Rate: 8% per annum, compounded annually. (Adopted 2003)

Death After Retirement: According to the UP 94 Mortality Table (Projection 2002 — Scale AA), with two-year setback in age for males and one-year setback in age for females. Special mortality tables are used for the period after disability retirement. (Adopted 2003)

Future Expenses: The assumed interest rate is net of the anticipated future administrative expenses of the fund.

Actuarial Cost Method: Projected benefit method with level percentage entry age normal cost and open-end unfunded accrued liability. Gains and losses are reflected in the accrued liability.

Asset Valuation Method: A four-year moving market average value of assets that spreads the difference between the actual investment income and the expected income (based on the valuation interest rate) over a period of four years. The actuarial value shall not be less than 91% or more than 109% of market value. (Adopted 1997)

Payroll Growth: 4.5% per annum compounded annually. Included in the total payroll growth assumption is a 3.50% increase as a result of inflation. (Adopted 1998)

Separations From Active Service and Salary Increases: Representative values of the assumed rates of separation and annual rates of salary increase are shown in the table below. (Adopted 1993)

Replacement of Retiring Members: The majority of members who retire do so effective July 1. These members are replaced by new members who are hired after July 1. As a result, new members are not reported on the census data. To compensate for this, assumed payroll for these new members is equal to the difference between actual total system payroll for the fiscal year just ended and reported payroll for members reported on the valuation date.

Census and Assets: The valuation was based on members of the system as of July 1, 2007, and does not take into account future members. All census and asset data was supplied by the system.

Annual Rates of Separation and Salary Increase

Age	Non-Vested Withdrawal	Vested Withdrawal	Death	Disability	30 Years Service Retirement	25–29 Years Service Retirement	Under 25 Years Service Retirement	Salary Increase*
MEN								
20	19.00%	15.00%	.02%	—	—	—	—	10.45%
30	15.00%	4.00%	.06%	.02%	—	—	—	8.25%
40	13.75%	2.40%	.09%	.10%	25.00%	—	—	6.05%
50	13.40%	1.50%	.13%	.24%	25.00%	—	—	4.73%
55	13.40%	1.50%	.20%	.30%	15.00%	20.00%	—	4.40%
60	13.40%	1.50%	.33%	.35%	20.00%	9.00%	15.00%	4.13%
65	13.40%	—	.60%	.40%	40.00%	25.00%	18.00%	3.85%
70	13.40%	—	1.10%	.40%	25.00%	15.00%	14.00%	3.85%
WOMEN								
20	15.00%	20.00%	.02%	—	—	—	—	10.45%
30	11.75%	8.00%	.03%	.02%	—	—	—	8.25%
40	9.00%	2.50%	.05%	.12%	22.00%	—	—	6.05%
50	9.00%	2.00%	.09%	.24%	22.00%	—	—	4.73%
55	9.00%	2.00%	.12%	.30%	15.00%	20.00%	—	4.40%
60	7.25%	2.00%	.21%	.35%	30.00%	13.00%	25.00%	4.13%
65	7.25%	—	.40%	.40%	35.00%	35.00%	23.00%	3.85%
70	7.25%	—	.79%	.40%	35.00%	20.00%	13.00%	3.85%

*Includes an inflation adjustment of 3.50%.

Benefit Recipients Added to and Removed From the Rolls, 2002–2007

Fiscal Year Ended	Beginning Number of Benefit Recipients	Beginning Annual Allowances (in thousands)	Benefit Recipients Added	Payments Added (in thousands)	Benefit Recipients Removed	Payments Removed (in thousands)	Ending Number of Benefit Recipients	Ending Annual Allowance (in thousands)
2002	102,132	$2,595,549	6,500	$261,243	3,332	$50,310	105,300	$2,806,482
2003	105,300	$2,806,482	6,299	$267,889	3,305	$52,546	108,294	$3,021,825
2004	108,294	$3,021,825	7,038	$310,262	3,479	$60,009	111,853	$3,272,078
2005	111,853	$3,272,078	6,929	$330,284	3,387	$62,121	115,395	$3,540,241
2006	115,395	$3,540,241	7,194	$354,245	3,405	$66,091	119,184	$3,828,395
2007	**119,184**	**$3,828,395**	**7,289**	**$370,503**	**3,539**	**$74,241**	**122,934**	**$4,124,657**

Schedule of Valuation Data — Active Members, 1998–2007

Valuation Date	Number	Annualized Salaries (in thousands)	Annual Average Pay	% Increase in Average Pay
1998	170,126	$6,834,060	$40,171	3%
1999	170,854	$7,040,902	$41,210	3%
2000	174,072	$7,386,122	$42,431	3%
2001	177,013	$7,721,258	$43,620	3%
2002	178,557	$8,063,134	$45,157	4%
2003	179,944	$8,425,838	$46,825	4%
2004	179,063	$8,646,404	$48,287	3%
2005	176,692	$8,757,200	$49,562	3%
2006	175,065	$8,894,400	$50,806	3%
2007	**174,110**	**$9,051,842**	**$51,989**	**2%**

Schedule of Valuation Data — Retirees/Beneficiaries, 1998–2007

Valuation Date	Number	Annual Allowances (in thousands)	% Increase in Annual Allowances	Average Annual Allowances
1998	91,999	$1,929,988	12%	$20,978
1999	95,796	$2,103,139	9%	$21,954
2000	99,011	$2,391,680	14%	$24,156
2001	102,132	$2,595,549	9%	$25,414
2002	105,300	$2,806,482	8%	$26,652
2003	108,294	$3,021,825	8%	$27,904
2004	111,853	$3,272,078	8%	$29,253
2005	115,395	$3,540,241	8%	$30,679
2006	119,184	$3,828,395	8%	$32,122
2007	**122,934**	**$4,124,657**	**8%**	**$33,552**

Solvency Test, 1998–2007 (dollar amounts in thousands)

	Accrued Liability for:				Portion of Accrued Liabilities Covered by Valuation Assets		
Valuation Date	(1) Active Member Contributions*	(2) Retirees and Beneficiaries*	(3) Active Members (Employer-Financed Portion)*	Valuation Assets*	(1)	(2)	(3)
1998	$6,569,783	$22,994,697	$21,563,608	$43,865,907	100%	100%	66%
1999	$6,867,910	$25,152,626	$22,742,804	$49,124,802	100%	100%	75%
2000	$7,174,675	$27,604,436	$24,414,047	$54,712,921	100%	100%	82%
2001	$7,445,894	$30,145,012	$25,090,334	$57,450,612	100%	100%	79%
2002	$7,771,703	$32,639,291	$25,815,171	$51,969,345	100%	100%	45%
2003	$8,155,685	$34,938,341	$25,640,035	$51,696,919	100%	100%	34%
2004	$8,600,068	$37,870,700	$26,483,574	$55,340,715	100%	100%	33%
2005	$8,940,971	$40,937,540	$27,221,526	$57,048,493	100%	100%	26%
2006	$9,284,076	$44,219,489	$27,393,044	$61,533,635	100%	100%	29%
2007	**$9,563,124**	**$47,526,124**	**$28,104,062**	**$70,738,198**	**100%**	**100%**	**49%**

*The amounts reported include funds set aside to pay post-employment health care coverage.

Analysis of Financial Experience

Gains and Losses in Accrued Liabilities Resulting From Differences Between Assumed Experience and Actual Experience (in thousands)

	Gain (loss) for year ended June 30:				
Type of Activity:	**2007**	**2006**	**2005**	**2004**	**2003**
Investment income. If there is greater investment income than assumed, there is a gain. If less, there is a loss.	$5,865,787	$1,492,303	$(1,389,574)	$ 458,527	$(2,976,966)
Payroll growth. If more contributions from payroll growth are received than expected, there is a gain. If less, there is a loss.	(312,644)	(456,690)	(469,877)	(173,960)	71,967
Salary increases. If there are smaller salary increases than assumed, there is a gain. If greater increases, there is a loss.	54,930	57,775	60,217	(129,322)	(285,789)
Retirement and other separation experience. If members retire from service at an older age or with a lower final average salary than assumed, there is a gain. If separation claims are less than expected, there is a gain.	(329,777)	(197,519)	(262,267)	(221,112)	766,258
Death after retirement. If retirees live shorter than expected, there is a gain. If retirees live longer than assumed, there is a loss.	(46,727)	(64,720)	(246,023)	(105,826)	(117,031)
Defined Contribution Plan administrative expenses. If there is more expense than participant income, there is a loss.	(49)	(3,642)	(5,144)	(6,761)	(6,207)
Final plan reselection. If the account value from defined contribution accounts is greater than the reestablished defined benefit account balance, there is a gain.	2,951	2,873			
Gain (or loss) during year from financial experience	5,234,471	830,380	(2,312,668)	(178,454)	(2,547,768)
Nonrecurring items adjustment for plan amendments	0	127,300	0	0	0
Composite gain (or loss) during the year	$5,234,471	$ 957,680	$(2,312,668)	$ (178,454)	$(2,547,768)

Summary of Benefit and Contribution Provisions — Defined Benefit Plan

Eligibility for Membership

Immediate upon commencement of employment.

Service Retirement

Eligibility

Any age with 30 years of service, age 55 with 25 years of service, or age 60 with five years of service. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts.

Amounts

Annual amount equal to the greater of (a) 2.2% of final average salary for the three highest paid years, multiplied by years of total Ohio service credit, or 2.5% of final average salary for the three highest paid years if the member has 35 or more years of contributing service credit, multiplied by years of total service credit — except that for years of Ohio contributing service credit in excess of 30 the following formula percentage will apply:

Year	Percentage
31	2.5%
32	2.6%
33	2.7%
34	2.8%
35	2.9%
36	3.0%
37	3.1%
38	3.2%
39	3.3%

or (b) $86 multiplied by years of service credit, and adjusted by the following percentage:

Attained Age	Years of Ohio Service Credit	Percentage of Base Amount
58	25	75%
59	26	80%
60	27	85%
61		88%
	28	90%
62		91%
63		94%
	29	95%
64		97%
65	30 or more	100%

Annual salary is subject to the limit under Section 401(a)(17).

Maximum benefit — The lesser of: (a) 100% of average annual salary for the three highest paid years, or (b) the limit as established by Section 415 of the Internal Revenue Code.

Minimum benefit — The sum of the annuity provided by: (a) the member's contribution with interest, (b) a pension equal to the annuity, and (c) an additional pension of $40 multiplied by the number of years of prior and military service.

Disability Retirement

Eligibility

A member may qualify if the following criteria are met: membership before July 30,1992, and election of this benefit; completion of five or more years of service; under age 60; and incapacitated for the performance of regular job duties for at least 12 months.

Amount

(1) Annuity with a reserve equal to the member's accumulated contributions, plus

(2) The difference between (1) (noted above) and the greater of 2% of the average salary during the three highest paid years or $86 times total service plus years and months from date of disability to age 60. Maximum allowance is 75% of final average salary. Minimum allowance is 30% of final average salary.

Disability Allowance

Eligibility

A member may qualify if the following criteria are met: membership after July 29,1992, or membership on or before July 29,1992, and election of this benefit; completion of five or more years of service; and incapacitated for the performance of regular job duties for at least 12 months.

Amount

The amount is 2.2% of the average salary during the three highest paid years times total service. Maximum allowance is 60% of final average salary. Minimum allowance is 45% of final average salary. The disability allowance payment terminates at age 65 (or later if payment begins after age 60). After termination of the disability allowance, the member may apply for service retirement.

Death After Retirement

Lump-sum payment of $1,000 upon death after service or disability retirement.

Survivor Benefits

Eligibility

A member may qualify for this benefit after at least 1-1/2 years of credit for Ohio service with at least 1/4 year of such service in the 2-1/2 years preceding death; or upon death of a disability retiree.

Amount

If a member was eligible for retirement, a spouse or other sole dependent beneficiary may elect to receive Option 1 benefits in lieu of return of contributions. If a member was not eligible for retirement, certain designated beneficiaries may elect to receive dependent-based benefits in lieu of return of contributions (see chart below) or service-based benefits, which provide a minimum benefit of a percentage of final average salary based on years of credited service ranging from 29% with 20 years of service to 60% with 29 years of service.

Qualified beneficiaries are spouse, dependent children and/or dependent parents over age 65.

Number of Qualified Dependents	% of Average Annual Salary for Three Highest Paid Years	Minimum Annual Benefit
1	25%	$ 1,152
2	40%	2,232
3	50%	2,832
4	55%	2,832
5 or more	60%	2,832

Lump-Sum Withdrawal Option

In lieu of any other pension or survivor benefits, a member who leaves the system can receive his or her member contributions with interest in a lump sum according to the following schedule:

Credited Service	Lump-Sum Amount
Less than three years	Member contributions with 2% interest
Three or more years but less than five years	Member contributions with 3% interest
Five or more years	150% of member contributions with 3% interest

The board has the authority to modify the interest credited to member contributions.

Optional Forms of Benefit

Option 1 — 100% joint and survivorship. Reduced retirement allowance payable to the member and continuing for life to the member's sole beneficiary (named at retirement) after the member's death.

Option 2 — A joint and survivorship annuity payable during the lifetime of the member, with the member's sole beneficiary (named at retirement) to receive some other portion of the member's annuity after the member's death.

Option 3 — The member's reduced retirement allowance provided under Option 1 or Option 2 paid for life to the member's sole beneficiary (named at retirement) after the member's death. In the event of the death of the sole beneficiary or termination of marriage between the retiree and the sole beneficiary, the retiree may elect to return to a single lifetime benefit equivalent, available for an actuarially computed charge as determined by the Retirement Board. In the case of termination of marriage, the election may be made with the written consent of the beneficiary or by court order.

Option 4 — A life annuity payable during the lifetime of the member with a guarantee that, upon the member's death before the expiration of a certain period, the benefit will continue for the remainder of such period to the beneficiary. Joint beneficiaries may receive the present value of any remaining payments in a lump-sum settlement. If all beneficiaries die before the expiration of the certain period, the present value of all remaining payments is paid to the estate of the beneficiary last receiving benefits.

Option 5 — A plan of payment established by the Retirement Board combining any of the features of Options 1, 2 and 4.

Partial Lump-Sum Option Plan (PLOP) — A lump-sum payment totaling between six and 36 times the member's monthly retirement benefit value. Lifetime monthly benefit payments then start at a reduced amount to account for the sum taken up front in a single payment.

Refund of Contributions

A member's contributions with interest are refunded upon termination of employment where no other benefit is payable. Upon death after retirement or upon death of a survivor in receipt of benefits, the member's accumulated contributions, less payments made, are returned to the designated beneficiary.

Cost-of-Living Benefits

The basic benefit is increased each year by 3% of the original base benefit.

Health Care

Retirees, their spouse and dependents have access to a medical expense health care plan as may be offered by the Retirement Board and which is subject to changes in terms and conditions from time to time.

Contribution

By members: 10% of salary.

By employers: 14% of salaries of their employees who are members.

Summary of Benefit and Contribution Provisions — Combined Plan

Eligibility for Membership

New members hired on or after July 1, 2001, may elect in writing to participate in the Combined Plan.

Service Retirement

Eligibility

Age 60 with five years of service.

Amount

The balance in the member's defined contribution account plus an annual amount equal to 1% of final average salary for the three highest paid years multiplied by years of total Ohio service credit.

Annual salary is subject to the limit under Section 401(a)(17).

Vesting

Eligibility

Completion of five years of service for the defined benefit portion. Member contributions and earnings are 100% vested at all times.

Amount

A member who terminates with five or more years of service credit can receive the actuarial equivalent present value of the defined benefit formula. Before age 50, a withdrawal must include both the defined benefit and defined contribution portions of the account.

Early Retirement

Eligibility

Before age 60 with five years of service.

Amount

The normal retirement benefit commencing at age 60. At age 50 or after, a member who elects to withdraw the full value of his or her defined contribution account may receive the withdrawal value of the formula benefit in a single sum, or leave the formula benefit on account for a benefit payable at age 60. The member may withdraw the defined benefit portion of the account only if he or she is also withdrawing the defined contribution account.

Late Retirement

Eligibility

After age 60 with five years of service.

Amount

The formula benefit described in the service retirement section based on service credit and final average salary at termination without any actuarial adjustment.

Disability Benefits

Eligibility

Completion of five or more years of service and permanently incapacitated for the performance of regular job duties.

Amount

Members have the option of receiving disability benefits. All contributions and investment gains in the member's defined contribution account are used to fund the benefit. At age 65, the disability benefit converts to a service retirement benefit with a 2.2% formula. Alternatively, the member's defined contribution account is available upon termination of employment.

Survivor Benefits

Eligibility

Upon death after at least 1-1/2 years of credit for Ohio service with at least 1/4 year of such service in the 2-1/2 years preceding death or upon death of a disability retiree.

Amount

Qualified surviving members have the option of receiving survivor benefits paid as an annuity. All contributions and investment gains in the member's defined contribution account are used to fund the benefit. If a member had 30 years of service, was age 55 with 25 years of service or age 60 with five years of service, the spouse or other sole dependent beneficiary may elect to receive an Option 1 benefit in lieu of return of contributions.

If a member did not meet the eligibility requirements described above, certain designated beneficiaries may elect to receive the following benefits in lieu of return of contributions.

Number of Qualified Dependents	% of Average Annual Salary for Three Highest Paid Years	Minimum Annual Benefit
1	25%	$ 1,152
2	40%	2,232
3	50%	2,832
4	55%	2,832
5 or more	60%	2,832

Service-based benefits provide a minimum benefit of a percentage of final average salary based on years of credited service ranging from 29% with 20 years of service to 60% with 29 years of service.

Alternatively, the member's defined contribution account is available.

Qualified beneficiaries are spouse, dependent children and/or dependent parents over age 65.

Optional Forms of Payment of Defined Benefit Portion

A lump sum of the actuarial equivalent of the defined benefit formula benefit. If a member withdraws the defined contribution account before age 50, the formula benefit is paid in a lump sum.

Joint and Survivorship Options — Options 1 through 5 described in the Defined Benefit Plan provisions are available, as well as the PLOP. All alternative forms of payment are the actuarial equivalent of the Single Life Annuity benefit payable at age 60.

Optional Forms of Payment of Member's Defined Contribution Account

The actuarial equivalent of the member's defined contribution account can be paid on or after age 50 as a lifetime annuity. Options 1 through 5, described in the Defined Benefit Plan provisions, are also available. The monthly annuity must be $100 or more to receive the member's defined contribution account in the form of an annuity.

The vested amount of the member's defined contribution account upon termination of employment can be paid as a single lump sum. If a member takes a lump sum of the defined benefit formula benefit, the member must simultaneously withdraw the lump-sum value of the member's defined contribution account in a single lump sum.

Cost-of-Living Benefits

Not available on the service retirement benefit. For disability and survivor benefits, the basic benefit is increased by 3% each year.

Health Care

Retirees, their spouse and dependents have access to a medical expense health care plan as may be offered by the Retirement Board and which is subject to changes in terms and conditions from time to time.

Contribution

By members: 10% of salary is deposited into the member's defined contribution account.

By employers: 13.7% of salaries is used to fund the defined benefit formula and health care; 0.3% of salaries is used to fund administrative expenses for the Defined Contribution Plan.

Summary of Benefit and Contribution Provisions — Defined Contribution Plan

Eligibility for Membership

New members hired on or after July 1, 2001, may elect in writing to participate in the Defined Contribution Plan.

Service Retirement

Eligibility

Termination after age 50.

Amount

The balance in the member's defined contribution account.

Vesting

Eligibility

Employer contributions and earnings on the member's account are vested after the first anniversary of membership. Member contributions and earnings are 100% vested at all times.

Amount

The balance in the member's defined contribution account.

Early Retirement

Eligibility

Termination before age 50.

Amount

The balance in the member's defined contribution account.

Disability Benefit

Not available. However, members who terminate employment may withdraw their account.

Survivor Benefits

Eligibility

Upon death.

Amount

The balance in the member's defined contribution account. A spouse may either continue to manage the member's defined contribution account or withdraw the account.

Optional Forms of Payment

The actuarial equivalent of the member's defined contribution account can be paid on or after age 50 as a lifetime annuity. Options 1 through 5, described in the Defined Benefit Plan provisions, are also available. The monthly annuity must be $100 or more to receive the member's defined contribution account in the form of an annuity.

Cost-of-Living Benefits

Not available.

Health Care

Not available.

Contribution

By members: 10% of salary is deposited into the member's defined contribution account.

By employers: 10.5% of salary is deposited into the member's defined contribution account; 3.5% of salaries is used to amortize the unfunded liability of the Defined Benefit Plan.

Statistical

The objective of the statistical section is to provide financial statement users with historical perspective, context and detail to assist in using the information in the financial statements and the notes to the financial statements to better understand and assess STRS Ohio's economic condition.

The schedules on Pages 64–65 show financial trend information that assists users in understanding and assessing how STRS Ohio's financial position has changed over time. The financial trend schedules presented are:

- Changes in Net Assets
- Net Assets by Plan
- Benefit Expenses by Type

Demographic and economic information begins on Page 66. This information is intended to assist users in understanding the environment in which STRS Ohio operates and to provide information that facilitates comparisons of financial statement information over time and among governments. The demographic and economic information presented are:

- Actuarial Funding Ratio and Funding Period
- Selected Funding Information — Defined Benefit Plan
- Number of Benefit Recipients by Type
- Summary of Active Membership Data

Operating information, which begins on Page 68, is intended to provide contextual information about STRS Ohio's operation to assist in using financial statement information. The operating information presented is:

- Benefit Payments by Type
- Average Benefit Payments for Service Retirees
- Number of Reporting Employers by Type
- Principal Participating Employers

Changes in Net Assets
Years Ending June 30, 1998–2007 (in thousands)

Defined Benefit Plan

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Additions:										
Member contributions	$ 697,404	$ 716,551	$ 755,146	$ 785,009	$ 815,339	$ 868,157	$ 967,234	$ 969,226	$ 987,900	$ 1,002,876
Employer contributions	746,997	450,479	470,473	779,274	817,742	1,164,734	1,206,439	1,232,317	1,255,053	1,272,559
Investment income	5,771,480	5,710,997	5,197,638	(3,472,421)	(4,039,314)	857,081	7,685,568	6,101,662	7,550,742	12,693,905
Other	47,359	49,014	50,190	35,000	193	21,486	20,777	20,488	18,974	36,313
Total additions	7,263,240	6,927,041	6,473,447	(1,873,138)	(2,406,040)	2,911,458	9,880,018	8,323,693	9,812,669	15,005,653
Deductions:										
Benefit payments	1,829,963	2,009,701	2,290,972	2,486,505	2,638,953	2,845,503	3,108,753	3,383,605	3,684,385	4,007,705
Refunds	87,705	91,037	105,759	93,868	83,859	76,453	99,538	110,018	121,290	128,587
Administrative expenses	41,057	46,596	54,543	65,884	69,991	69,085	62,768	59,093	63,398	60,002
Total deductions	1,958,725	2,147,334	2,451,274	2,646,257	2,792,803	2,991,041	3,271,059	3,552,716	3,869,073	4,196,294
Net increase (decrease)	5,304,515	4,779,707	4,022,173	(4,519,395)	(5,198,843)	(79,583)	6,608,959	4,770,977	5,943,596	10,809,359
Net assets held in trust, beginning of year	40,493,968	45,798,483	50,578,190	54,600,363	50,080,968	44,882,125	44,802,542	51,411,501	56,182,478	62,126,074
Net assets held in trust, end of year	$45,798,483	$50,578,190	$54,600,363	$50,080,968	$44,882,125	$44,802,542	$51,411,501	$56,182,478	$62,126,074	$72,935,433

Post-Employment Health Care Plan

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Additions:										
Employer contributions	$ 248,928	$ 587,062	$ 615,652	$ 363,166	$ 380,437	$ 88,587	$ 91,589	$ 93,066	$ 94,610	$ 96,287
Health care premiums	39,682	47,819	60,375	68,582	79,590	103,913	156,970	188,835	189,432	201,537
Investment income	268,199	292,600	306,499	(221,700)	(267,250)	54,800	470,125	361,600	433,999	713,400
Medicare D reimbursement	0	0	0	0	0	0	0	0	17,947	36,312
Total additions	556,809	927,481	982,526	210,048	192,777	247,300	718,684	643,501	735,988	1,047,536
Deductions:										
Health care provider payments	258,906	297,748	343,512	369,354	434,287	456,214	425,709	443,615	490,122	503,407
Administrative expenses	1,432	2,371	3,274	3,860	3,909	3,903	3,763	3,879	3,204	3,027
Total deductions	260,338	300,119	346,786	373,214	438,196	460,117	429,472	447,494	493,326	506,434
Net increase (decrease)	296,471	627,362	635,740	(163,166)	(245,419)	(212,817)	289,212	196,007	242,662	541,102
Net assets held in trust, beginning of year	1,859,533	2,156,004	2,783,366	3,419,106	3,255,940	3,010,521	2,797,704	3,086,916	3,282,923	3,525,585
Net assets held in trust, end of year	$ 2,156,004	$ 2,783,366	$ 3,419,106	$ 3,255,940	$ 3,010,521	$ 2,797,704	$ 3,086,916	$ 3,282,923	$ 3,525,585	$ 4,066,687

Defined Contribution Plan

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Additions:										
Member contributions					$ 11,571	$ 18,774	$ 23,612	$ 28,641	$ 33,070	$ 36,709
Employer contributions					6,536	10,136	13,147	16,270	19,280	21,645
Investment income					(1,469)	2,677	11,741	13,560	19,830	37,023
Transfers between retirement plans					19,792	0	0	0	0	(15,845)
Total additions					36,430	31,587	48,500	58,471	72,180	79,532
Deductions:										
Refunds					218	1,076	2,656	4,533	5,918	6,407
Administrative expenses				2,533	3,225	931	849	733	491	358
Total deductions				2,533	3,443	2,007	3,505	5,266	6,409	6,765
Net increase (decrease)				(2,533)	32,987	29,580	44,995	53,205	65,771	72,767
Net assets held in trust, beginning of year				0	(2,533)	30,454	60,034	105,029	158,234	224,005
Net assets held in trust, end of year				$ (2,533)	$ 30,454	$ 60,034	$ 105,029	$ 158,234	$ 224,005	$ 296,772

Net Assets by Plan
Years Ending June 30, 1998–2007 (in thousands)

Fiscal Year	Defined Benefit Plan	Post-Employment Health Care Plan	Defined Contribution Plan	Total Net Assets
1998	$45,798,483	$2,156,004	—	$47,954,487
1999	$50,578,190	$2,783,366	—	$53,361,556
2000	$54,600,363	$3,419,106	—	$58,019,469
2001	$50,080,968	$3,255,940	$(2,533)	$53,334,375
2002	$44,882,125	$3,010,521	$30,454	$47,923,100
2003	$44,802,542	$2,797,704	$60,034	$47,660,280
2004	$51,411,501	$3,086,916	$105,029	$54,603,446
2005	$56,182,478	$3,282,923	$158,234	$59,623,635
2006	$62,126,074	$3,525,585	$224,005	$65,875,664
2007	**$72,935,433**	**$4,066,687**	**$296,772**	**$77,298,892**

Benefit Expenses by Type, 1998–2007 (in thousands)

Fiscal Year Ended	Service Retirement	Disability Benefits	Survivor Benefits	Supplemental Benefit	Other	Total
1998	$1,601,143	$130,429	$47,920	$44,876	$5,595	$1,829,963
1999	$1,764,172	$139,296	$52,863	$46,448	$6,922	$2,009,701
2000	$2,019,521	$152,365	$62,346	$48,493	$8,247	$2,290,972
2001	$2,203,280	$160,775	$65,591	$50,386	$6,473	$2,486,505
2002	$2,395,318	$168,704	$69,214	$0	$5,717	$2,638,953
2003	$2,588,800	$175,620	$73,680	$0	$7,403	$2,845,503
2004	$2,840,334	$182,889	$77,089	$0	$8,441	$3,108,753
2005	$3,106,371	$187,426	$81,589	$0	$8,219	$3,383,605
2006	$3,393,968	$193,329	$86,023	$0	$11,065	$3,684,385
2007	**$3,708,919**	**$198,581**	**$90,092**	**$0**	**$10,113**	**$4,007,705**

Actuarial Funded Ratio and Funding Period
1998–2007 (dollar amounts in thousands)

At July 1	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Funding Period
1998	$41,709,903	$48,972,084	$7,262,181	85.2%	24.2 Yrs.
1999	$46,341,436	$51,979,974	$5,638,538	89.2%	16.3 Yrs.
2000	$51,293,815	$55,774,052	$4,480,237	92.0%	23.1 Yrs.
2001	$54,194,672	$59,425,300	$5,230,628	91.2%	27.5 Yrs.
2002	$48,958,824	$63,215,643	$14,256,819	77.4%	39.0 Yrs.
2003	$48,899,215	$65,936,357	$17,037,142	74.2%	42.3 Yrs.
2004	$52,253,798	$69,867,425	$17,613,627	74.8%	42.2 Yrs.
2005	$53,765,570	$73,817,114	$20,051,544	72.8%	55.5 Yrs.
2006	$58,008,050	$77,371,024	$19,362,974	75.0%	47.2 Yrs.
2007	**$66,671,511**	**$81,126,642**	**$14,455,131**	**82.2%**	**26.1 Yrs.**

Selected Funding Information — Defined Benefit Plan
1998–2007

As of July 1	Member Contribution Rate	Employer Contribution Rate				Interest Rate Assumption	Payroll Growth Assumption
		Normal	Health Care	Unfunded Actuarial Accrued Liability	Total Employer Rate		
1998	9.30%	0.04%	8.00%	5.96%	14.00%	7.50%	4.50%
1999	9.30%	0.05%	8.00%	5.95%	14.00%	7.50%	4.50%
2000	9.30%	6.02%	4.50%	3.48%	14.00%	7.75%	4.50%
2001	9.30%	6.02%	4.50%	3.48%	14.00%	7.75%	4.50%
2002	9.30%	6.02%	1.00%	6.98%	14.00%	7.75%	4.50%
2003	10.00%	4.89%	1.00%	8.11%	14.00%	8.00%	4.50%
2004	10.00%	4.90%	1.00%	8.10%	14.00%	8.00%	4.50%
2005	10.00%	4.90%	1.00%	8.10%	14.00%	8.00%	4.50%
2006	10.00%	4.82%	1.00%	8.18%	14.00%	8.00%	4.50%
2007	**10.00%**	**4.81%**	**1.00%**	**8.19%**	**14.00%**	**8.00%**	**4.50%**

Number of Benefit Recipients by Type
1998–2007

As of July 1	Service Retirement	Disability Benefits	Beneficiaries Receiving Optional Allowances	Survivor Benefits	Total
1998	75,482	6,157	5,675	4,685	91,999
1999	78,341	6,259	5,948	5,248	95,796
2000	81,111	6,367	6,152	5,381	99,011
2001	83,918	6,449	6,340	5,425	102,132
2002	86,666	6,498	6,623	5,513	105,300
2003	89,257	6,552	6,885	5,600	108,294
2004	92,574	6,531	7,079	5,669	111,853
2005	95,843	6,514	7,314	5,724	115,395
2006	99,248	6,588	7,574	5,774	119,184
2007	**102,771**	**6,480**	**7,859**	**5,824**	**122,934**

Summary of Active Membership Data
1998–2007 (dollars in thousands)

Defined Benefit Plan

	Females				Males				Total			
As of July 1	Active Members	Annual Salaries	Average Age	Average Service	Active Members	Annual Salaries	Average Age	Average Service	Active Members	Annual Salaries	Average Age	Average Service
1998	116,321	$4,359,157	43.08	12.63	53,805	$2,474,903	44.46	14.39	170,126	$6,834,060	43.52	13.19
1999	117,832	$4,557,211	43.14	12.61	53,022	$2,483,692	44.54	14.27	170,854	$7,040,903	43.57	13.12
2000	121,025	$4,839,360	43.14	12.52	53,047	$2,546,762	44.52	14.07	174,072	$7,386,122	43.56	12.99
2001	123,703	$5,101,368	43.15	12.38	53,310	$2,619,890	44.52	13.75	177,013	$7,721,258	43.57	12.79
2002	123,198	$5,312,351	43.37	12.56	52,792	$2,674,763	44.54	13.70	175,990	$7,987,114	43.72	12.90
2003	123,850	$5,567,951	43.03	12.52	52,862	$2,758,722	44.11	13.41	176,712	$8,326,673	43.35	12.78
2004	123,320	$5,738,523	43.22	12.65	52,034	$2,787,446	44.21	13.38	175,354	$8,525,969	43.51	12.87
2005	121,940	$5,832,249	43.37	12.80	50,738	$2,787,043	44.36	13.42	172,678	$8,619,292	43.66	12.98
2006	121,106	$5,937,660	43.45	12.85	49,923	$2,808,086	44.38	13.33	171,029	$8,745,746	43.72	12.99
2007	**120,641**	**$6,058,709**	**43.50**	**12.84**	**49,201**	**$2,829,219**	**44.41**	**13.21**	**169,842**	**$8,887,928**	**43.76**	**12.95**

Combined Plan

	Females				Males				Total			
As of July 1	Active Members	Annual Salaries	Average Age	Average Service	Active Members	Annual Salaries	Average Age	Average Service	Active Members	Annual Salaries	Average Age	Average Service
2002	1,973	$58,023	36.21	2.39	594	$17,997	39.94	2.22	2,567	$76,020	37.07	2.35
2003	2,474	$75,715	35.80	2.41	758	$23,449	38.83	2.18	3,232	$99,164	36.51	2.35
2004	2,833	$91,090	35.85	2.82	876	$29,345	38.99	2.55	3,709	$120,435	36.59	2.76
2005	3,081	$104,158	36.13	3.28	933	$33,750	39.22	3.02	4,014	$137,908	36.85	3.22
2006	3,144	$112,499	36.60	3.76	892	$36,155	39.81	3.68	4,036	$148,654	37.31	3.74
2007	**3,342**	**$124,417**	**36.90**	**4.16**	**926**	**$39,497**	**40.12**	**4.04**	**4,268**	**$163,914**	**37.60**	**4.13**

Total Active Membership

	Females				Males				Total			
As of July 1	Active Members	Annual Salaries	Average Age	Average Service	Active Members	Annual Salaries	Average Age	Average Service	Active Members	Annual Salaries	Average Age	Average Service
1998	116,321	$4,359,157	43.08	12.63	53,805	$2,474,903	44.46	14.39	170,126	$6,834,060	43.52	13.19
1999	117,832	$4,557,211	43.14	12.61	53,022	$2,483,692	44.54	14.27	170,854	$7,040,903	43.57	13.12
2000	121,025	$4,839,360	43.14	12.52	53,047	$2,546,762	44.52	14.07	174,072	$7,386,122	43.56	12.99
2001	123,703	$5,101,368	43.15	12.38	53,310	$2,619,890	44.52	13.75	177,013	$7,721,258	43.57	12.79
2002	125,171	$5,370,374	43.25	12.40	53,386	$2,692,760	44.49	13.57	178,557	$8,063,134	43.62	12.75
2003	126,324	$5,643,666	42.89	12.32	53,620	$2,782,171	44.04	13.25	179,944	$8,425,837	43.23	12.60
2004	126,153	$5,829,613	43.05	12.43	52,910	$2,816,791	44.12	13.20	179,063	$8,646,404	43.37	12.66
2005	125,021	$5,936,407	43.20	12.56	51,671	$2,820,793	44.27	13.23	176,692	$8,757,200	43.51	12.76
2006	124,250	$6,050,159	43.45	12.85	50,815	$2,844,241	44.30	13.16	175,065	$8,894,400	43.58	12.77
2007	**123,983**	**$6,183,126**	**43.32**	**12.60**	**50,127**	**$2,868,716**	**44.33**	**13.04**	**174,110**	**$9,051,842**	**43.61**	**12.73**

Note: Members enrolled in STRS Ohio's Defined Contribution Plan and reemployed retirees are not reflected in the above figures.

Benefit Payments by Type
As of July 1, 2007

Age Last Birthday	Number	Annual Allowance (in thousands)	Average Annual Allowance
Service Retirees			
Under 60	17,006	$ 777,839	$ 45,739
60–64	22,310	927,908	41,592
65–69	19,213	710,667	36,989
70–74	15,072	495,390	32,868
75–79	12,445	362,764	29,149
Over 79	16,725	387,465	23,167
Total	**102,771**	**$ 3,662,033**	**$ 35,633**
Beneficiaries Receiving Optional Allowances			
Under 60	449	$ 10,088	$ 22,468
60–64	449	13,004	28,962
65–69	710	19,335	27,232
70–74	1,088	26,166	24,050
75–79	1,577	33,963	21,536
Over 79	3,586	64,187	17,899
Total	**7,859**	**$ 166,743**	**$ 21,217**
Survivor Benefit Beneficiaries			
Under 60	2,118	$ 27,899	$ 13,172
60–64	778	15,767	20,266
65–69	693	13,159	18,988
70–74	631	11,249	17,827
75–79	660	11,119	16,847
Over 79	944	14,084	14,919
Total	**5,824**	**$ 93,277**	**$ 16,016**
Disability Beneficiaries			
Under 60	2,676	$ 90,914	$ 33,974
60–64	1,396	46,042	32,981
65–69	829	25,992	31,353
70–74	606	17,214	28,406
75–79	481	11,952	24,848
Over 79	492	10,490	21,321
Total	**6,480**	**$ 202,604**	**$ 31,266**
Grand Total	**122,934**	**$ 4,124,657**	**$ 33,552**

Average Benefit Payments for Service Retirees, 1998–2007

		Years of Service Credit						Average/
		5–9	10–14	15–19	20–24	25–29	>=30	Total
1998	Average monthly benefit	$321	$638	$1,061	$1,478	$1,930	$2,803	$2,314
	Average final average salary	$16,311	$25,400	$35,591	$42,177	$47,423	$51,521	$46,542
	Number of recipients	266	234	170	239	478	3,108	4,495
1999	Average monthly benefit	$337	$727	$1,097	$1,599	$1,951	$2,926	$2,453
	Average final average salary	$17,104	$29,709	$36,175	$46,180	$49,110	$53,952	$49,348
	Number of recipients	267	218	192	267	499	3,559	5,002
2000	Average monthly benefit	$298	$672	$1,125	$1,661	$2,039	$3,146	$2,714
	Average final average salary	$21,118	$31,999	$40,307	$47,625	$49,164	$54,643	$51,394
	Number of recipients	202	167	216	304	586	4,370	5,845
2001	Average monthly benefit	$315	$746	$1,148	$1,633	$2,090	$3,327	$2,828
	Average final average salary	$21,356	$35,748	$40,008	$46,269	$50,934	$56,954	$52,997
	Number of recipients	211	195	194	260	484	3,869	5,213
2002	Average monthly benefit	$322	$706	$1,130	$1,764	$2,186	$3,469	$2,915
	Average final average salary	$21,436	$33,672	$39,589	$51,098	$53,930	$58,867	$54,566
	Number of recipients	236	202	201	242	548	3,775	5,204
2003	Average monthly benefit	$298	$675	$1,184	$1,701	$2,231	$3,666	$3,014
	Average final average salary	$19,890	$31,022	$42,236	$48,396	$55,421	$62,104	$56,379
	Number of recipients	246	201	211	274	458	3,438	4,828
2004	Average monthly benefit	$315	$703	$1,183	$1,816	$2,358	$3,813	$3,166
	Average final average salary	$22,700	$34,373	$44,115	$52,818	$57,948	$63,778	$58,636
	Number of recipients	242	218	223	257	474	3,704	5,118
2005	Average monthly benefit	$398	$745	$1,192	$1,914	$2,389	$4,003	$3,435
	Average final average salary	$30,007	$34,738	$43,146	$54,931	$58,865	$66,075	$61,976
	Number of recipients	174	129	219	269	516	4,075	5,382
2006	Average monthly benefit	$404	$871	$1,375	$1,917	$2,539	$4,066	$3,520
	Average final average salary	$27,690	$42,971	$50,552	$54,838	$62,085	$67,314	$63,857
	Number of recipients	141	150	242	296	574	4,379	5,782
2007	**Average monthly benefit**	**$445**	**$847**	**$1,292**	**$1,986**	**$2,578**	**$4,234**	**$3,639**
	Average final average salary	**$32,923**	**$39,980**	**$48,381**	**$58,106**	**$64,123**	**$69,723**	**$65,961**
	Number of recipients	**157**	**142**	**259**	**348**	**616**	**4,597**	**6,119**

Number of Reporting Employers by Type, 1998–2007

Fiscal Year Ended	City School Districts	Local School Districts	County Educational Service Centers	Exempted Village School Districts	Vocational & Technical Schools	Colleges & Universities	County MR/DD Boards	Community Schools*	Other	Total
1998	192	372	65	49	49	37	82	*	8	854
1999	192	371	63	49	49	37	82	16	7	866
2000	194	369	61	49	49	37	82	51	8	900
2001	194	369	61	49	49	37	80	72	8	919
2002	194	369	60	49	49	37	77	101	8	944
2003	194	369	60	49	49	37	76	130	8	972
2004	194	369	60	49	49	37	76	142	9	985
2005	194	370	60	49	49	37	74	219	9	1,061
2006	194	369	60	49	49	37	73	246	9	1,086
2007	**194**	**369**	**60**	**49**	**49**	**36**	**73**	**255**	**9**	**1,094**

*Community schools were added as reporting employers in fiscal 1999.

Principal Participating Employers
For the Year Ended June 30, 2007

Employer	Covered Members	Current Year Rank	Prior Year Rank	Percentage of Membership
Columbus City Schools	6,242	1	1	2.41%
Cleveland Municipal Schools	5,401	2	2	2.09%
The Ohio State University	4,713	3	3	1.82%
Cincinnati City Schools	3,416	4	4	1.32%
Akron City Schools	3,243	5	5	1.25%
Toledo City Schools	3,155	6	6	1.22%
Kent State University	2,814	7	7	1.09%
University of Cincinnati	2,798	8	8	1.08%
Cuyahoga Community College	2,426	9	9	0.94%
Univerity of Akron	2,280	10	10	0.88%
All Others	222,413			85.90%
Total Covered Members	**258,901***			**100.00%**

*Covered members include any participant in STRS Ohio who made contributions through a reporting employer during the fiscal year. Part-time teachers working in multiple school districts are included within each school's payroll data and, consequently, are reported more than once. Participating employers include every publicly funded school in Ohio employing a certified teacher.

State Teachers Retirement System of Ohio
275 E. Broad St., Columbus, OH 43215-3771
614.227.4090 • www.strsoh.org

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