STRS OHIO

State Teachers
Retirement System
of Ohio

Comprehensive Annual Financial Report 2006

Fiscal Year Ended June 30, 2006

Mary Taylor, CPA
Auditor of State

Retirement Board
State Teachers Retirement System of Ohio
275 East Broad Street
Columbus, Ohio 43215-3771

We have reviewed the *Independent Auditors' Report* of the State Teachers Retirement System of Ohio, Franklin County, prepared by Clifton Gunderson LLP, for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The State Teachers Retirement System of Ohio is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 20, 2007

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

Comprehensive Annual Financial Report 2006

Fiscal Year Ended June 30, 2006

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, 2005

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

President

Executive Director

Table of Contents

Comprehensive Annual Financial Report 2006

Professional Consultants: Independent Public Accountants, Clifton Gunderson LLP; Investment Consultants, Russell Investment Group, Tacoma, Wash.; and Actuarial Consultants, Buck Consultants, Chicago, Ill. See Page 51 for a list of external domestic equity, international and fixed-income managers.

2005–2006 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 2005–2006 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.

In May 2006, Conni Ramser, retained her seat as a contributing member of the board and Mark Meuser was elected to a contributing member seat on the board. The terms for these two seats begin Sept. 1, 2006, and run through Aug. 31, 2010.

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

STATE TEACHERS RETIREMENT SYSTEM OF OHIO

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

Dec. 15, 2006

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, 2006. 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 dependents.

The *Comprehensive Annual Financial Report* is divided into five sections:

(1) an Introductory Section, including this letter of transmittal and information about the administrative organization of STRS Ohio;

(2) a Financial Section containing financial statements, Management's Discussion and Analysis, footnotes, and the independent auditors' report ;

(3) an Investment Section, including a summary of investment assets and the Retirement Board's Statement of Investment Objectives and Policy and Statement of Fund Governance;

(4) an Actuarial Section, including results of the annual actuarial valuation and the certification letter from Buck Consultants; and

(5) a Statistical Section, including historical data showing the progress of the system.

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 Retirement Board and the Health Care Advocates for STRS — a coalition of major management, professional and retiree organizations representing Ohio's public K-12 and higher education teachers. The Retirement Board is pursuing a legislative initiative that will increase public teachers' contributions to STRS Ohio by 2.5% and their employers' contributions by 2.5% of teacher payroll to create ongoing, dedicated revenues for the STRS Ohio Health Care Program. These increases would be phased in over a five-year period, in .5% increments. Legislative action is needed because both member and employer contributions are already at the maximum levels allowed by law.

Since 1998, STRS Ohio has participated in a benefit administration benchmarking project developed by CEM, Inc., of Toronto, Ontario. The purpose of this survey is to provide insight into benefit administration costs, service levels and industry best practices. Today, more than 50 retirement systems from the United States, Canada, Australia and the Netherlands participate in the annual study that represents pension funds serving more than 18 million members. STRS Ohio achieved the top ranking in service for seven consecutive years; however, in 2005, the survey showed that STRS Ohio earned the No. 2 ranking in overall quality of services.

The Board approved several changes that will streamline the disability application process for STRS Ohio members. The changes shorten the disability application process while preserving members' ability to appeal the denial or termination of disability benefits. Appeals will now be heard by a three-member Board Review Panel. This ensures members will still be able to appeal in person directly to board members and receive a peer review, but also allows more board time to be spent on global Retirement Board issues. The three-member panel is in place for members who file a disability application or for recipients whose disability benefits are recommended for termination on or after July 1, 2006.

During the year, the Board approved changing the annual interest rate paid on member withdrawals to 2% for members with less than three years of service credit and to 3% for members with three or more years of service credit, effective Jan. 1, 2006, through Dec. 31, 2006. These changes put STRS Ohio's rates more in line with market interest rates that have declined significantly since the percentage rates for member withdrawals were last changed in 1998.

Work continues on the replacement of the system's pension management computer system. The project, which began in fiscal 2005, is scheduled to be completed during calendar year 2008. It is also expected that an ongoing independent fiduciary audit will be completed in fiscal 2007.

Investments

Total investments increased to $67.4 billion (including short-term investments) as of June 30, 2006. The Investment Review starting on Page 33 discusses the investment environment during fiscal 2006. 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 48.

For the fiscal year ended June 30, 2006, investments provided a 13.73% return. STRS Ohio's annualized rate of return over the last three years was 14.54% and 7.15% for the last five years. Similar benchmark returns over the same one-, three- and five-year periods were 12.26%, 13.33%, and 6.61%, respectively.

2006 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 $10.6 billion in fiscal 2006, an increase of $1.6 billion from the previous year due to greater investment returns. Effective Jan. 1, 2006, STRS Ohio receives partial reimbursements for Medicare Part D participant prescription costs. This federal subsidy helps offset the overall cost of managing the post-employment health care program.

Additions to Plan Net Assets
(dollar amounts in thousands)

	2006
Net Investment Income	$ 8,004,571
Contributions:	
Member	$ 1,020,970
Employer	$ 1,368,943
Health Care Premiums	$ 189,432
Medicare Part D Reimbursement	$ 17,947
Other	$ 18,974
Total Contributions	$ 2,616,266
Total Additions to Plan Net Assets	**$ 10,620,837**

2006 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 $4.3 billion.

Deductions From Plan Net Assets
(dollar amounts in thousands)

	2006
Benefits	$ 4,174,507
Withdrawals	$ 127,208
Administrative Expenses	$ 67,093
Total Deductions From Net Assets	**$ 4,368,808**

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, 2006, valuation shows that the amortization period for the unfunded accrued liability decreased to 47.2 years from 55.5 years, and the ratio of assets to total accrued liabilities increased to 75.0% from 72.8%.

Generally accepted accounting principles require pension plans to report the annual required contribution necessary to have a maximum amortization period of 40 years for disclosure purposes. Consequently, the amortization period shown on Page 30 is 40 years for financial reporting purposes.

A detailed discussion of funding is provided in the Actuarial Section of this report beginning on Page 52.

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, 2005. 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 16 years. We believe our current report continues to meet the Certificate of Achievement program requirements and will be submitted to the GFOA.

In addition, STRS Ohio once again successfully met the rigorous requirements for the Public Pension Coordinating Council Achievement Award in 2006. This award recognizes systems who have complied with specific principles in pension plan design and administration that are regarded as marks of excellence.

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

Damon F. Asbury
Executive Director

Robert A. Slater

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

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditors' Report

The Retirement Board,
The State Teachers Retirement System of Ohio

and

The Honorable Betty Montgomery
Auditor of State

We have audited the accompanying statement of plan net assets of the State Teachers Retirement System of Ohio (the System) as of June 30, 2006, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the System as of June 30, 2005 were audited by other auditors whose report dated December 2, 2005 expressed an unqualified opinion.

We conducted our audit 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 the System'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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2006, and the changes in its plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Audit Standards*, we have also issued a report dated December 15, 2006, on our consideration of the System's internal control over financial reporting and on our test of its compliance with certain provisions 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.

The management's discussion and analysis on pages 9 through 15 and the schedules of funding progress and employer contributions and related notes on page 30 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 31 and 32 is 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 supplemental information for 2005 was subjected to the auditing procedures applied in the basic financial statements by other auditors whose report dated December 2, 2005 expressed an unqualified opinion on such information, 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 33 through 51, the actuarial section on pages 52 through 60 and the statistical section on pages 61 through 68 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 15, 2006

Management's Discussion and Analysis

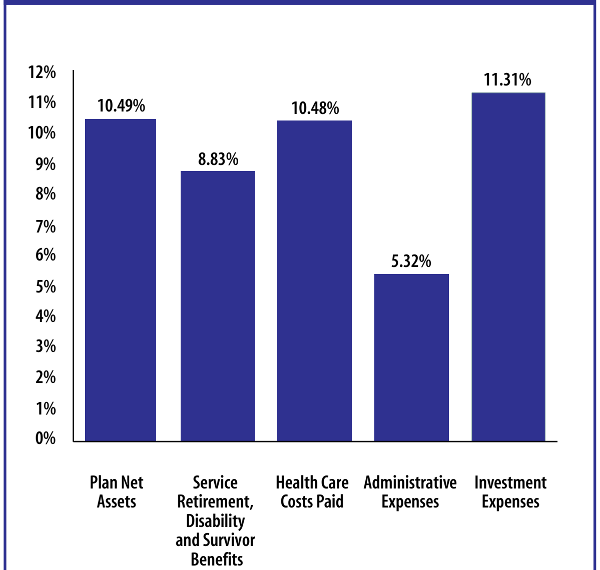
Management is pleased to provide this overview and analysis of the financial activities of the State Teachers Retirement System of Ohio (STRS Ohio) for the years ended June 30, 2006 and 2005. This information is intended to supplement the financial statements, which begin on Page 17 of this report. We encourage readers to consider additional information and data in STRS Ohio's 2006 *Comprehensive Annual Financial Report*.

Financial Highlights

The chart below illustrates the percentage changes in plan assets and expenses for fiscal 2006. Highlights of the fiscal year include:

- The investment rate of return was 13.73% in fiscal 2006. The investment portfolio rate of return for fiscal 2005 was 12.25% following a 17.70% return in 2004. Five- and 10-year total fund returns are 7.15% and 8.28%, respectively.
- Total plan net assets increased by 10.5% from the prior fiscal year, ending at $65.9 billion as of June 30, 2006. Total plan assets increased 9.2% from fiscal 2004 to fiscal 2005, ending at $59.6 billion as of June 30, 2005.
- The post-employment health care balance increased 7.4% to $3.5 billion. Investment income for the fund was $434 million in 2006. The post-employment health care balance increased 6.4% from fiscal 2004 to fiscal 2005, ending at $3.3 billion as of June 30, 2005.
- Defined contribution accounts finished the year with $224 million in net assets, an increase of 41.6% from 2005. Investment management and administrative fees paid by plan participants reduced the accrued Defined Contribution and Combined Plan costs by $1.5 million during fiscal 2006. The defined contribution accounts ended at June 30, 2005, with $158 million in assets, an increase of 50.7% from fiscal 2004.
- Total benefit payments were $4.2 billion during fiscal 2006, an increase of 9.1% from fiscal 2005. STRS Ohio paid members nearly $3.7 billion in service retirement, disability and survivor benefits plus $490 million for health care coverage during fiscal 2006. Total benefit payments were $3.8 billion during fiscal 2005, an increase of 8.8% from fiscal 2004.
- Total additions to plan net assets were $10.6 billion during fiscal 2006, an increase of $1.6 billion from 2005. Net investment income during fiscal 2006 totaled $8.0 billion, most of it coming from appreciation in investment values. Total additions to plan net assets were $9 billion during fiscal 2005, a decrease of $1.6 billion over fiscal 2004.
- Member and employer contributions totaled $2.4 billion during fiscal 2006. Total covered payroll, which is the combined salary for all plan participants, increased 2.2%. During fiscal 2005, member and employer contributions totaled $2.3 billion.
- Administrative expenses increased by 5.3% to end fiscal 2006 at $67.1 million. Investment expenses, which include salaries and benefits for investment personnel, increased by 11.3% to $27.7 million in fiscal 2006. In fiscal 2005, administrative expenses declined by 5.5% and investment expenses increased by 4.5%.

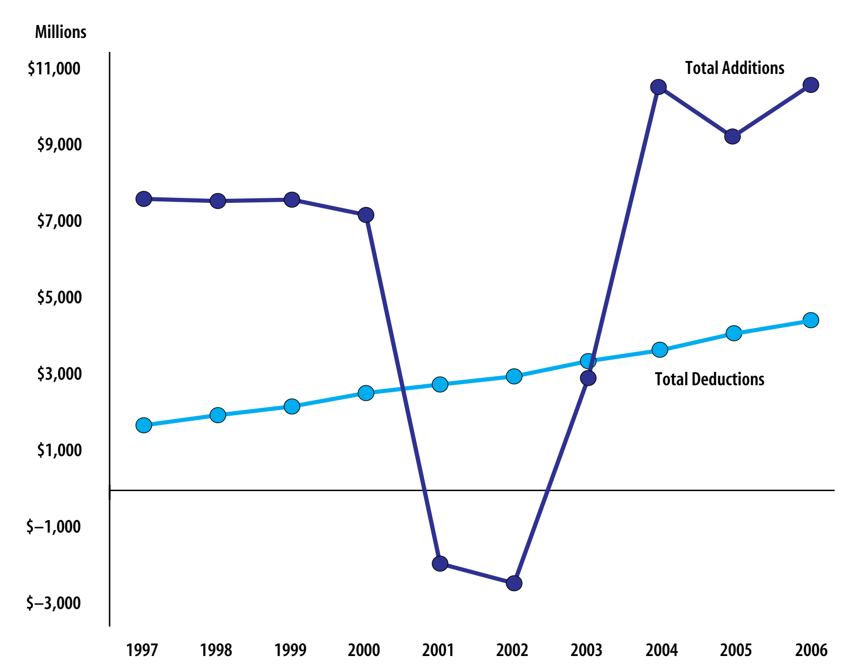
Percentage Changes in Plan Assets and Expenses for Fiscal Year 2005–2006



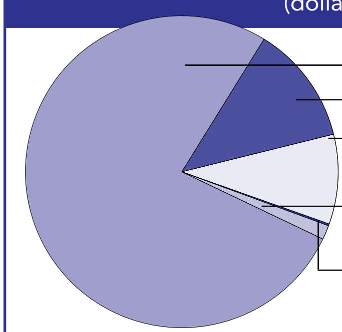
Annual Financial Review

The combined portfolio delivered a 13.73% rate of return in fiscal 2006. Every asset class yielded a positive return, led by the international equities return of 29.21%. Domestic stocks achieved a 10.14% return, real estate generated a 27.22% return and fixed income had a .04% return. Diversi-

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

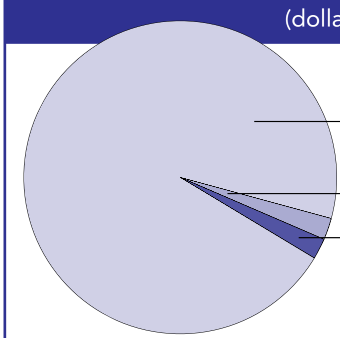


Plan Asset Additions by Source — Year Ended June 30, 2006
(dollar amounts in thousands)



Net Investment Income:	$8,004,571	75.37%
Employer Contributions:	$1,368,943	12.89%
Member Contributions:	$1,020,970	9.61%
Health Care Premiums and Medicare Part D Reimbursement:	$207,379	1.95%
Other:	$18,974	0.18%
Total Revenue:	**$10,620,837**	

Plan Asset Deductions by Type — Year Ended June 30, 2006
(dollar amounts in thousands)



Benefits (includes optional health care):	$4,174,507	95.55%
Refunds:	$127,208	2.91%
Administration:	$67,093	1.54%
Total Expenses:	**$4,368,808**	

fication 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, 1997, to June 30, 2006, STRS Ohio had a total fund return of 8.28%, exceeding the actuarial assumption and the total fund objective of 8% by 28 basis points.

The unfunded pension liability for STRS Ohio, as of July 1, 2006, is $19.4 billion, down slightly from $20.1 billion as of July 1, 2005. The expected amortization period to pay off the unfunded liability is 47.2 years at current contribution rates. The funded ratio at July 1, 2006, is 75.0%, an increase from 72.8% at July 1, 2005. Actuarial gains resulted from investment returns being greater than expected and a reduction in the interest rate paid on account withdrawals. Members retiring earlier, retirees living longer and payroll growth being less than expected generated actuarial losses. STRS Ohio recorded a net actuarial gain of more than $958 million.

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, 2006, 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.

Management's Discussion and Analysis

Investment market returns increased the net assets for post-employment health care to $3.5 billion in fiscal 2006, from $3.3 billion in fiscal 2005. Small modifications were made to the health care program for 2006. Premiums charged to health care recipients in fiscal 2006 increased slightly from $188.8 million to $189.4 million. Medicare Part D reimbursements of $17.9 million were received for the first time. Eligibility to collect Medicare Part D reimbursements became effective Jan. 1, 2006. Health care payments, trending with national health care increases, grew by 10.5% from fiscal 2005. In fiscal 2005, health care premiums rose 20.3% due to increased cost-sharing for participants. Changes in plan design also contained the increase in health care costs to only 4.2% for fiscal 2005.

Administrative expenses increased for the first time in four years. However, total investment and administrative expenses for fiscal 2006 are $8.7 million less than the amount spent in fiscal 2002. Ongoing efforts were made to reduce expenses in fiscal 2005, resulting in line item reductions to such areas as computer support services, printing, telephone and depreciation. During fiscal 2006, a litigation settlement of $3.8 million resulted in administrative expenses increasing from 2005 levels. Reductions continued in computer support services and depreciation.

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.
- 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 Funding Progress*, a *Schedule of Employer Contributions* and *Notes to the 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.

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

1-Year Returns (2006)

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Equities	10.14%	Russell 3000*	9.56%
International	29.21%	International Equity**	28.71%
Fixed Income	0.04%	Lehman Universal	(0.26%)
Real Estate	27.22%	Real Estate Composite***	19.23%
Total Fund	13.73%	Total Fund Composite Benchmark	12.26%

5-Year Returns (2002–2006)

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Equities	3.37%	Russell 3000*	3.58%
International	12.32%	International Equity **	10.40%
Fixed Income	5.86%	Lehman Universal	5.38%
Real Estate	15.00%	Real Estate Composite ***	12.49%
Total Fund	7.15%	Total Fund Composite Benchmark	6.61%

STRS Ohio Long-Term Policy Objective (20 Years)

Total Fund: 8.40%

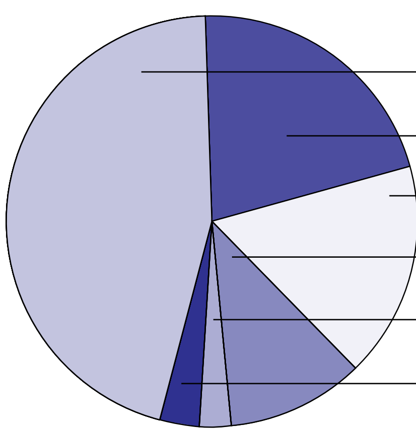
Investment performance is calculated using a time-weighted rate of return.

*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; 80% NPI Index, 10% NCREIF Timberland Index and 10% NAREIT Equity Index from Jan. 1, 2001, through June 30, 2002.

Investment Distribution by Fair Value — as of June 30, 2006
(dollar amounts in thousands)



Domestic Equities:	$26,483,442	39.30%
International:	$15,329,381	22.75%
Fixed Income:	$15,297,505	22.70%
Real Estate:	$7,084,719	10.51%
Short-Term Investments:	$1,259,851	1.87%
Alternative Investments:	$1,933,135	2.87%
Total Investments:	**$67,388,033**	

The *Schedule of 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 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* 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 actuary has determined that for the 2006 fiscal year, employers have contributed 88% of the annual required contributions as established by GASB Statement No. 25.

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

A *Schedule of Administrative Expenses*, a *Schedule of Investment Expenses* and a *Schedule 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 2006, total investments achieved a 13.73% rate of return. The relative benchmark for STRS Ohio returned 12.26%. STRS Ohio generated 147 basis points of additional value compared to the passively managed benchmark. The target allocations at the end of June 2006 were 0% in short-term investments, 21% fixed income, 42% domestic stock, 25% international, 9% real estate and 3% alternative investments. Amounts actually invested in these categories at the end of June 2006 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 or 22 basis points in fiscal 2006 and $122 million or 20 basis points in fiscal 2005.

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 10.5% from fiscal 2005. The plan net assets increased 9.2% from fiscal 2004 to fiscal 2005. The increase in plan net assets since fiscal 2004 is a result of improvements in the fair value of investments.

The value of capital assets decreased from fiscal 2004 because capital additions were less than depreciation in fiscal 2006 and 2005.

Total investment income increased by $1.5 billion from fiscal 2005. Investment income decreased $1.6 billion in fiscal 2005 from fiscal 2004.

Member contributions increased 2.3% in fiscal 2006 as payroll growth slowed. Member contributions increased less than 1% in fiscal 2005, reflecting slow payroll growth and less revenue from programs to purchase service credit than in fiscal 2004. The member and employer rate remained at 10% and14%, respectively, of earned compensation for fiscal 2005 and 2006.

Health care premiums helped to offset some of the increases in health care costs. Of the $490 million paid to health care providers in fiscal 2006, health care enrollees paid $189.4 million of the total costs through premium deductions. Employer contributions of $94.6 million were allocated to pay health care costs. The remaining health care costs of $206 million were paid by investment income allocated to post-employment health care. For fiscal 2005, benefit recipients and employers contributed $188.8 million and $93 million, respectively.

STRS Ohio was created to provide retirement, disability and survivor benefits to members and eligible beneficiaries. Expenditures include

Plan Net Assets
(dollar amounts in thousands)

	2006	2005	2004	Amount Increase (Decrease) From 2005 to 2006	Percentage Change From 2005 to 2006
Cash and investments	$ 67,394,431	$ 61,625,103	$ 54,685,321	$ 5,769,328	9.36%
Receivables	2,308,407	867,138	766,215	1,441,269	166.21%
Securities lending collateral	3,214,660	2,810,118	2,580,147	404,542	14.40%
Capital assets	127,943	128,124	133,859	(181)	(0.14%)
Total net assets	73,045,441	65,430,483	58,165,542	7,614,958	11.64%
Liabilities	7,169,777	5,806,848	3,562,096	1,362,929	23.47%
Plan net assets	**$ 65,875,664**	**$ 59,623,635**	**$ 54,603,446**	**$ 6,252,029**	**10.49%**

Additions to Plan Net Assets
(dollar amounts in thousands)

	2006	2005	2004	Amount Increase (Decrease) From 2005 to 2006	Percentage Change From 2005 to 2006
Contributions:					
Member contributions	$ 1,020,970	$ 997,867	$ 990,846	$ 23,103	2.32%
Employer contributions	1,368,942	1,341,653	1,311,175	27,289	2.03%
Health care premiums	189,432	188,835	156,970	597	0.32%
Other	36,921	20,488	20,777	16,433	80.21%
Total contributions	2,616,265	2,548,843	2,479,768	67,422	2.65%
Total investment income	8,004,572	6,476,822	8,167,434	1,527,750	23.59%
Total additions to plan net assets	**$ 10,620,837**	**$ 9,025,665**	**$ 10,647,202**	**$ 1,595,172**	**17.67%**

Deductions From Plan Net Assets
(dollar amounts in thousands)

	2006	2005	2004	Amount Increase (Decrease) From 2005 to 2006	Percentage Change From 2005 to 2006
Deductions:					
Benefit payments	$ 3,684,385	$ 3,383,605	$ 3,108,753	$ 300,780	8.89%
Health care coverage	490,122	443,615	425,709	46,507	10.48%
Refunds to members	127,208	114,551	102,194	12,657	11.05%
Administrative expenses	67,093	63,705	67,380	3,388	5.32%
Total deductions	**$ 4,368,808**	**$ 4,005,476**	**$ 3,704,036**	**$ 363,332**	**9.07%**

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

	2006	2005	2004	Amount Increase (Decrease) From 2005 to 2006	Percentage Change From 2005 to 2006
Change in plan net assets	**$ 6,252,029**	**$ 5,020,189**	**$ 6,943,166**	**$ 1,231,840**	**24.54%**

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 almost $4.4 billion in fiscal 2006, a 9.1% increase over fiscal 2005. Total deductions from plan net assets were $4.0 billion for fiscal 2005, an 8.1% increase over 2004. The largest component was monthly benefit payments for service retirement, disability and survivor benefits. Total pension benefit payments increased 8.9% in fiscal 2006 and 8.8% in fiscal 2005 as a result of new retirees and cost-of-living adjustments.

Health care costs increased 10.5% in fiscal 2006 after major plan changes held the increase to only 4.2% in 2005.

Funding Analysis

In fiscal 2006, the funding period decreased by 8.3 years to 47.2 years from 55.5 years in fiscal 2005. The funding period was 42.2 years at the end of fiscal 2004. In fiscal 2006, actuarial gains resulted from investment returns being greater than expected and a reduction in the interest rate paid on account withdrawals. Members retiring earlier, retirees living longer and payroll growth being less than expected generated actuarial losses.

The unfunded accrued liability for STRS Ohio pension benefits is $19.4 billion at July 1, 2006, down from $20.1 billion at July 1, 2005. Market changes in investment assets are smoothed over a four-year period for valuation proposes. Valuation assets ended fiscal 2006 at $58.0 billion, up from $53.8 billion the prior year. The present value of promised benefits to current and future benefit recipients (the actuarial accrued liability) at fiscal 2006 and 2005 was $77.4 billion and $73.8 billion, respectively. The funded ratio, which is the valuation assets divided by the actuarial accrued liability, was 75.0% at July 1, 2006, up from 72.8% at July 1, 2005.

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, 2006				June 30, 2005			
	Defined Benefit	Defined Contribution	Post-employment Health Care	Totals	Defined Benefit	Defined Contribution	Post-employment Health Care	Totals
Assets:								
Cash & short-term investments	$ 1,173,394	$ 25,182	$ 67,673	$ 1,266,249	$ 2,325,162	$ 16,643	$ 144,153	$ 2,485,958
Receivables:								
Accrued interest & dividends	186,712		10,768	197,480	165,232		9,846	175,078
Employer contributions	205,708	11	11,864	217,583	201,344	45	11,997	213,386
Retirement incentive	1,481			1,481	868			868
Member contributions	132,587	25		132,612	128,605	88		128,693
Due from defined contribution plans	3,642			3,642	5,144			5,144
Securities sold	1,657,982		95,620	1,753,602	323,485		19,275	342,760
Miscellaneous receivables	2,007			2,007	1,209			1,209
Total receivables	2,190,119	36	118,252	2,308,407	825,887	133	41,118	867,138
Investments, at fair value:								
Fixed income	14,414,438	51,747	831,320	15,297,505	12,044,062	41,109	712,047	12,797,218
Domestic common and preferred stock	24,940,837	104,198	1,438,407	26,483,442	24,829,259	75,929	1,479,470	26,384,658
International	14,471,305	23,476	834,600	15,329,381	10,739,517	13,877	639,922	11,393,316
Real estate	6,676,650	23,008	385,061	7,084,719	6,629,955	15,687	394,560	7,040,202
Alternative investments	1,827,725		105,410	1,933,135	1,438,063		85,688	1,523,751
Total investments	62,330,955	202,429	3,594,798	66,128,182	55,680,856	146,602	3,311,687	59,139,145
Invested securities lending collateral	3,039,371		175,289	3,214,660	2,652,091		158,027	2,810,118
Capital assets, at cost, net of accumulated depreciation of $86,521 and $78,963, respectively	127,943			127,943	128,124			128,124
Total assets	68,861,782	227,647	3,956,012	73,045,441	61,612,120	163,378	3,654,985	65,430,483
Liabilities:								
Securities purchased and other investment liabilities	1,606,737		92,665	1,699,402	523,887		31,216	555,103
Debt on real estate investments	2,070,608		119,418	2,190,026	2,238,314		132,881	2,371,195
Accrued expenses & other liabilities	18,992		1,095	20,087	15,350		915	16,265
Due to defined benefit plans		3,642		3,642		5,144		5,144
Medical benefits payable			41,960	41,960			49,023	49,023
Obligations under securities lending program	3,039,371		175,289	3,214,660	2,652,091		158,027	2,810,118
Total liabilities	6,735,708	3,642	430,427	7,169,777	5,429,642	5,144	372,062	5,806,848
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 30.)	$ 62,126,074	$ 224,005	$ 3,525,585	$ 65,875,664	$ 56,182,478	$ 158,234	$ 3,282,923	$ 59,623,635

See accompanying Notes to Financial Statements.

Statements of Changes in Plan Net Assets

(in thousands)

	Year Ending June 30, 2006				Year Ending June 30, 2005			
	Defined Benefit	Defined Contribution	Post-employment Health Care	Totals	Defined Benefit	Defined Contribution	Post-employment Health Care	Totals
Additions								
Contributions:								
Member	$ 987,900	$ 33,070		$ 1,020,970	$ 969,226	$ 28,641		$ 997,867
Employer	1,255,053	19,280	$ 94,610	1,368,943	1,232,317	16,270	$ 93,066	1,341,653
Retirement incentive	5,959			5,959	7,386			7,386
Medicare Part D reimbursement			17,947	17,947				
Benefit recipient health care premiums			189,432	189,432			188,835	188,835
Other retirement systems	13,015			13,015	13,102			13,102
Total contributions	2,261,927	52,350	301,989	2,616,266	2,222,031	44,911	281,901	2,548,843
Investment income from investing activities:								
Net appreciation in fair value of investments	6,034,535	19,100	347,038	6,400,673	4,690,322	13,334	278,133	4,981,789
Interest	659,997	826	37,883	698,706	558,592	294	33,048	591,934
Dividends	724,397		41,528	765,925	693,766		41,023	734,789
Real estate income	260,456		14,931	275,387	262,471		15,520	277,991
	7,679,385	19,926	441,380	8,140,691	6,205,151	13,628	367,724	6,586,503
Less investment expenses	(26,113)	(96)	(1,503)	(27,712)	(23,437)	(68)	(1,390)	(24,895)
Less external asset management fees	(116,541)		(6,681)	(123,222)	(91,787)		(5,428)	(97,215)
Net income from investing activities	7,536,731	19,830	433,196	7,989,757	6,089,927	13,560	360,906	6,464,393
From securities lending activities:								
Securities lending income	133,327		7,643	140,970	67,076		3,966	71,042
Securities lending expenses	(119,316)		(6,840)	(126,156)	(55,341)		(3,272)	(58,613)
Net income from securities lending activities	14,011		803	14,814	11,735		694	12,429
Net investment income	7,550,742	19,830	433,999	8,004,571	6,101,662	13,560	361,600	6,476,822
Total additions	9,812,669	72,180	735,988	10,620,837	8,323,693	58,471	643,501	9,025,665
Deductions								
Benefits:								
Service retirement	3,393,968			3,393,968	3,106,371			3,106,371
Disability benefits	193,329			193,329	187,426			187,426
Survivor benefits	86,023			86,023	81,589			81,589
Health care			490,122	490,122			443,615	443,615
Other retirement systems	10,906			10,906	8,188			8,188
Additional death benefits (net)	159			159	31			31
Total benefit payments	3,684,385		490,122	4,174,507	3,383,605		443,615	3,827,220
Refunds to members who have withdrawn	121,290	5,918		127,208	110,018	4,533		114,551
Administrative expenses	63,398	491	3,204	67,093	59,093	733	3,879	63,705
Total deductions	3,869,073	6,409	493,326	4,368,808	3,552,716	5,266	447,494	4,005,476
Net increase	5,943,596	65,771	242,662	6,252,029	4,770,977	53,205	196,007	5,020,189
Net assets held in trust for defined benefit, defined contribution and post-employment health care coverage:								
Beginning of year	56,182,478	158,234	3,282,923	59,623,635	51,411,501	105,029	3,086,916	54,603,446
End of year	$ 62,126,074	$ 224,005	$ 3,525,585	$ 65,875,664	$ 56,182,478	$ 158,234	$ 3,282,923	$ 59,623,635

See accompanying Notes to Financial Statements.

Notes to Financial Statements

Years ended June 30, 2006 and 2005

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. (Prior to Sept. 15, 2004, the board was comprised of five active teacher members, one retired teacher and three voting ex officio members.)

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.

Reclassifications — Certain 2005 balances have been reclassified to conform to the current-year presentation.

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 Post-Employment Benefit Plans Other Than Pension Plans*. This statement establishes uniform financial reporting standards for post-employment benefits other than pension plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Post-Employment Health Care Plans Administered by Defined Benefit Plans*. The provisions of this statement are effective in financial statements for periods beginning after Dec. 15, 2005.

STRS Ohio has not yet determined the impact that the new GASB statement will have on the financial statements.

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.

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.

Member and Retiree Data at July 1, 2006 and 2005

	2006	2005
Current active members	175,065	176,692
Inactive members eligible for refunds only	123,698	120,176
Terminated members entitled to receive a benefit in the future	18,333	18,148
Retirees and beneficiaries currently receiving a benefit	119,184	115,395
Defined Contribution Plan members	5,595	5,248
Reemployed retirees	19,749	19,033
Total Plan Membership	**461,624**	**454,692**

Participating Employers at June 30, 2006 and 2005

	2006	2005
City school districts	194	194
Local school districts	369	370
County educational service centers	60	60
Exempted village school districts	49	49
Joint vocational schools	49	49
Colleges and universities	37	37
County boards of mental retardation and developmental disabilities	73	74
Community schools	246	219
State of Ohio	1	1
Other	8	8
Total	**1,086**	**1,061**

Notes to Financial Statements

Years ended June 30, 2006 and 2005

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. Effective April 11, 2005, 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.

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 provide access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents.

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 pay a portion of the heath care cost in the form of a monthly premium.

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.

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.

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.

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.

Employees hired after the ARP is established 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, 2006, the ARP participant payroll totaled $332,334,000, and there were 8,274 participants. For the year ended June 30, 2005, the ARP participant payroll totaled $299,036,000, and there were 7,464 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, 2006 and 2005, plan net assets were included in the various funds as shown in the chart below.

Fund Balances (in thousands)

	June 30, 2006	June 30, 2005
Teachers' Savings Fund	$ 9,284,076	$ 8,940,971
Employers' Trust Fund	12,771,284	9,899,522
Annuity and Pension Reserve Fund	42,715,163	39,777,706
Survivors' Benefit Fund	881,136	847,202
Defined Contribution Fund	224,005	158,234
Total	$ 65,875,664	$ 59,623,635

4. Commitments and Contingencies

STRS Ohio has made commitments to fund various real estate investments totaling approximately $633,163,463 as of June 30, 2006. The commitments as of June 30, 2006, have expected funding dates from July 2006 to January 2010.

STRS Ohio has made commitments to fund various alternative investments totaling approximately $2,183,717,056 as of June 30, 2006. The expected funding dates for the commitments as of June 30, 2006, range from July 2006 to June 2012.

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. It further provides that the Retirement Board may invest in bonds, notes, certificates of indebtedness, mortgage notes, real estate, stocks and debentures with certain restrictions as to the nature and quality of the investment and composition of the investment portfolio.

Investments Held at Fair Value by STRS Ohio at June 30, 2006 and 2005
(summarized and in thousands)

Category	June 30, 2006	June 30, 2005
Short-term:		
Commercial paper	$ 1,258,851	$ 2,467,844
Short-term investment funds	1,000	1,000
Total short-term	1,259,851	2,468,844
Fixed income:		
Guaranteed mortgages	6,528,715	3,881,699
U.S. government obligations	2,387,279	2,216,436
U.S. government agency bonds	1,026,560	1,200,634
Corporate bonds	4,174,899	4,970,020
Canadian bonds	38,610	40,445
High yield and emerging market	1,141,442	487,984
Total fixed income	15,297,505	12,797,218
Domestic common and preferred stock	26,483,442	26,384,658
International: (See Note 6)	15,329,381	11,393,316
Real estate: (See Note 7)		
East region	1,995,772	1,716,500
Midwest region	1,085,950	1,234,467
South region	709,109	918,554
West region	1,767,834	1,740,523
REITs	547,827	485,322
Other	978,227	944,836
Total real estate	7,084,719	7,040,202
Alternative investments: (See Note 8)	1,933,135	1,523,751
Invested securities lending collateral	3,214,660	2,810,118
Total investments and invested securities lending collateral	$ 70,602,693	$ 64,418,107

Investments held at fair value by STRS Ohio at June 30, 2006 and 2005, are summarized in the chart above.

GASB Statement No. 40 — During the year ended June 30, 2005, STRS Ohio implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, effective July 1, 2004. This statement 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, 2006, are shown in the chart on Page 24. U.S. government fixed-income securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

Quality Ratings of Fixed-Income Investments Held at June 30, 2006 and 2005 (in thousands)

Investment Type	Quality Rating	June 30, 2006 Fair Value	June 30, 2005 Fair Value
U.S. Government Agency	AAA	$ 989,109	$ 1,163,443
Obligations	AA	37,451	37,191
Total U.S. Government Obligations		1,026,560	1,200,634
Canadian Bonds	AA	23,517	24,565
	A	15,093	15,880
Total Canadian Bonds		38,610	40,445
Corporate Bonds	AAA	270,270	433,869
	AA	1,315,841	925,343
	A	1,726,593	2,309,483
	BBB	549,901	586,980
	BB	22,221	240,244
	B		264,907
	CCC and below	40,022	82,765
	NR	250,051	126,429
Total Corporate Bonds		4,174,899	4,970,020
High Yield and Emerging	A		2,278
Market Fixed Income	BBB	122,187	120,129
	BB	314,772	198,867
	B	482,223	111,626
	CCC and below	111,319	16,241
	NR	110,941	38,843
Total High Yield and Emerging Market Fixed Income		1,141,442	487,984
Total Credit Risk Debt Securities		6,381,511	6,699,083
U.S. Government Fixed-Income Securities		8,915,994	6,098,135
Total Fixed-Income Investments		$ 15,297,505	$ 12,797,218

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, 2006 and 2005, the bank cash balances were approximately $16,213,000 and $25,075,000, 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 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 on Page 25 shows the maturities by weighted-average duration at June 30, 2006 and 2005.

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 of 1% 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. For example, if an

Duration of Fixed-Income Investments Held at June 30, 2006 and 2005 (in thousands)

	June 30, 2006		June 30, 2005	
Investment Type	Fair Value	Weighted-Average Duration	Fair Value	Weighted-Average Duration
U.S. Government Obligations	$ 2,387,279	8.182	$ 2,216,436	4.355
U.S. Government Agency Obligations	1,026,560	3.790	1,200,634	2.586
Corporate Bonds	4,174,899	3.110	4,970,020	3.365
Canadian Bonds	38,610	2.173	40,445	2.268
Guaranteed Mortgages	6,528,715	4.739	3,881,699	3.895
High Yield and Emerging Market Fixed Income	1,141,442	5.948	487,984	6.836
Total Fixed Income	$ 15,297,505		$ 12,797,218	

unmanaged passive investment mix generated a 10% return for the year, STRS Ohio would expect to have returns that are +/– 1% from the passively managed results (9% to 11% return). The total actively managed fund is expected to add 0.45% excess returns on average over a five-year period by assuming the additional 1% risk.

Fixed Income — The portfolio will seek diversification by market sector, quality and issuer. The risk budget for fixed income is 0.70% using the Lehman 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 for domestic equities is 0.60% 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 STRS Ohio assets.

International — International assets will be a diversified portfolio including both developed and emerging countries. The risk budget range for international equity is between 1.0–2.5% 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 STRS Ohio assets.

Real Estate — The real estate portfolio shall be diversified between property type, geographic location and investment structure. The risk budget for real estate investments is 2.75% using a benchmark of 80% NCREIF Property Index, 10% NCREIF Timberland Index and 10% Wilshire Real Estate Investment Trust Index. Investments in specialty real estate, which includes timberland, farmland and senior living property, shall not exceed 20% of total real estate assets. Derivatives may be used and cannot exceed 1% of total assets. STRS Ohio may borrow funds on a secured or unsecured basis and leverage is limited to 50% of the portfolio excluding specialty real estate.

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 on Page 26.

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

Foreign Currency
Held at June 30, 2006 and 2005 (in thousands)

Foreign Currency Denomination	June 30, 2006 International Equity	June 30, 2006 High Yield & Emerging Market Fixed Income	June 30, 2005 International Equity	June 30, 2005 High Yield & Emerging Market Fixed Income
Argentina Peso	$ 1,315	$ 421	$ 6,920	$ 6,895
Australian Dollar	137,703		83,656	
Brazilian Real	279,151	1,174	181,095	
British Pound Sterling	575,443		392,607	
Canadian Dollar	346,333		182,673	
Cayman Island Dollar		2,286		
Chilean Peso	26,797		3,122	
China Renminbi Yuan	53,773		26,317	
Colombian Peso	2,978	4,561	162	1,024
Czech Koruna	18,020		25,701	
Danish Krone	16,496		26,529	
Egyptian Pound	34,976	1,764	58,633	1,492
Euro Currency	1,270,655	7,485	557,431	407
Hong Kong Dollar	310,065		159,258	
Hungarian Forint	36,616		58,235	
Indian Rupee	75,890		142,652	
Indonesian Rupiah	88,600	453	92,608	539
Israeli Shekel	94,201		87,862	1,049
Japanese Yen	820,984	1	304,472	1
Jordan Dollar	1		1	
Malaysian Ringgit	104,922		101,260	1,229
Mexican Nuevo Peso	115,656	1,127	124,455	1,438
New Zealand Dollar	(6,486)		3,146	
Norwegian Krone	71,486		61,460	
Peru Nuevo Sol			1,388	992
Philippines Peso	27,341		20,665	
Polish Zloty	18,048		18,428	
Russian New Ruble	14,793	655	10,298	
Singapore Dollar	68,687		60,577	
South African Rand	347,089		291,303	
South Korean Won	588,468		602,607	
Sri Lanka Rupee	14,994		12,872	
Swedish Krona	49,112		23,286	
Swiss Franc	173,758		32,636	
Taiwan Dollar	383,128		346,124	
Thai Baht	97,305		114,797	
Turkish Lira	92,446	2,957	113,894	3,398
Uruguay Peso				972
Zimbabwian Dollar	3,926		2,402	
Held In Foreign Currency	6,354,670	22,884	4,331,532	19,436
Held In U.S. Dollars	8,974,711	1,118,558	7,061,784	468,548
Total	$ 15,329,381	$ 1,141,442	$ 11,393,316	$ 487,984

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, 2006, the average maturity of the invested cash collateral is 171 days. Because much of the cash collateral is invested in floating rate securities, interest rates are reset every 13 days on average as of June 30, 2006. 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 $3,151,784,000 and $2,734,080,000 as of June 30, 2006 and 2005, respectively. The fair value of the associated collateral received as of June 30, 2006 and 2005, was approximately $3,214,659,000 and $2,810,118,000, 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 — Six EAFE and eight Emerging Market Free (EMF) international equity swap agreements were contracted during fiscal 2006 with maturity dates in fiscal 2007. 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 $1.93 billion have been set aside at the Bank of New York as security.

The fair values of international investments held at June 30, 2006 and 2005, are shown in the chart below.

Fair Values of International Investments Held at June 30, 2006 and 2005 (in thousands)

	June 30, 2006	June 30, 2005
Externally managed		
International stocks	$ 8,730,112	$ 5,929,893
International fixed income	113,611	113,353
International currency and liquidity reserves	194,942	148,868
Forward contracts	17,146	37,858
Total externally managed	**9,055,811**	**6,229,972**
Internally managed		
Developed markets	3,175,824	2,468,244
Emerging stock and country funds	769,183	921,953
EAFE Index Fund	2,156,932	1,706,791
EAFE equity swaps	148,860	62,008
EMF equity swaps	22,771	4,348
Total internally managed	**6,273,570**	**5,163,344**
Total international	**$ 15,329,381**	**$ 11,393,316**

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. Finally, 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. By policy, debt on real estate investments cannot exceed 50% of the real estate portfolio. At June 30, 2006 and 2005, debt as a percentage of the total real estate portfolio was 31% and 34%, respectively.

Of the debt on real estate investments at June 30, 2006 and 2005, $620 million was recourse debt. Recourse debt is collateralized by general real estate assets. The remainder of the debt on real estate investments at June 30, 2006 and 2005, 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, 2006, one recourse loan of $220 million has a maturity date of December 2007, and the other recourse loan of $400 million matures in May 2008. Interest on both recourse loans is based on LIBOR plus a spread. Of the total recourse debt at June 30, 2006, $420 million of the variable interest rate loans was swapped for fixed interest rates between 5.6% and 7.25%. At June 30, 2005, one recourse loan of $220 million had a maturity date of December 2007, and another loan for $400 million matured in May 2006. Of the total recourse debt at June 30, 2005, $400 million of the variable interest rate loans was swapped for a fixed rate of 3.3%.

Of the non-recourse debt at June 30, 2006, loan maturities ranged from September 2006 to December 2034. Non-recourse debt at June 30, 2005, had loan maturities ranging from April 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 $1.93 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, 2006 and 2005, are shown in the chart below.

Value of Future and Forward Contracts Held at June 30, 2006 and 2005
(in thousands)

	June 30, 2006	June 30, 2005
Forward contracts		
Externally managed	$ 2,885,700	$ 1,519,800
Internally managed	3,659,500	3,089,600
Total forward contracts	$ 6,545,200	$ 4,609,400
Future contracts		
S&P 500	$ 977,200	$ 503,900
EAFE Index Fund	28,300	26,400
Externally managed	24,600	39,300
Total future contracts	$ 1,030,100	$ 569,600

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 — STRS Ohio had investments in credit default swaps during the year. The credit default swaps held by

Notes to Financial Statements

Years ended June 30, 2006 and 2005

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, 2006, STRS Ohio did not hold credit default swaps in its portfolio. At June 30, 2005, the notional value of the credit default swaps held in the STRS Ohio fixed-income portfolio was $165 million par value.

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, 2006, the member and employer contribution rates increased to 9.0% and 13.7% of covered payroll, respectively. Of the employer contribution, 9.55% is the portion used to fund pension obligations, with the remainder used to fund the health care program for retirees.

The required employer contributions for the current year and the two preceding years are shown below.

STRS Ohio Required Employer Contributions to OPERS

Year Ended June 30	Annual Required Contributions	Percentage Contributed
2006	**$5,795,000**	**100%**
2005	$ 5,521,000	100%
2004	$ 5,543,000	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, Ohio 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 2005 and 2004, 4% was the portion of the employer rate that was used to fund health care for those years.

OPERS expenditures for OPEB during 2005 were $1,085,509,000.

Required Schedule of Funding Progress
For the Years Ending June 30, 2001–2006 (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
2006	**$ 77,371,024**	**$ 58,008,050**	**$ 19,362,974**	**75.0%**	**$ 9,974,061**	**194%**
2005	73,817,114	53,765,570	20,051,544	72.8%	9,775,159	205%
2004	69,867,425	52,253,798	17,613,627	74.8%	9,565,978	184%
2003	65,936,357	48,899,215	17,037,142	74.2%	9,206,086	185%
2002	63,215,643	48,958,824	14,256,819	77.4%	8,747,102	163%
2001	59,425,300	54,194,672	5,230,628	91.2%	8,256,683	63%

*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 2006 and 2005, alternative retirement plan participant payroll totaled $332,334 and $299,036, respectively. For 2006 and 2005, defined contribution plan payroll totaled $180,805 and $154,378, respectively.

Required Schedule of Employer Contributions
For the Years Ending June 30, 2001–2006 (dollar amounts in thousands)

Year Ended June 30	Annual Required Contributions*	Percentage Contributed
2006	**$ 1,417,598**	**88%**
2005	1,281,546	96%
2004	1,270,388	95%
2003	1,163,732	100%
2002	814,647	100%
2001	777,416	100%

*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. 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 the Trend Data

Valuation date	July 1, 2006	July 1, 2005
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent open	Level percent open
Remaining amortization period (for GASB disclosure)	40.0 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
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.

Schedules of Administrative Expenses
For the Years Ending June 30, 2006 and 2005

	2006	2005
Personnel		
Salaries and wages	$ 28,981,651	$ 27,937,656
Retirement contributions	3,862,251	3,761,289
Benefits	4,285,191	4,117,856
Total personnel	**37,129,093**	**35,816,801**
Professional and technical services		
Computer support services	4,030,302	4,806,019
Health care services	1,214,238	1,352,598
Actuary	492,771	630,021
Auditing	122,082	102,363
Defined contribution administrative fees	996,478	1,005,062
Legal	322,921	469,615
Temporary employment services	25,084	50,107
Total professional and technical services	**7,203,876**	**8,415,785**
Communications		
Postage and courier services	1,406,948	1,437,606
Printing and supplies	1,801,943	1,741,990
Telephone	497,633	516,128
Total communications	**3,706,524**	**3,695,724**
Other expenses		
Equipment repairs and maintenance	3,973,321	3,839,549
Litigation settlement	3,756,432	
Building utilities and maintenance	1,426,700	1,339,206
Transportation and travel	297,156	263,528
Recruitment fees	63,189	33,043
Equipment rental	27,747	16,200
Depreciation	7,602,532	8,416,457
Member and staff education	258,983	229,806
Insurance	766,701	799,918
Memberships and subscriptions	163,584	228,218
Ohio Retirement Study Council	428,815	369,099
Miscellaneous	288,715	241,666
Total other expenses	**19,053,875**	**15,776,690**
Total administrative expenses	**$ 67,093,368**	**$ 63,705,000**

Note: Above amounts do not include investment administrative expenses, which are deducted from investment income and shown in a separate schedule on Page 32.

See accompanying independent auditors' report.

Schedules of Investment Expenses
For the Years Ending June 30, 2006 and 2005

	2006	2005
Personnel		
Salaries and wages	$ 14,491,224	$ 13,512,081
Retirement contributions	1,932,537	1,759,471
Benefits	1,916,567	1,132,928
Total personnel	**18,340,328**	**16,404,480**
Professional and technical services		
Legal	28,155	20,098
Investment research	1,189,228	713,065
Real estate and international advisors	525,770	570,986
Investment advisors	396,137	390,988
Banking fees	6,317,067	6,011,721
Total professional and technical services	**8,456,357**	**7,706,858**
Other expenses		
Printing and supplies	36,282	18,433
Building utilities and maintenance	297,574	266,790
Travel	305,090	255,918
Equipment rental	147,750	87,394
Memberships and subscriptions	95,904	108,389
Miscellaneous	32,719	46,983
Total other expenses	**915,319**	**783,907**
Total investment expenses	**$ 27,712,004**	**$ 24,895,245**

See accompanying independent auditors' report.

Schedules of Fees to External Asset Managers by Asset Class
For the Years Ending June 30, 2006 and 2005

	2006	2005
Asset class		
Domestic common and preferred stock	$ 12,679,083	$ 13,782,257
International	37,747,110	22,561,406
Fixed income	5,242,598	4,932,180
Alternative investments	54,845,271	45,454,391
Real estate	12,708,094	10,484,783
Total external manager fees	**$ 123,222,156**	**$ 97,215,017**

See accompanying independent auditors' report.

Investment Review

For Fiscal Year July 1, 2005, through June 30, 2006
Prepared by STRS Ohio's Investments Associates

The economy has slowed, causing inflation expectations to ease

More than two years ago, at the end of fiscal 2004, the Federal Reserve began gradually raising short-term interest rates to set monetary policy back onto a normal course. It had kept interest rates at a 35-year low for a year to combat the real threat of deflation spreading to the United States from Asia. At that time, many economists and financial market watchers were surprised the Federal Reserve was no longer worried about deflation. Unlike the STRS Ohio economic forecast that called for small steady steps of higher short-term interest rates, they generally expected there would be no change in monetary policy until the end of fiscal 2005. The Federal Reserve, instead, raised the federal funds rate 0.25% at each of 17 straight meetings, pushing short-term rates to 5.25% — the highest level since the start of the 2001 recession.

Today, many of the same economists and financial market watchers, who worried the Federal Reserve was not conducting appropriate policy when they feared deflation would grab hold of the United States, now fear that core inflation (inflation excluding volatile energy and food price changes) in the United States has permanently broken above an 11-year pattern of moving within a relatively narrow band. Yet, the Federal Reserve in August 2006 paused its campaign of raising short-term interest rates in order to gauge the economic impact of past rate increases.

U.S. monetary policy bears watching

Monetary policy has moved into a slightly restrictive area where the real federal funds rate (adjusted by the core personal consumption expenditure, or PCE, price index — the Federal Reserve's preferred inflation measure) sits at roughly 3% — notably higher than the 2.4% average real funds rate since 1960. The Federal Reserve will need to be more cautious about raising short-term interest rates at future meetings to combat any inflation threat. If central bankers have gone too far, a fundamentally solid economy could register significantly reduced growth from its potential or, worse, slip into a recession in a future year. On the other hand, if they have not gone far enough, then the threat of higher core inflation and the disruptions that would introduce into the economy could force the Federal Reserve to adopt a much more restrictive monetary policy. It is clear that policymakers have adjusted monetary policy back into an area where fine-tuning, rather than a steady stream of rate changes in one direction, is now the preferred course to be taken. The economy has returned to a more normal growth area as well, with quarterly economic gains fluctuating more closely around longer term potential growth, rather than being tilted to one side of the economy's longer term potential.

Interest rates, energy costs impact economy

During fiscal 2006, the economy withstood punishing blows from higher interest rates, soaring energy costs and devastating hurricanes. After growing 4.5% in fiscal 2004 and 3.1% in fiscal 2005, the real (inflation-adjusted) gross domestic product (GDP) grew 3.6% in fiscal 2006. The deceleration in domestically driven activity alone during the same periods has been even more dramatic, with real gross domestic purchases growth easing from 4.9% in fiscal 2004 to 3.3% over the past two fiscal years.

While strong consumer and business spending has held up the economy, there have also been areas of disappointment. The contribution to economic growth from homebuilding has begun to ease. In addition, the continued deterioration of the United States' international trade position played a part in slowing overall economic growth.

Federal Reserve seeks to keep inflation in check

Two factors have forced total price inflation measures higher: (1) soaring energy costs developing from severe disruptions to production facilities and refineries from devastating Gulf Coast hurricanes at the beginning of the fiscal year, and (2) the ongoing depletion of spare production capacity from OPEC countries as demand from other countries begins to grow more rapidly. The consumer price index (CPI) grew 4% in fiscal 2006 after advancing 3% in fiscal 2005 and 2.8% in fiscal 2004. Meanwhile, the PCE price index grew 3.3% in fiscal 2006 after growing 2.6% in the prior fiscal year and 3.3% in fiscal 2004.

However, energy price surges act more like a tax upon the economy by limiting spending on items other than energy than they do as inflationary events that spread into other price components. This is particularly true during high productivity periods like the U.S. economy has been experiencing since the mid-1990s. Strong productivity gains have allowed businesses to limit the pass-through of higher energy and commodity costs to their final products and, with labor costs remaining well-behaved, companies have not felt the need to ask for more rapid price increases. As a result, core inflation measures that exclude volatile energy and food prices (though the fluctuation in food prices has been muted in recent years compared to prior periods like the 1970s and 1980s) have remained fairly well-contained. The core CPI grew by 2.5% in fiscal 2006, above the 2.1% increase registered for fiscal 2005. The core PCE price index grew just 2.2% in fiscal 2006 after a 2% gain in fiscal 2005 and a 2.1% gain in 2004.

Though core inflation gauges have budged slightly in recent years, the bond market in fiscal 2006 became increasingly worried that higher inflation may be a problem for the U.S. economy. Entering fiscal 2006, the 10-year Treasury yield was roughly 4%. Yields remained in a 4% to 4.7% range until March when they broke to the upside. That yield peaked at 5.25% near the end of the fiscal year and began to slide at the beginning of fiscal 2007. Inflation expectations priced into Treasury inflation-indexed securities began to move a bit higher as well when the sustained increase in Treasury yields occurred at the end of March. The Federal Reserve will watch those expectations closely before deciding its future course of action. As of this writing, inflation expectations have been falling, suggesting that the Federal Reserve can remain on hold or even lower short-term interest rates if need be to fight a slowing economy.

Bonds react to higher interest rates

During the fiscal year, the Federal Reserve continued to increase short-term interest rates to help maintain economic growth consistent with its long-term potential. Rising inflation was another factor for raising interest rates. By the end of fiscal 2006, the federal funds rate was at 5.25% from 3.25% at the start of the fiscal year. Subsequently, the 10-year Treasury yield rose from 3.92% at the beginning of the fiscal year to end the year at 5.14%. Since bond prices fall when interest rates rise, total returns (price change plus coupon income) were less than coupon income, which resulted in slightly negative bond returns in fiscal 2006.

The STRS Ohio fixed-income portfolio returned 0.04% versus the benchmark's return of -0.26%. Over the three prior fiscal years, the STRS Ohio fixed income portfolio returned an annual average of 2.96% versus the benchmark's return of 2.67%. The STRS Ohio performance over the prior five fiscal years was 5.86% versus the benchmark's 5.38%. A more complete report of STRS Ohio performance appears on Page 47.

Domestic equities flex muscle, post strong results

The domestic equity markets, as represented by the Russell 1000 Index, posted a strong year for fiscal 2006, gaining 9.08%. The returns were relatively broad-based, but exceptional gains were made in the commodity sectors — primarily metals and mining and energy. Smaller companies continued to lead performance up to the third quarter of the year, but that trend diminished in the fourth quarter as the markets consolidated.

The equity market rose on continued strong earnings gains, up almost 14% for the year, as economic conditions remained favorable. Earnings gained as labor cost pressures were not evident and companies were able to pass through commodity cost increases. The strong returns for the year masked a range-bound trading pattern for the market that deteriorated late in the year. The high point of the year was reached by early May and stocks trended down for the remainder of the year as questions of sustainable earnings were raised. Volatility remained low, although that, too, began to trend upward late in the year.

The STRS Ohio domestic equities portfolio returned 10.14% versus the benchmark's return of 9.56%. Over the three prior fiscal years, the STRS Ohio domestic equities portfolio returned an annual average of 12.61% versus the benchmark's return of 12.53%. The STRS Ohio performance over the prior five fiscal years was 3.37% versus the benchmark's 3.58%. A more complete report of STRS Ohio performance appears on Page 47.

Strong earnings around the globe help international equities reach stellar performance

Equity markets rose strongly around the world during the year ended June 30, 2006. The developed markets, represented by the Morgan Stanley Capital International (MSCI) World ex USA Index, rose 26.89%. With earnings stronger around the globe and a continued benign inflation picture, investors overlooked soaring energy prices and rising interest rates. The result was exceptional returns for the third year in a row.

The returns in the international markets were strong across every region for the year, with every market but one being up: Norway rose 36.5% (the top performing country for the second year), Portugal was up 36.3%, Japan grew 36.0% and Canada was up 32.1%. The laggard, and only negative return, was the very small market of New Zealand — down 9.1%. Currency played a lesser role in returns for fiscal 2006 as the euro appreciated 6% — giving only a modest boost to returns for U.S. dollar-based investors. The yen fell 3% against the dollar.

The STRS Ohio international portfolio returned 29.21% versus the benchmark's return of 28.71%. Over the three prior fiscal years, the STRS Ohio international portfolio returned an annual average of 26.80% versus the benchmark's return of 25.50%. The STRS Ohio performance over the prior five fiscal years was 12.32% versus the benchmark's 10.40%. A more complete report of STRS Ohio performance appears on Page 47.

Real estate posts healthy gains

Over the past fiscal year, REITs and real estate as an asset class once again generated strong absolute returns. The Wilshire REIT Index outperformed the broader equity markets with a very strong 22.06% return. The average annual rate of return for the last six years has been more than 20%. The primary drivers of these returns has been improving property-level fundamentals, investor demand for hard assets and the flow of funds into the sector from dividend-hungry investors.

After a slow start in the first half of the fiscal year, the flow of funds into REIT mutual funds picked up again, with more than $2 billion in the second half alone. That was down from the torrid $6 billion pace of 2004, but still healthy for a sector that has a market capitalization of just over $300 billion. This demand for stocks has been a contributing factor to the stocks' run. In addition, real estate fundamentals are improving nicely. The combination of these two forces resulted in the surprisingly strong returns for the fiscal year.

The relative attractiveness of real estate and REITs compared to other investment opportunities came from the smoother, more predictable operating fundamentals and, therefore, more predictable earnings. Though REIT yields declined as prices continued to rise, the REIT dividend yield was still quite competitive over the fiscal year. The seven-year bull market in REITs has left them at high valuations relative to other asset classes. If a sentiment change was to occur, there could be a significant correction in REIT prices. Until that time, however, fundamentals are improving in nearly all property sectors.

The STRS Ohio real estate portfolio returned 27.22% versus the benchmark's return of 19.23%. Over the three prior fiscal years, the STRS Ohio real estate portfolio returned an annual average of 22.13% versus the benchmark's return of 16.88%. The STRS Ohio performance over the prior five fiscal years was 15.00% versus the benchmark's 12.49%. A more complete report of STRS Ohio performance appears on Page 47.

Total fund returns outperformed benchmark returns in fiscal 2006

During fiscal 2006, the STRS Ohio fund returned 13.73% versus the benchmark's (hybrid index of industry benchmarks) return of 12.26%. 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 14.54% versus the benchmark's return of 13.33%. The STRS Ohio fund performance over the prior five fiscal years was 7.15% versus the benchmark's 6.61%. The strong performance in fiscal 2006 was the third 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 47.

Statement of Investment Objectives and Policy

Effective Jan. 1, 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 Dec. 9, 2005.

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 herein, that the investment policies summarized in this document 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 equitize actual liquidity reserves 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 maintained 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 Investment staff has the authority to actively manage asset mix exposures within the specified rebalancing ranges. 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 of 1.0% annualized for active management for the total fund. In exchange for assuming this level of active risk, the Board expects active management to add 0.45% 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 0.45% 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 Domestic Equity

6.1 Domestic equity is being managed relative to a Board-approved 0.6% risk budget, 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.

7.0 International Equity

7.1 International equity is being managed relative to a Board-approved risk budget range of 1% 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.

8.0 Fixed Income

8.1 Fixed income is being managed relative to a Board-approved 0.7% risk budget, 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.

9.0 Real Estate

9.1 Real estate investments are being managed relative to a Board-approved 2.75% annualized risk budget, 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) Exchange-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.

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 fixed-income, equity and real estate portfolios. Derivatives are typically, but not exclusively, futures contracts, option contracts and option contracts on futures for market indexes. Options on individual securities, baskets of securities and equity-linked notes 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, not speculative.

11.3 Leveraged derivative positions are prohibited.

11.4 As a percentage of Fund assets, the underlying exposure of derivative positions 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.

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. The list shall be limited, as practicable, to 80 firms, plus an unlimited number of eligible Ohio and emerging brokerage firms. 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 Security Valuation

16.1 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.

17.0 Performance Monitoring and Evaluation

17.1 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.

17.2 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?

17.3 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.

17.4 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. And 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%

17.5 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 Jan. 16, 2004

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 Jan. 16, 2004.

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) Total fund risk and return objectives;

(b) Total fund target asset mix policy;

(c) Total fund asset mix policy rebalancing ranges;

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

(e) Proxy voting;

(f) Ohio investments;

(g) Securities lending;

(h) Broker-dealer selection and use; and

(i) Performance measurement criteria and evaluation standards.

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 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 (2006)

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Equities	10.14%	Russell 3000*	9.56%
International	29.21%	International Equity**	28.71%
Fixed Income	0.04%	Lehman Universal	(0.26%)
Real Estate	27.22%	Real Estate Composite***	19.23%
Total Fund	13.73%	Total Fund Composite Benchmark	12.26%

3-Year Returns (2004–2006)

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Equities	12.61%	Russell 3000*	12.53%
International	26.80%	International Equity **	25.50%
Fixed Income	2.96%	Lehman Universal	2.67%
Real Estate	22.13%	Real Estate Composite ***	16.88%
Total Fund	14.54%	Total Fund Composite Benchmark	13.33%

5-Year Returns (2002–2006)

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Equities	3.37%	Russell 3000*	3.58%
International	12.32%	International Equity **	10.40%
Fixed Income	5.86%	Lehman Universal	5.38%
Real Estate	15.00%	Real Estate Composite ***	12.49%
Total Fund	7.15%	Total Fund Composite Benchmark	6.61%

STRS Ohio Long-Term Policy Objective (20 Years)

Total Fund: 8.40%

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

*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; 80% NPI Index, 10% NCREIF Timberland Index and 10% NAREIT Equity Index from Jan. 1, 2001, through June 30, 2002.

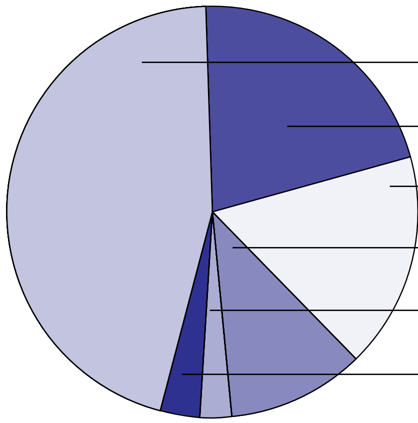
State Teachers Retirement System of Ohio is defined and created by the Ohio Revised Code, Chapter 3307.15. The STRS Ohio Total Fund performance results consist of all assets of the fund, including both internally and externally managed accounts. All results are calculated in U.S. dollars and net of brokerage 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, 2006 and 2005 (dollar amounts in thousands)

	June 30, 2006 Fair Value	%	June 30, 2005 Fair Value	%
Short term				
Commercial paper	$ 1,258,851	1.9%	$ 2,467,844	4.0%
Short-term investment funds	1,000	0.0%	1,000	0.0%
Total short term	1,259,851	1.9%	2,468,844	4.0%
Fixed income				
Guaranteed mortgages	6,528,715	9.7%	3,881,699	6.3%
U.S. government and governmental agencies	3,413,839	5.0%	3,417,070	5.5%
Corporate bonds	4,174,899	6.2%	4,970,020	8.1%
Canadian bonds	38,610	0.1%	40,445	0.1%
High yield and emerging market	1,141,442	1.7%	487,984	0.8%
Total fixed income	15,297,505	22.7%	12,797,218	20.8%
Domestic common and preferred stock	26,483,442	39.3%	26,384,658	42.8%
Real estate				
East region	1,995,772	3.0%	1,716,500	2.8%
Midwest region	1,085,950	1.6%	1,234,467	2.0%
South region	709,109	1.0%	918,554	1.5%
West region	1,767,834	2.6%	1,740,523	2.8%
REITs	547,827	0.8%	485,322	0.8%
Other	978,227	1.5%	944,836	1.5%
Total real estate	7,084,719	10.5%	7,040,202	11.4%
Alternative investments	1,933,135	2.9%	1,523,751	2.5%
International	15,329,381	22.7%	11,393,316	18.5%
Total investments	$ 67,388,033	100%	$ 61,607,989	100.00%

Investment asset schedule excludes invested securities lending collateral.

Investment Distribution by Fair Value — as of June 30, 2006



Ohio Investment Profile — as of June 30, 2006 (in thousands)

STRS Ohio continues to engage in quality Ohio investments. As of June 30, 2006, STRS Ohio investments in companies with headquarters in Ohio are valued at more than $1.4 billion.

Fixed income	$ 240,549
Common stock	866,713
Alternative investments	150,754
Real estate	201,293
Total Ohio-headquartered investments	**$1,459,309**

Schedule of U.S. Stock Brokerage Commissions Paid
(for the year ended June 30, 2006)

Brokerage Firm	Shares Traded	Commissions Paid	Avg. Cents Per Share
Instinet Corporation	245,312,203	$ 3,314,146	1.4
Prudential Securities	21,864,682	1,027,929	4.7
Bear, Stearns & Company	22,254,268	1,008,086	4.5
Credit Suisse First Boston	48,226,992	986,974	2.0
Cantor Fitzgerald	37,467,161	984,048	2.6
Bank of NY Direct Execution	20,713,575	927,726	4.5
Jefferies & Company	21,394,340	916,669	4.3
Lehman Brothers	49,768,089	908,968	1.8
ITG, Inc.	35,352,179	679,871	1.9
Liquidnet Inc.	28,702,468	572,048	2.0
Citigroup	11,719,176	545,976	4.7
UBS Investment Bank	10,935,718	536,506	4.9
Merrill Lynch	11,785,496	519,695	4.4
Bloomberg Tradebook	23,912,904	476,307	2.0
Goldman Sachs	8,346,959	390,600	4.7
JP Morgan Securities	7,182,002	349,674	4.9
Cowen & Company	7,305,014	343,026	4.7
Banc of America Securities	7,250,808	319,163	4.4
Deutsche Bank Securities	21,297,514	307,297	1.4
Bernstein (Sanford C.) & Company	6,386,047	297,502	4.7
Jones Trading Institutional Services	5,753,788	273,398	4.8
Morgan Stanley	4,970,328	236,406	4.8
Greenstreet Advisors	4,197,392	209,620	5.0
Baird (Robert) & Company	4,132,572	204,647	5.0
CIBC World Markets	4,254,601	196,000	4.6
Others (includes 56 brokerage firms and external managers)	205,960,927	5,505,165	2.7
Total	**876,447,203**	**$22,037,448**	**2.5**

Schedule of Largest Investment Holdings*
(as of June 30, 2006)

Domestic Equities — Top 20 Holdings

	Shares	Fair Value
Exxon Mobil Corp.	11,095,200	$680,690,520
General Electric Co.	18,635,000	$614,209,600
Citigroup Inc.	9,855,100	$475,410,024
Microsoft Corp.	18,443,600	$429,735,880
Bank of America	8,568,057	$412,123,542
Pfizer Inc.	16,119,496	$378,324,571
Johnson & Johnson	6,103,300	$365,709,736
Procter & Gamble Co.	6,039,549	$335,798,924
JPMorgan Chase & Co.	7,722,092	$324,327,864
Altria Group Inc.	4,005,000	$294,087,150
Chevron Corp.	4,514,048	$280,141,819
American International Group	4,571,400	$269,941,170
International Business Machines Corp.	3,331,100	$255,895,102
Cisco Systems	13,065,200	$255,163,356
Wal-Mart Stores Inc.	4,946,900	$238,292,173
Verizon Communications	6,242,807	$209,071,606
Hewlett-Packard Co.	5,908,400	$187,178,112
Merck & Co., Inc.	5,027,711	$183,159,512
Intel Corp.	9,652,200	$182,909,190
Comcast Corp.	5,534,765	$181,208,206

International Equities — Top 20 Holdings

	Shares	Fair Value
ING Groep (Netherlands)	3,874,848	$152,271,954
BNP Paribas (France)	1,257,149	$120,332,031
Sumitomo Mitsui Financial Group Inc. (Japan)	10,710	$113,377,953
Credit Suisse Group (Switzerland)	2,029,846	$113,367,736
Astrazeneca (United Kingdom)	1,855,873	$112,052,916
Toyoto Motor Corp. (Japan)	2,110,176	$110,585,776
Roche Hldg. (Switzerland)	661,707	$109,194,892
ORIX Corp. (Japan)	436,490	$106,735,744
Norsk Hydro ASA (Norway)	3,898,150	$103,402,529
RIO Tinto PLC (United Kingdom)	1,792,448	$ 94,795,011
Fortis (Belgium)	2,722,539	$ 92,679,749
E ON AG NPV (Germany)	786,237	$ 90,509,710
Lukoil-Spon (Russia)	1,068,678	$ 88,914,010
ABB LTD (Switzerland)	6,716,985	$ 87,205,080
Total SA (France)	1,296,704	$ 85,315,692
Canon Inc. (Japan)	1,717,350	$ 84,289,882
UBS AG (Switzerland)	768,401	$ 84,074,250
ENI SPA (Italy)	2,788,811	$ 82,132,626
British American Tobacco (United Kingdom)	3,077,742	$ 77,541,479
Matsushita Electric Industrial (Japan)	3,649,400	$ 77,106,745

Fixed Income — Top 20 Holdings

	Par Value	Fair Value
U.S. Treasury N/B, 4.50%, due 11/15/2015, AAA	$229,653,000	$218,778,930
U.S. Treasury N/B, 4.25%, due 08/15/2015, AAA	$222,385,000	$208,121,226
U.S. Treasury N/B, 6.25%, due 05/15/2030, AAA	$167,050,000	$189,242,592
U.S. Treasury, 5.25%, due 02/15/2029, AAA	$152,895,000	$152,298,709
U.S. Treasury N/B, 5.50%, due 08/15/2028, AAA	$141,385,000	$145,268,846
U.S. Treasury N/B, 4.13%, due 05/15/2015, AAA	$147,600,000	$137,071,692
FHLMC GOLD #A47758, 5.00%, due 11/01/2035, AAA	$114,611,869	$107,138,029
FHLMC GOLD #A47753, 5.00%, due 11/01/2035, AAA	$112,824,910	$105,467,598
CSFB 2001-CK3 A4, 6.53%, due 06/15/2034, AAA	$101,635,000	$104,691,164
U.S. Treasury N/B, 6.13%, due 11/15/2027, AAA	$ 94,700,000	$104,646,341
U.S. Treasury N/B, 4.00%, due 02/15/2015, AAA	$113,000,000	$104,141,930
U.S. Treasury N/B, 8.75%, due 08/15/2020, AAA	$ 76,760,000	$102,830,766
FHLMC GOLD 15YR #G11964, 5.00%, due 04/01/2021, AAA	$105,184,325	$101,200,995
Fannie Mae, 4.36%, due 06/21/2007, AAA	$100,000,000	$ 99,967,025
CSFB 2001-CP4 A4, 6.18%, due 12/15/2035, AAA	$ 97,974,000	$ 99,609,186
Key 2000-C1 A2, 7.72%, due 05/17/2032, AAA	$ 93,190,165	$ 98,442,362
U.S. Treasury N/B, 4.25%, due 08/15/2014, AAA	$101,275,000	$ 95,395,986
U.S. Treasury N/B, 4.00%, due 02/15/2014, AAA	$ 98,650,000	$ 91,652,756
FHLMC GOLD #G08122, 5.50%, due 04/01/2036, AAA	$ 94,848,857	$ 91,115,606
FUBOA 2001-C1 A2, 6.14%, due 03/15/2033, AAA	$ 85,943,416	$ 87,174,986

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

Schedule of External Managers
(as of June 30, 2006)

Domestic Equity Managers

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 Managers

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	W.R. Huff Asset Management
	Pacific Investment Co.
	Oaktree Capital Management
Emerging Market	Fidelity Management
	Stone Harbor Investment Partners

buckconsultants
an ACS company

November 9, 2006

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, 2006, 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 2006 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 2006 and after is sufficient to provide for the payment of the promised pension and survivor benefits, with a 47.2-year funding period to amortize the unfunded accrued liability. The funding period has decreased 8.3 years from 55.5 years as of July 1, 2005 to 47.2 years as of July 1, 2006, primarily as a result of the actuarial gains incurred during the fiscal year ending June 30, 2006.

The valuation indicates that for the fiscal year ending June 30, 2006, the actuarial experience of STRS Ohio was favorable and generated net actuarial gains of $958 million.

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,

Kim M. Nicholl

Kim M. Nicholl, F.S.A.
Principal and Consulting Actuary

KMN:pl

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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, 2006, 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, 2001–2006

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)
2006	**115,395**	**$3,540,241**	**7,194**	**$354,245**	**3,405**	**$66,091**	**119,184**	**$3,828,395**
2005	111,853	3,272,078	6,929	330,284	3,387	62,121	115,395	3,540,241
2004	108,294	3,021,825	7,038	310,262	3,479	60,009	111,853	3,272,078
2003	105,300	2,806,482	6,299	267,889	3,305	52,546	108,294	3,021,825
2002	102,132	2,595,549	6,500	261,243	3,332	50,310	105,300	2,806,482
2001	99,011	2,391,680	6,436	250,899	3,315	47,030	102,132	2,595,549

Schedule of Valuation Data — Active Members, 1997–2006

Valuation Date	Number	Annualized Salaries (in thousands)	Annual Average Pay	% Increase in Average Pay
2006	**175,065**	**$8,894,400**	**$50,806**	**3%**
2005	176,692	8,757,200	49,562	3%
2004	179,063	8,646,404	48,287	3%
2003	179,944	8,425,838	46,825	4%
2002	178,557	8,063,134	45,157	4%
2001	177,013	7,721,258	43,620	3%
2000	174,072	7,386,122	42,431	3%
1999	170,854	7,040,902	41,210	3%
1998	170,126	6,834,060	40,171	3%
1997	168,943	6,564,294	38,855	3%

Schedule of Valuation Data — Retirees/Beneficiaries, 1997–2006

Valuation Date	Number	Annual Allowances (in thousands)	% Increase in Annual Allowances	Average Annual Allowances
2006	**119,184**	**$3,828,395**	**8%**	**$32,122**
2005	115,395	3,540,241	8%	30,679
2004	111,853	3,272,078	8%	29,253
2003	108,294	3,021,825	8%	27,904
2002	105,300	2,806,482	8%	26,652
2001	102,132	2,595,549	9%	25,414
2000	99,011	2,391,680	14%	24,156
1999	95,796	2,103,139	9%	21,954
1998	91,999	1,929,988	12%	20,978
1997	88,718	1,722,037	9%	19,410

Solvency Test, 1997–2006 (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)
2006	**$9,284,076**	**$44,219,489**	**$27,393,044**	**$61,533,635**	**100%**	**100%**	**29%**
2005	8,940,971	40,937,540	27,221,526	57,048,493	100%	100%	26%
2004	8,600,068	37,870,700	26,483,574	55,340,715	100%	100%	33%
2003	8,155,685	34,938,341	25,640,035	51,696,919	100%	100%	34%
2002	7,771,703	32,639,291	25,815,171	51,969,345	100%	100%	45%
2001	7,445,894	30,145,012	25,090,334	57,450,612	100%	100%	79%
2000	7,174,675	27,604,436	24,414,047	54,712,921	100%	100%	82%
1999	6,867,910	25,152,626	22,742,804	49,124,802	100%	100%	75%
1998	6,569,783	22,994,697	21,563,608	43,865,907	100%	100%	66%
1997	6,222,725	20,249,628	20,091,418	38,743,272	100%	100%	61%

*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 (dollar amounts in thousands)

	Gain (loss) for year ended June 30:				
Type of Activity:	**2006**	**2005**	**2004**	**2003**	**2002**
Investment income. If there is greater investment income than assumed, there is a gain. If less, there is a loss.	$1,492,303	$ (1,389,574)	$ 458,527	$(2,976,966)	$(8,336,907)
Payroll growth. If more contributions from payroll growth are received than expected, there is a gain. If less, there is a loss.	(456,690)	(469,877)	(173,960)	71,967	80,926
Salary increases. If there are smaller salary increases than assumed, there is a gain. If greater increases, there is a loss.	57,775	60,217	(129,322)	(285,789)	(564,621)
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.	(197,519)	(262,267)	(221,112)	766,258	(378,242)
Death after retirement. If retirees live shorter than expected, there is a gain. If retirees live longer than assumed, there is a loss.	(64,720)	(246,023)	(105,826)	(117,031)	359,922
Defined Contribution Plan administrative expenses. If there is more expense than participant income, there is a loss.	(3,642)	(5,144)	(6,761)	(6,207)	(5,525)
Final plan reselection. If the account value from defined contribution accounts is greater than the reestablished defined benefit account balance, there is a gain.	2,873				
Gain (or loss) during year from financial experience	830,380	(2,312,668)	(178,454)	(2,547,768)	(8,844,447)
Nonrecurring items adjustment for plan amendments	127,300	0	0	0	0
Composite gain (or loss) during the year	$ 957,680	$ (2,312,668)	$ (178,454)	$(2,547,768)	$(8,844,447)

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 a limit of $205,000 as adjusted 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 a limit of $205,000 as adjusted 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. Prior to 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 Benefit

Eligibility

Completion of five or more years of service and permanently incapacitated for the performance of duty.

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 prior to 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

STRS Ohio is implementing GASB Statement 44, *Economic Condition Reporting: The Statistical Section*, issued in May 2004. The statistical section has been a required part of comprehensive annual financial reports. Before GASB Statement 44, entities supplied information in statistical sections differently from others, thereby lessening the usefulness and comparability of the statistical information. GASB Statement 44 improves the understandability and usefulness of the statistical section by addressing the comparability problems that have developed and by adding information to help users understand STRS Ohio. The objective of GASB Statement 44 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 62–63 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 64. 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 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, 1997–2006 (in thousands)

Defined Benefit Plan

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Additions:										
Member contributions	$ 987,900	$ 969,226	$ 967,234	$ 868,157	$ 815,339	$ 785,009	$ 755,146	$ 716,551	$ 697,404	$ 679,499
Employer contributions	1,255,053	1,232,317	1,206,439	1,164,734	817,742	779,274	470,473	450,479	746,997	817,331
Investment income	7,550,742	6,101,662	7,685,568	857,081	(4,039,314)	(3,472,421)	5,197,638	5,710,997	5,771,480	5,865,833
Other	18,974	20,488	20,777	21,486	193	35,000	50,190	49,014	47,359	60,565
Total additions	9,812,669	8,323,693	9,880,018	2,911,458	(2,406,040)	(1,873,138)	6,473,447	6,927,041	7,263,240	7,423,228
Deductions:										
Benefit payments	3,684,385	3,383,605	3,108,753	2,845,503	2,638,953	2,486,505	2,290,972	2,009,701	1,829,963	1,649,705
Refunds	121,290	110,018	99,538	76,453	83,859	93,868	105,759	91,037	87,705	32,313
Administrative expenses	63,398	59,093	62,768	69,085	69,991	65,884	54,543	46,596	41,057	41,998
Total deductions	3,869,073	3,552,716	3,271,059	2,991,041	2,792,803	2,646,257	2,451,274	2,147,334	1,958,725	1,724,016
Net increase (decrease)	5,943,596	4,770,977	6,608,959	(79,583)	(5,198,843)	(4,519,395)	4,022,173	4,779,707	5,304,515	5,699,212
Net assets held in trust, beginning of year	56,182,478	51,411,501	44,802,542	44,882,125	50,080,968	54,600,363	50,578,190	45,798,483	40,493,968	34,794,756
Net assets held in trust, end of year	$62,126,074	$56,182,478	$51,411,501	$44,802,542	$44,882,125	$50,080,968	$54,600,363	$50,578,190	$45,798,483	$40,493,968

Post-Employment Health Care Plan

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Additions:										
Employer contributions	$ 94,610	$ 93,066	$ 91,589	$ 88,587	$ 380,437	$ 363,166	$ 615,652	$ 587,062	$ 248,928	$ 136,116
Health care premiums	189,432	188,835	156,970	103,913	79,590	68,582	60,375	47,819	39,682	38,347
Investment income	433,999	361,600	470,125	54,800	(267,250)	(221,700)	306,499	292,600	268,199	277,530
Medicare D reimbursement	17,947	0	0	0	0	0	0	0	0	0
Total additions	735,988	643,501	718,684	247,300	192,777	210,048	982,526	927,481	556,809	451,993
Deductions:										
Health care provider payments	490,122	443,615	425,709	456,214	434,287	369,354	343,512	297,748	258,906	230,424
Administrative expenses	3,204	3,879	3,763	3,903	3,909	3,860	3,274	2,371	1,432	886
Total deductions	493,326	447,494	429,472	460,117	438,196	373,214	346,786	300,119	260,338	231,310
Net increase (decrease)	242,662	196,007	289,212	(212,817)	(245,419)	(163,166)	635,740	627,362	296,471	220,683
Net assets held in trust, beginning of year	3,282,923	3,086,916	2,797,704	3,010,521	3,255,940	3,419,106	2,783,366	2,156,004	1,859,533	1,638,850
Net assets held in trust, end of year	$ 3,525,585	$ 3,282,923	$ 3,086,916	$ 2,797,704	$ 3,010,521	$ 3,255,940	$ 3,419,106	$ 2,783,366	$ 2,156,004	$ 1,859,533

Defined Contribution Plan

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

Net Assets by Plan
Years Ending June 30, 1997–2006 (in thousands)

Fiscal Year	Defined Benefit Plan	Post-Employment Health Care Plan	Defined Contribution Plan	Total Net Assets
2006	**$62,126,074**	**$3,525,585**	**$224,005**	**$65,875,664**
2005	56,182,478	3,282,923	158,234	59,623,635
2004	51,411,501	3,086,916	105,029	54,603,446
2003	44,802,542	2,797,704	60,034	47,660,280
2002	44,882,125	3,010,521	30,454	47,923,100
2001	50,080,968	3,255,940	(2,533)	53,334,375
2000	54,600,363	3,419,106	—	58,019,469
1999	50,578,190	2,783,366	—	53,361,556
1998	45,798,483	2,156,004	—	47,954,487
1997	40,493,968	1,859,533	—	42,353,501

Benefit Expenses by Type, 1997–2006 (in thousands)

Fiscal Year Ended	Service Retirement	Disability Benefits	Survivor Benefits	Supplemental Benefit	Other	Total
2006	**$3,393,968**	**$193,329**	**$86,023**	**$0**	**$11,065**	**$3,684,385**
2005	3,106,371	187,426	81,589	0	8,219	3,383,605
2004	2,840,334	182,889	77,089	0	8,441	3,108,753
2003	2,588,800	175,620	73,680	0	7,403	2,845,503
2002	2,395,318	168,704	69,214	0	5,717	2,638,953
2001	2,203,280	160,775	65,591	50,386	6,473	2,486,505
2000	2,019,521	152,365	62,346	48,493	8,247	2,290,972
1999	1,764,172	139,296	52,863	46,448	6,922	2,009,701
1998	1,601,143	130,429	47,920	44,876	5,595	1,829,963
1997	1,440,163	118,893	43,539	43,278	3,832	1,649,705

Actuarial Funding Ratio and Funding Period
1997–2006 (dollar amounts in thousands)

At July 1	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Funding Period
2006	**$58,008,050**	**$77,371,024**	**$19,362,974**	**75.0%**	**47.2 Yrs.**
2005	53,765,570	73,817,114	20,051,544	72.8%	55.5
2004	52,253,798	69,867,425	17,613,627	74.8%	42.2
2003	48,899,215	65,936,357	17,037,142	74.2%	42.3
2002	48,958,824	63,215,643	14,256,819	77.4%	39.0
2001	54,194,672	59,425,300	5,230,628	91.2%	27.5
2000	51,293,815	55,774,052	4,480,237	92.0%	23.1
1999	46,341,436	51,979,974	5,638,538	89.2%	16.3
1998	41,709,903	48,972,084	7,262,181	85.2%	24.2
1997	36,883,739	44,704,237	7,820,498	82.5%	26.9

Selected Funding Information — Defined Benefit Plan
1997–2006 (dollars in thousands)

As of July 1	Member Contribution Rate	Employer Contribution Rate				Interest Rate Assumption	Payroll Growth Assumption
		Normal	Health Care	Past Service	Total Employer Rate		
2006	**10.00%**	**4.82%**	**1.00%**	**8.18%**	**14.00%**	**8.00%**	**4.50%**
2005	10.00%	4.90%	1.00%	8.10%	14.00%	8.00%	4.50%
2004	10.00%	4.90%	1.00%	8.10%	14.00%	8.00%	4.50%
2003	10.00%	4.89%	1.00%	8.11%	14.00%	8.00%	4.50%
2002	9.30%	6.02%	1.00%	6.98%	14.00%	7.75%	4.50%
2001	9.30%	6.02%	4.50%	3.48%	14.00%	7.75%	4.50%
2000	9.30%	6.02%	4.50%	3.48%	14.00%	7.75%	4.50%
1999	9.30%	0.05%	8.00%	5.95%	14.00%	7.50%	4.50%
1998	9.30%	0.04%	8.00%	5.96%	14.00%	7.50%	4.50%
1997	9.30%	4.26%	3.50%	6.24%	14.00%	7.50%	4.50%

Number of Benefit Recipients by Type
1997–2006

As of July 1	Service Retirement	Disability Benefits	Beneficiaries Receiving Optional Allowances	Survivor Benefits	Total
2006	**99,248**	**6,588**	**7,574**	**5,774**	**119,184**
2005	95,843	6,514	7,314	5,724	115,395
2004	92,574	6,531	7,079	5,669	111,853
2003	89,257	6,552	6,885	5,600	108,294
2002	86,666	6,498	6,623	5,513	105,300
2001	83,918	6,449	6,340	5,425	102,132
2000	81,111	6,367	6,152	5,381	99,011
1999	78,341	6,259	5,948	5,248	95,796
1998	75,482	6,157	5,675	4,685	91,999
1997	72,601	6,000	5,486	4,631	88,718

Summary of Active Membership Data
1997–2006 (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
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**
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
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
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
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
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
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
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
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
1997	114,849	4,148,703	42.98	12.62	54,094	2,415,591	44.38	14.55	168,943	6,564,294	43.43	13.24

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
2006	**3,144**	**$112,499**	**36.60**	**3.76**	**892**	**$36,155**	**39.81**	**3.68**	**4,036**	**$148,654**	**37.31**	**3.74**
2005	3,081	104,158	36.13	3.28	933	33,750	39.22	3.02	4,014	137,908	36.85	3.22
2004	2,833	91,090	35.85	2.82	876	29,345	38.99	2.55	3,709	120,435	36.59	2.76
2003	2,474	75,715	35.80	2.41	758	23,449	38.83	2.18	3,232	99,164	36.51	2.35
2002	1,973	58,023	36.21	2.39	594	17,997	39.94	2.22	2,567	76,020	37.07	2.35

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
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**
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
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
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
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
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
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
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
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
1997	114,849	4,148,703	42.98	12.62	54,094	2,415,591	44.38	14.55	168,943	6,564,294	43.43	13.24

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, 2006

Age Last Birthday	Number	Annual Allowance (in thousands)	Average Annual Allowance
Service Retirees			
Under 60	18,212	$ 806,273	$ 44,272
60–64	20,081	791,794	39,430
65–69	18,031	633,897	35,156
70–74	14,473	454,449	31,400
75–79	12,330	341,059	27,661
Over 79	16,121	356,963	22,143
Total	**99,248**	**$ 3,384,435**	**$ 34,101**
Beneficiaries Receiving Optional Allowances			
Under 60	449	$ 9,860	$ 21,960
60–64	420	11,786	28,062
65–69	698	17,926	25,682
70–74	1,070	25,008	23,372
75–79	1,554	32,191	20,715
Over 79	3,383	58,036	17,155
Total	**7,574**	**$ 154,807**	**$ 20,439**
Survivor Benefit Beneficiaries			
Under 60	2,239	$ 29,060	$ 12,979
60–64	706	13,625	19,299
65–69	663	12,080	18,220
70–74	621	10,628	17,114
75–79	675	11,073	16,404
Over 79	870	12,665	14,557
Total	**5,774**	**$ 89,131**	**$ 15,437**
Disability Beneficiaries			
Under 60	2,958	$ 98,021	$ 33,138
60–64	1,280	40,566	31,693
65–69	786	23,705	30,159
70–74	626	17,133	27,369
75–79	479	11,171	23,322
Over 79	459	9,426	20,536
Total	**6,588**	**$ 200,022**	**$ 30,362**

Average Benefit Payments for Service Retirees, 1997–2006

		Years of Service Credit 5–9	10–14	15–19	20–24	25–30	30+	Average/ Total
2006	Average monthly benefit	$398	$897	$1,379	$1,923	$2,934	$4,174	$3,532
	Average final average salary	$27,578	$44,219	$50,769	$55,121	$63,281	$67,734	$64,024
	Number of recipients	129	141	238	293	1,143	3,802	5,746
2005	Average monthly benefit	$407	$761	$1,191	$1,909	$2,833	$4,142	$3,444
	Average final average salary	$30,531	$35,552	$43,211	$54,738	$60,426	$66,840	$62,105
	Number of recipients	163	123	218	268	1,128	3,463	5,363
2004	Average monthly benefit	$316	$706	$1,183	$1,819	$2,759	$3,956	$3,171
	Average final average salary	$22,861	$34,578	$44,086	$52,901	$58,374	$64,768	$58,719
	Number of recipients	238	212	221	256	1,079	3,099	5,105
2003	Average monthly benefit	$292	$680	$1,184	$1,701	$2,753	$3,814	$3,021
	Average final average salary	$19,364	$31,391	$42,217	$48,396	$57,617	$62,900	$56,465
	Number of recipients	237	196	210	274	1,166	2,730	4,813
2002	Average monthly benefit	$316	$705	$1,131	$1,771	$2,629	$3,620	$2,918
	Average final average salary	$20,715	$33,757	$39,592	$51,291	$54,973	$59,750	$54,583
	Number of recipients	232	200	200	240	1,366	2,957	5,195
2001	Average monthly benefit	$315	$746	$1,150	$1,632	$2,527	$3,454	$2,831
	Average final average salary	$21,323	$35,680	$40,069	$46,269	$52,409	$57,838	$53,026
	Number of recipients	208	192	193	260	1,246	3,107	5,206
2000	Average monthly benefit	$298	$672	$1,124	$1,661	$2,447	$3,265	$2,714
	Average final average salary	$21,230	$31,999	$40,307	$47,625	$50,547	$55,527	$51,408
	Number of recipients	200	167	216	304	1,524	3,432	5,843
1999	Average monthly benefit	$337	$727	$1,099	$1,596	$2,314	$3,021	$2,453
	Average final average salary	$17,104	$29,709	$36,314	$46,180	$50,305	$54,700	$49,358
	Number of recipients	267	218	191	267	1,237	2,820	5,000
1998	Average monthly benefit	$321	$636	$1,057	$1,478	$2,203	$2,884	$2,314
	Average final average salary	$16,311	$25,438	$35,361	$42,177	$48,118	$52,152	$46,543
	Number of recipients	266	233	169	239	1,047	2,539	4,493
1997	Average monthly benefit	$290	$651	$894	$1,508	$2,104	$2,874	$2,287
	Average final average salary	$15,056	$26,748	$29,626	$43,331	$46,146	$51,503	$45,559
	Number of recipients	288	189	165	225	989	2,505	4,361

Number of Reporting Employers by Type, 1997–2006

Fiscal Year Ended	City School Districts	Local School Districts	County Educational Service Centers	Exempted Village Districts	Vocational & Technical Schools	Colleges & Universities	County MR/DD Boards	Community Schools*	Other	Total
2006	**194**	**369**	**60**	**49**	**49**	**37**	**73**	**246**	**9**	**1,086**
2005	194	370	60	49	49	37	74	219	9	1,061
2004	194	369	60	49	49	37	76	142	9	985
2003	194	369	60	49	49	37	76	130	8	972
2002	194	369	60	49	49	37	77	101	8	944
2001	194	369	61	49	49	37	80	72	8	919
2000	194	369	61	49	49	37	82	51	8	900
1999	192	371	63	49	49	37	82	16	7	866
1998	192	372	65	49	49	37	82	*	8	854
1997	192	371	73	49	49	37	82	*	8	861

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

Principal Participating Employers For the Year Ended June 30, 2006

Employer	Covered Members	Rank	Percentage of Membership
Columbus City Schools	6,720	1	1.89%
Cleveland Municipal Schools	5,627	2	1.58%
The Ohio State University	4,459	3	1.25%
Cincinnati City Schools	3,572	4	1.00%
Akron City Schools	3,363	5	0.94%
Toledo City Schools	3,309	6	0.93%
Kent State University	2,830	7	0.79%
University of Cincinnati	2,823	8	0.79%
Cuyahoga Community College	2,453	9	0.69%
Univerity of Akron	2,243	10	0.63%
All Others	318,590		89.49%
Total Covered Members	**355,989***		**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.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Retirement Board,
The State Teachers Retirement System of Ohio

and

The Honorable Betty Montgomery
Auditor of State

We have audited the basic financial statements of The State Teachers Retirement System of Ohio as of and for the year ended June 30, 2006 and have issued our report thereon dated December 15, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The State Teachers Retirement System of Ohio's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated December 15, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The State Teachers Retirement System of Ohio's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Audit Committee, the Retirement Board of the State Teachers Retirement System of Ohio, Management, The Honorable Betty Montgomery, Auditor of State and other oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Toledo, Ohio
December 15, 2006

STATE TEACHERS RETIREMENT SYSTEM OF OHIO

FRANKLIN COUNTY

CLERK'S CERTIFICATION
This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 3, 2007

STATE TEACHERS RETIREMENT SYSTEM OF OHIO

275 E. Broad St., Columbus, OH 43215-3771

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