

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

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Independent Auditors' Report

Board of Trustees
Teachers' Retirement System
of Oklahoma

We have audited the accompanying statements of plan net assets of the Teachers' Retirement System of Oklahoma (the "System"), a part of the financial reporting entity of the State of Oklahoma, as of June 30, 2011 and 2010, and the related statements of changes in plan net assets for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the System at June 30, 2011 and 2010, and the changes in its net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 7, 2011, on our consideration of the System's internal control over financial reporting and our tests 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 of 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 on 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 audits.

Management's Discussion and Analysis and the Schedules of Funding Progress and Employers' Contributions, as listed in the Table of Contents 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 information included in the schedules on pages 29 through 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 7, 2011

Teachers' Retirement System of Oklahoma

Management's Discussion and Analysis

Management is pleased to present this discussion and analysis of the financial activities of the Oklahoma Teachers Retirement System ("OTRS" or the "System") for the years ended June 30, 2011, 2010, and 2009. The System is responsible for administering retirement benefits for a 401(a) defined benefit plan for all educational employees of the state of Oklahoma as well as a voluntary defined contribution plan, 403(b). The System was established on July 1, 1943 for the purpose of providing these retirement benefits and other specific benefits for qualified persons employed by public educational institutions. The main purpose of the System is to provide a primary source of lifetime retirement benefits relative to years of service at the time of retirement. It is the objective of the System to provide these benefits in a prudent, responsible, and cost-effective manner. Plan net assets are used to pay current and future benefits to retired clients.

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements. OTRS's basic financial statements are comprised of three components: 1) *statement of plan net assets*, 2) *statement of changes in plan net assets*, and 3) *notes to the financial statements*. This report also contains *required supplementary information* in addition to the basic financial statements themselves.

The *statement of plan net assets* presents information on all of the System's assets and liabilities, with the difference between the two reported as *net assets held in trust for pension benefits and annuity benefits of electing members*. Over time, increases or decreases in net plan assets may serve as a useful indicator of whether the financial position of the System is improving or deteriorating. Information relating to the System's ability to meet the cost of future benefit payments, is not shown on the *statement of plan net assets*, but is located in both the *notes to the financial statements* and the *required supplementary information*.

The *statement of changes in plan net assets* presents information showing how the System's net assets changed during the most recent fiscal year. Changes in net assets are recognized using the accrual basis of accounting, in which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned and become measurable.

The *notes to the financial statements* are critical to the reader's understanding of the financial status of the System. These notes include a description of the System, details on the cash and investments of the System, as well as contribution and benefit information.

The *required supplementary information* presents a Schedule of Funding Progress that provides historical trend information about the actuarially determined funded status of the System. The Schedule of Employers' Contributions provides historical trend information about the annual required contributions ("ARC") of the System and the contributions made to the System in relation to the ARC. Other supplementary information includes the Schedules of Administrative Expenses, the Schedules of Investment Expenses, and the Schedules of Professionals/Consultants Fees. These schedules provide additional analysis of the information provided in the financial statements.

Teachers' Retirement System of Oklahoma
Management's Discussion and Analysis (Continued)

CONDENSED FINANCIAL INFORMATION

Plan Net Assets as of June 30:

	2011	2010	2009	2011 % Change	2010 % Change
ASSETS					
Cash	\$ 14,348,481	\$ 9,646,573	\$ 6,340,103	48.74%	52.15%
Receivables	270,340,945	172,564,773	368,698,302	56.66%	-53.20%
Long and short-term investments, at fair value	10,349,078,808	8,519,177,169	7,479,921,376	21.48%	13.89%
Capital assets, net	874,921	187,847	224,182	365.76%	-16.21%
TOTAL INVESTMENTS AND OTHER ASSETS	10,634,643,155	8,701,576,362	7,855,183,963	22.22%	10.77%
Securities lending institutional daily assets fund	2,023,648,275	2,247,747,871	1,094,475,078	-9.97%	105.37%
TOTAL ASSETS	12,658,291,430	10,949,324,233	8,949,659,041	15.61%	22.34%
LIABILITIES					
Investment settlements and other liabilities	254,834,471	134,652,920	402,991,252	89.25%	-66.59%
Payable under securities lending agreement	2,023,648,275	2,247,747,871	1,094,475,078	-9.97%	105.37%
TOTAL LIABILITIES	2,278,482,746	2,382,400,791	1,497,466,330	-4.36%	59.10%
NET ASSETS					
Net assets held in trust for pension benefits	\$ 10,379,808,684	\$ 8,566,923,442	\$ 7,452,192,711	21.16%	14.96%

Changes in Plan Net Assets for the year ended June 30:

	2011	2010	2009	2011 % Change	2010 % Change
ADDITIONS:					
Member contributions	\$ 286,643,244	\$ 290,247,028	\$ 288,238,426	-1.24%	0.70%
Employer contributions	364,025,589	366,282,238	338,974,512	-0.62%	8.06%
Matching contributions	23,128,795	26,448,892	22,652,221	-12.55%	16.76%
Dedicated tax revenue	251,322,410	227,926,247	257,019,830	10.26%	-11.32%
Member tax shelter contributions	5,010,856	5,402,646	8,678,472	-7.25%	-37.75%
Net investment income gain (loss)	1,919,301,220	1,186,235,015	(1,461,365,729)	61.80%	-181.17%
Security lending net income	6,336,019	5,032,411	9,318,329	25.90%	-45.99%
TOTAL ADDITIONS	2,855,768,133	2,107,574,477	(536,483,939)	35.50%	-492.85%
DEDUCTIONS:					
Benefit payments	979,245,846	912,912,714	876,273,193	7.27%	4.18%
Refund of member contributions and tax sheltered annuity	58,920,565	74,951,443	75,692,946	-21.39%	-0.98%
Administrative expenses	4,716,480	4,979,589	5,216,493	-5.28%	-4.54%
TOTAL DEDUCTIONS	1,042,882,891	992,843,746	957,182,632	5.04%	3.73%
NET INCREASE (DECREASE)	1,812,885,242	1,114,730,731	(1,493,666,571)	62.63%	-174.63%
NET ASSETS, BEGINNING OF YEAR	8,566,923,442	7,452,192,711	8,945,859,282	14.96%	-16.70%
NET ASSETS, END OF YEAR	\$ 10,379,808,684	\$ 8,566,923,442	\$ 7,452,192,711	21.16%	14.96%

Teachers' Retirement System of Oklahoma

Management's Discussion and Analysis (Continued)

FINANCIAL HIGHLIGHTS AND ANALYSIS

The increase in net assets primarily is due to investment gains as a result of significant market improvement in FY 2011 and 2010. The total investment returns for FY 2011 and 2010 were 23.5% and 16.6%, respectively. Domestic and international equity, which compose 60.0% of the investment portfolio asset allocation, had the greatest increases at 34.0% and 28.4%, respectively. The decrease of 16.7% in 2009 was the result of a significant market loss due to weaknesses in the United States and global markets.

	2011	2010	2009	2007	2002
Plan net assets	\$ 10,379,808,684	\$ 8,566,923,442	\$ 7,452,192,711	\$ 9,651,041,863	\$ 5,696,883,206
Yearly % change	21.2%	15.0%	-16.7%	18.1%	-5.8%

As a result of the market decline in 2009, the total investment returns for the three, five, and ten-year periods are below the actuarial assumed rate of investment return for each of the periods. As mentioned above, the losses were due to weaknesses in the United States and global markets. The assumed actuarial rate of return is 8.0% for the one, three, five and ten-year periods as of June 30, 2011.

Total returns	1 year	3 year	5 year	10 year
2011	23.5%	6.5%	5.9%	6.9%
2010	16.6%	-3.1%	3.4%	4.4%
2009	-16.0%	-2.6%	2.3%	3.9%
2007	18.5%	12.8%	12.8%	(1)
2002	-5.4%	1.0%	7.0%	(1)

(1) Historical returns were not available for this time period

Benefit payments increased 7.3% in 2011 compared to 4.2% in 2010 and 8.6% in 2009. The increase in 2011 is a result of a 4.3% increase in the number of benefit recipients and a 1.7% increase in the average monthly benefit. The increase in 2010 and 2009 are a result of a 4.2% and 3.4% increase in the number of benefit recipients, respectively, and 1.9% and 3.2% increase in the average monthly benefit, respectively. Benefit payments in 2011 to retired members exceed contributions from contributing members and employers by \$108 million or a ratio of 1.12 to 1. A ratio of less than one is desirable because it signifies that the System is receiving more contributions than it pays out in benefits. The table on the following page reflects the ongoing employer and member contributions.

Teachers' Retirement System of Oklahoma

Management's Discussion and Analysis (Continued)

FINANCIAL HIGHLIGHTS AND ANALYSIS (Continued)

	2011	2010	2009	2007	2002
Member contributions	\$ 291,654,100	\$ 295,649,674	\$ 296,916,898	\$ 294,291,782	\$ 226,445,669
Employer contributions	364,025,589	366,282,238	338,974,512	271,012,403	210,829,995
Matching contributions	23,128,795	26,448,892	22,652,221	21,402,183	13,138,458
Dedicated tax revenue	251,322,410	227,926,247	257,019,830	243,501,987	141,057,868
Total contributions	930,130,894	916,307,051	915,563,461	830,208,355	591,471,990
Benefit payments	979,245,846	912,912,714	876,273,193	767,212,709	561,222,392
Refund of contributions	58,920,565	74,951,443	75,692,946	57,378,925	58,495,950
Total payments	\$ 1,038,166,411	\$ 987,864,157	\$ 951,966,139	\$ 824,591,634	\$ 619,718,342
Ratio benefit payments/ contributions	1.12	1.08	1.04	0.99	1.05

The number of benefit recipients increased 8.6% over the past three years from 46,796 to 50,829. Since 2002, the number of benefit recipients increased by 14,314 or 39.2%. The number of members retiring has remained relatively stable for the last five years.

	2011	2010	2009	2007	2002
Benefit recipients	50,829	48,756	46,796	43,506	36,515
Yearly % change	4.3%	4.2%	3.4%	4.1%	3.8%
Net increase	2,073	1,960	1,558	1,724	1,327

The following table reflects the average monthly benefit for service retirements. Over the ten-year period from 2002, the average benefit increased by \$291, or 23.4%. The retirement benefit payments increased 74.5% or \$418.0 million over this ten-year period. The increase in the average monthly benefits in FY 2009 and 2007 are due to cost-of-living adjustments ("COLAs") being granted by the state legislature to retirees. In FY 2011 and 2010 a COLA was not granted, however the average benefit increases are due to an increase in the average benefit received by the newer retirees.

	2011	2010	2009	2007	2002
Average benefit	\$ 1,537	\$ 1,511	\$ 1,483	\$ 1,419	\$ 1,246
Yearly % change	1.7%	1.9%	3.2%	3.4%	3.9%

Teachers' Retirement System of Oklahoma

Management's Discussion and Analysis (Continued)

The ratio of active members to retired members of the System is 1.73 to 1 in 2011 compared to 2.34 to 1 in 2002. Over the past ten years, the number of members contributing into the System increased 3.2%. During the same period, the number of retired members increased by 39.2%.

	2011	2010	2009	2007	2002
Members contributing	88,085	89,896	89,388	88,133	85,367
Yearly % change	-2.0%	0.6%	0.8%	1.1%	1.2%
Benefit recipients	50,829	48,756	46,796	43,506	36,515
Yearly % change	4.3%	4.2%	3.4%	4.1%	3.8%
Ratio contributing/retired	1.73	1.84	1.91	2.03	2.34

The measure of the progress in accumulating sufficient assets to meet the long-term benefit obligations is the funded status or the funded ratio of the System. The funded ratio is the actuarial value of assets expressed as a percentage of the actuarial accrued liability. The funding policy is the method to provide benefits, specified in the System, through the amounts and timing of contributions from the employers and the contributing clients. The excess of the actuarial accrued liability over the actuarial value of assets is the unfunded actuarial accrued liability ("UAAL"). The actuarial value of assets differs from the year-end fair value of the System's plan net assets by smoothing the effects of market fluctuations. In the calculation of the actuarial value of assets, 20% of the difference between the actual and assumed investment returns is included in the actuarial value of assets. During extended periods of market declines, the market value of the System's plan net assets usually will be less than the actuarial value of assets.

The 2011 actuarial valuation reflects a decrease in the UAAL from \$10,414 million to \$7,600 million, which resulted in the funded ratio increasing from 47.9% in FY 2010 to 56.7% in FY 2011. Based upon the current contribution schedule, the statutory contribution amounts are sufficient to amortize the UAAL. As of June 30, 2011 the funding period is 22.0 years, the funding period reported for June 30, 2010 was infinite. The decrease in the UAAL and resulting change to a 22.0 year funding period from an infinite funding period is principally due to the recognition of recent market gains and legislation passed during the FY 2011 legislative session; see Note K in the Notes to Financial Statements for further description. The FY 2010 and 2009 changes in funded ratio are the result of gains and losses on investments during those years.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the System's finances for all those with an interest in the System. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director of the Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, Oklahoma 73152 or (405) 521-2387.

STATEMENTS OF PLAN NET ASSETS

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

As of June 30, 2011 (with Comparative Totals as of June 30, 2010)

			Comparative Totals	
	401(a) Plan	403(b) Plan	2011	2010
ASSETS				
Cash	\$ 14,348,481	\$ -	\$ 14,348,481	\$ 9,646,573
Short-term investments	361,798,249	-	361,798,249	250,812,377
Accrued interest and dividends receivable	45,636,139	-	45,636,139	45,625,225
Member contributions receivable	22,103,498	-	22,103,498	22,482,144
Employer contributions receivable	34,484,109	-	34,484,109	34,553,310
Receivable from the State of Oklahoma	27,322,221	-	27,322,221	23,542,532
Due from brokers for securities sold	140,794,978	-	140,794,978	46,361,562
Security lending				
institutional daily assets fund	2,023,648,275	-	2,023,648,275	2,247,747,871
Long-term investments:				
Mutual funds	-	223,451,514	223,451,514	214,957,100
U.S. government securities	1,128,778,574	-	1,128,778,574	1,156,414,166
U.S. corporate bonds	1,970,357,378	-	1,970,357,378	1,851,427,843
International corporate bonds and government securities	70,083,523	-	70,083,523	60,291,600
Equity securities	6,594,609,570	-	6,594,609,570	4,985,274,083
Total long-term investments	9,763,829,045	223,451,514	9,987,280,559	8,268,364,792
Capital assets, net	874,921	-	874,921	187,847
TOTAL ASSETS	\$ 12,434,839,916	\$ 223,451,514	\$ 12,658,291,430	\$ 10,949,324,233
LIABILITIES				
Benefits in process of payment	\$ 80,477,110	\$ -	\$ 80,477,110	\$ 15,999,565
Due to brokers for securities purchased	164,155,126	-	164,155,126	110,597,489
Payable under security lending agreement	2,023,648,275	-	2,023,648,275	2,247,747,871
Other liabilities	10,202,235	-	10,202,235	8,055,866
TOTAL LIABILITIES	\$ 2,278,482,746	\$ -	\$ 2,278,482,746	\$ 2,382,400,791
NET ASSETS				
Net assets held in trust for pension benefits and annuity benefits of electing members	\$ 10,156,357,170	\$ 223,451,514	\$ 10,379,808,684	\$ 8,566,923,442

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

For the Year ended June 30, 2011
(with Comparative Totals for the year ended June 30, 2010)

	401(a) Plan	403(b) Plan	Comparative Totals Year Ended June 30	
			2011	2010
Additions:				
Members	\$ 286,643,244	\$ -	\$ 286,643,244	\$ 290,247,028
Members tax shelter	-	5,010,856	5,010,856	5,402,646
Employer statutory requirement from local school districts	364,025,589	-	364,025,589	366,282,238
Matching funds	23,128,795	-	23,128,795	26,448,892
Dedicated tax	251,322,410	-	251,322,410	227,926,247
Total contributions	<u>925,120,038</u>	<u>5,010,856</u>	<u>930,130,894</u>	<u>916,307,051</u>
Investment income:				
Interest & dividends	282,524,875	3,985,457	286,510,332	263,698,635
Net appreciation in fair value of investments	1,645,516,997	23,207,495	1,668,724,492	953,347,464
Investment expenses	(35,933,604)	-	(35,933,604)	(30,811,084)
Gain from investing activities	<u>1,892,108,268</u>	<u>27,192,952</u>	<u>1,919,301,220</u>	<u>1,186,235,015</u>
Income from securities lending activities:				
Securities lending income	7,454,140	-	7,454,140	6,119,998
Securities lending expenses:				
Management fees	(1,118,121)	-	(1,118,121)	(1,087,587)
Net income from securities lending activities	<u>6,336,019</u>	<u>-</u>	<u>6,336,019</u>	<u>5,032,411</u>
Net investment gain	<u>1,898,444,287</u>	<u>27,192,952</u>	<u>1,925,637,239</u>	<u>1,191,267,426</u>
Total additions	<u>2,823,564,325</u>	<u>32,203,808</u>	<u>2,855,768,133</u>	<u>2,107,574,477</u>
Deductions:				
Retirement, death, survivor, and health benefits	979,245,846	-	979,245,846	912,912,714
Refund of member contributions and annuity payments	35,211,171	23,709,394	58,920,565	74,951,443
Administrative expenses	4,716,480	-	4,716,480	4,979,589
Total deductions	<u>1,019,173,497</u>	<u>23,709,394</u>	<u>1,042,882,891</u>	<u>992,843,746</u>
NET INCREASE	<u>1,804,390,828</u>	<u>8,494,414</u>	<u>1,812,885,242</u>	<u>1,114,730,731</u>
NET ASSETS, BEGINNING OF YEAR	<u>8,351,966,342</u>	<u>214,957,100</u>	<u>8,566,923,442</u>	<u>7,452,192,711</u>
NET ASSETS, END OF YEAR	<u>\$ 10,156,357,170</u>	<u>\$ 223,451,514</u>	<u>\$ 10,379,808,684</u>	<u>\$ 8,566,923,442</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE A--DESCRIPTION OF THE SYSTEM

The following brief description of the Teachers' Retirement System of Oklahoma (the "System") is provided for general information purposes only. Participants should refer to Title 70 of the Oklahoma Statutes, 1991, sections 17-101 through 121, as amended.

The System was established as of July 1, 1943, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The System is a part of the state of Oklahoma financial reporting entity, which is combined with other similar funds to comprise the fiduciary-pension trust funds of the state of Oklahoma (the "State"). The supervisory authority for the management and operation of the System is a 13-member board of trustees, which acts as a fiduciary for investment of the funds and the application of plan interpretations. The System administers a cost-sharing multiple-employer pension plan which is a defined benefit pension plan ("DB Plan") as well as a tax-deferred defined contribution plan ("DC Plan").

DB Plan

Oklahoma teachers and other certified employees of common schools, faculty and administrators in public colleges and universities, and administrative personnel of state educational boards and agencies who are employed at least half-time, must join the System's DB Plan. Membership is optional for all other regular employees of public educational institutions who work at least 20 hours per week. The DB Plan's membership consisted of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Retirees and beneficiaries currently receiving benefits	50,829	48,756
Terminated vested clients	7,725	7,439
Active clients	88,085	89,896
	<u>146,639</u>	<u>146,091</u>

There are 614 contributing employers in the System. In addition, there were 7,498 and 7,206 of non-vested inactive members at June 30, 2011 and 2010, respectively, which are entitled to a refund of their accumulated contributions.

DC Plan

Members are also offered a tax-deferred defined contribution plan qualified under the Internal Revenue Code ("IRC") Section 403(b). The DC Plan is also referred to by the System as the Tax-Sheltered Annuity Plan. Membership in the DC Plan is voluntary and investments primarily consist of mutual funds and are participant directed. ING is responsible for administrative services, including custody and record keeping services.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE A--DESCRIPTION OF THE SYSTEM--Continued

DC Plan--Continued

The DC Plan had 4,408 and 4,669 participants as of June 30, 2011 and 2010, respectively. Contributions are voluntary and require a minimum of \$200 per year. The maximum deferral amount is the lesser of 100% of the participant's compensation or the maximum amount allowed by the IRC, currently \$16,500.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The System has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America and using the economic resources measurement focus. The financial statements are prepared using the accrual basis of accounting, under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period they are earned and become measurable, and investment purchases and sales are recorded as of their trade dates. Member and employer contributions are established by Oklahoma Statutes as a percentage of salaries and are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Oklahoma Statutes. Administrative expenses are funded through investment earnings.

Budgetary Control: The System prepares and submits an annual budget of operating expenses on the cash basis for monitoring and reporting to the Oklahoma Office of State Finance. The System's budget process follows the budget cycle for State operations as outlined by the Oklahoma Office of State Finance.

The Executive Director may approve changes within the budget, but a change to the total budget must be handled according to the provisions of Title 62 O.S. Sec. 41.12 of the Oklahoma Statutes.

Investments: The System is authorized to invest in eligible investments as approved by the board of trustees as set forth in the System's investment policy.

System investments are reported at fair value. The short-term investment fund is comprised of an investment in units of commingled trust funds of the System's custodial agent, which is reported at cost, which approximates fair value. Debt and equity securities are reported at fair value, as determined by the System's custodial agent, using pricing services or prices quoted by independent brokers based on the latest reported sales prices at current exchange rates for securities traded on national or international exchanges. The Security Lending Institutional Daily Assets Fund represents investment in JP Morgan's Institutional Daily Assets Fund and is carried at amortized cost, which approximates fair value.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Investments--Continued: Net investment income includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, investment income from foreign currency translation gains and losses, securities lending income and expenses, and investment expenses, which includes investment management and custodial fees and all other significant investment related costs.

International investment managers use forward foreign exchange contracts to enhance returns or to control volatility. Currency risks arise due to foreign exchange rate fluctuations. Forward foreign exchange contracts are negotiated between two counter-parties. The System could incur a loss if its counter-parties failed to perform pursuant to the terms of their contractual obligations. At June 30, 2011, the System had forward currency contracts with fair values of \$58.7 million in receivables and had forward currency contracts with fair values of \$59.2 million in payables. The gains and losses on these contracts are included in the income in the period in which the exchange rates change. See Note C for additional information regarding investment derivatives as of June 30, 2011.

The System's investment policy provides for investment diversification of stocks, bonds, fixed income securities and other investment securities along with investment in commingled or mutual funds. Investment securities and investment securities underlying commingled or mutual fund investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and those changes could materially affect the amounts reported in the statements of plan net assets.

Capital Assets: Capital assets are stated at cost when acquired, net of accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from five to ten years.

Risks and Uncertainties: Contributions to the System and the actuarial information included in the required supplementary information are reported based on certain assumptions pertaining to interest rates, inflation rates, employee compensation, and demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions may occur in the near term and, due to the uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Income Taxes: The System is exempt from federal and state income taxes and has received a favorable determination from the Internal Revenue Service (the "IRS") under Internal Revenue Code (the "IRC") Section 401(a). The System's 403(b) Plan is also tax exempt and has received a private letter ruling from the IRS.

Compensated Absences: It is the State's policy to permit employees to accumulate earned but unused vacation and sick leave. Employees earn annual vacation leave based upon their start date and years of service. All accrued vacation leave is payable upon termination, resignation, retirement, or death. Sick leave does not vest to the employee and therefore is not recorded as a liability. Amounts due to the employees for compensated absences were approximately \$267,000 and \$275,000 at June 30, 2011 and 2010, respectively.

Plan Termination: In the event the System terminates, the board of trustees will distribute the net assets of the System to provide the following benefits in the order indicated:

Accumulated contributions will be allocated to each respective member, former member, retired member, joint annuitant, or beneficiary then receiving payments.

The balance of such assets, if any, will be allocated to each member then having an interest in the System based upon the excess of their retirement income under the System less the retirement income, which is equal to the actuarial equivalent of the amount allocated to them in accordance with the preceding paragraph in the following order:

- Those retired members, joint annuitants, or beneficiaries receiving payments,
- Those members eligible to retire,
- Those members eligible for early retirement,
- Former members electing to receive a vested benefit, and
- All other members.

Use of Estimates: The preparation of the System's financial statements in conformity with accounting principles generally accepted in the United States of America requires the System's management to make significant estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at the date of the financial statements and the actuarial information included in the required supplementary information as of the benefit information date, the changes in System net assets during the reporting period and, when applicable, disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE C--CASH AND INVESTMENTS

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of a counterparty, the System will not be able to recover the value of its bank deposits or investments. Bank deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. In relation to its bank deposits, the System is not considered to be exposed to custodial credit risk. Although the System does not have a formal bank deposit policy for custodial credit risk, the State Treasurer holds all of the System's bank deposits. As required by Oklahoma Statutes, all bank deposits held by the State Treasurer are insured by the Federal Deposit Insurance Corporation, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations.

At June 30, 2011 and 2010, the carrying amount of the System's bank deposits was approximately \$14,348,000 and \$9,647,000, respectively. The bank balance of the System's bank deposits at June 30, 2011 and 2010 was approximately \$11,459,000 and \$64,101,000, respectively.

Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the System, and are held by a counterparty or the counterparty's trust department but not in the name of the System. While the System's investment policy does not specifically address custodial credit risk it does limit the amount of cash equivalents and short-term investments to no more than 5% of each manager's portfolio. At June 30, 2011 and 2010, the System had uninsured and uncollateralized cash and cash equivalents of approximately \$361,798,000 and \$250,812,000, respectively, with its custodial agent. The System's custodial agent for the years ended June 30, 2011 and 2010 was JP Morgan.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE C--CASH AND INVESTMENTS--Continued

Credit Risk: Fixed-income securities are subject to credit risk. Credit quality rating is one method of assessing the ability of the issuer to meet its obligation. The System's investment policy requires that at the time of purchase all corporate bonds or debentures be at the highest rating of the four rating services recognized by the Comptroller of the Currency of the United States of America.

Investment Type	S&P Ratings (Unless Noted)	Fair Value <i>(Amounts in Thousands)</i>	Fair Value as a Percent of Total Fixed Maturity Fair Value
U.S. corporate bonds	AAA	\$ 162,686	5.14%
	AA+	14,455	0.46%
	AA	5,998	0.19%
	AA-	6,478	0.20%
	A+	49,256	1.55%
	A	66,924	2.11%
	A-	42,937	1.35%
	BBB+	53,400	1.68%
	BBB	171,543	5.41%
	BBB-	231,319	7.30%
	B+	131,845	4.16%
	B	131,084	4.14%
	B-	87,918	2.77%
	BB+	135,279	4.27%
	BB	170,552	5.38%
	BB-	180,979	5.71%
	CCC+	52,768	1.67%
	CCC	19,244	0.61%
	CCC-	4,685	0.15%
	CC	3,965	0.13%
D	1,667	0.05%	
NR	245,375	7.74%	
Total U.S. corporate bonds		\$ 1,970,357	62.17%
International corporate bonds	AAA	\$ 779	0.03%
	AA	752	0.02%
	AA-	3,580	0.11%
	A	1,424	0.04%
	BBB-	343	0.01%
	BBB-	1,027	0.03%
	BB-	1,431	0.05%
Total international corporate bonds		\$ 9,336	0.29%

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE C--CASH AND INVESTMENTS--Continued

Credit Risk--Continued:

Investment Type	S&P Ratings (Unless Noted)	Fair Value	Fair Value as a Percent of Total Fixed Maturity Fair Value
		<i>(Amounts in Thousands)</i>	
International government securities	AAA	\$ 8,523	0.27%
	AA	682	0.02%
	A	10,713	0.34%
	BBB+	2,793	0.09%
	BBB	7,393	0.23%
	BBB-	13,446	0.42%
	BB+	832	0.03%
	BB	4,925	0.16%
	BB-	1,803	0.06%
	B+	2,051	0.06%
	B	3,700	0.12%
	CCC	2,528	0.08%
	NR	1,359	0.04%
Total international government securities		\$ 60,748	1.92%
Municipal bonds	AAA	\$ 3,144	0.09%
	AA+	2,489	0.08%
	AA	800	0.03%
	AA-	2,883	0.09%
	A+	1,719	0.05%
	A	1,603	0.05%
	A-	2,275	0.07%
	BBB+	865	0.03%
	BB+	518	0.02%
	NR	215	0.01%
Total municipal bonds		\$ 16,511	0.52%
U.S. government securities	AGY (1)	\$ 176,899	5.58%
	TSY (2)	653,144	20.61%
	AAA	282,225	8.91%
Total U.S. government securities		\$ 1,112,268	35.10%
		\$ 3,169,220	100%

(1) U.S. Agency securities - implicitly guaranteed by the U.S. Government.

(2) Treasury Securities which are explicitly guaranteed by the U.S. Government.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE C--CASH AND INVESTMENTS--Continued

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. While all investments are subject to market changes, securities invested in index funds are more sensitive to market risk. Although the System's investment policy does not specifically address the duration of fixed-income securities, the System's management does monitor interest rate risk by monitoring the performance of each investment manager. As of June 30, 2011, the System had the following investments with maturities:

<u>Investment Type</u>	<u>Investment Maturities at Fair Value (in Years)</u>				
	<i>(Amounts in Thousands)</i>				
	<u>Less than One</u>	<u>One to Five</u>	<u>Five to Ten</u>	<u>More than Ten</u>	<u>Total Fair Value</u>
U.S. corporate securities					
Asset-backed securities	\$ 32,231	\$ 53,009	\$ 6,036	\$ 6,994	\$ 98,270
CMO/REMIC/CMBS	86,315	658	21,935	77,799	186,707
Corporate bonds	<u>198,485</u>	<u>390,881</u>	<u>872,719</u>	<u>223,295</u>	<u>1,685,380</u>
	317,031	444,548	900,690	308,088	1,970,357
International corporate bonds	-	7,562	1,723	51	9,336
International government securities	10,110	16,240	11,214	23,184	60,748
Municipal bonds	1,544	-	696	14,271	16,511
U.S. government securities	<u>26,629</u>	<u>318,161</u>	<u>159,531</u>	<u>607,947</u>	<u>1,112,268</u>
	<u>\$ 355,314</u>	<u>\$ 786,511</u>	<u>\$ 1,073,854</u>	<u>\$ 953,541</u>	<u>\$ 3,169,220</u>

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE C--CASH AND INVESTMENTS--Continued

Foreign Currency Risk: Foreign currency risk is the potential risk for loss due to changes in exchange rates. The System's investment policy provides that international investment managers invest no more than 30% of their portfolio's total assets in one or more issuers in a single country, provided that in the U.K. such limit shall be 35%. Investment in cash and cash equivalents, foreign equities, and fixed-income securities as of June 30, 2011 is shown in the following table by monetary unit to indicate possible foreign currency risk.

<i>(Amounts in Thousands)</i>						
Currency	Equities	Corporate Bonds	Government Bonds	Foreign Exchange Contracts	Cash and Cash Equivalents	Grand Total
Australian Dollar	\$ 14,476	\$ 2,955	\$ -	\$ (12)	\$ -	\$ 17,419
Brazilian Real	20,498	-	11,052	(44)	-	31,506
British Pound Sterling	223,637	-	-	1	33	223,671
Canadian Dollar	30,489	1,431	173	(11)	766	32,848
Chilean Peso	592	-	-	-	-	592
Danish Krone	13,281	-	-	-	-	13,281
Euro	478,507	1,370	7,834	(420)	11,230	498,521
Hong Kong Dollar	84,503	-	-	-	35	84,538
Indian Rupee	-	-	2,818	-	-	2,818
Indonesian Rupiah	3,706	-	8,232	-	-	11,938
Israeli New Shekel	1,442	-	-	(2)	-	1,440
Japanese Yen	260,861	-	-	24	1,482	262,367
Malaysian Ringgit	5,313	-	-	-	-	5,313
Mexican Peso	12,229	-	6,364	-	-	18,593
New Zealand Dollar	2,770	-	-	-	-	2,770
Norwegian Krone	5,616	-	-	-	-	5,616
Philippine Peso	-	-	4,691	-	-	4,691
Polish Zloty	6,152	-	-	13	-	6,165
Singapore Dollar	5,875	-	-	1	-	5,876
South African Rand	13,677	-	-	(21)	-	13,656
South Korean Won	34,098	3,580	1,413	-	14	39,105
Swedish Krona	20,491	-	-	-	-	20,491
Swiss Franc	86,504	-	-	5	-	86,509
Taiwan Dollar	17,803	-	-	-	805	18,608
Thai Baht	3,216	-	-	-	-	3,216
Turkish New Lira	5,425	-	-	-	-	5,425
Total	<u>1,351,161</u>	<u>9,336</u>	<u>42,577</u>	<u>(466)</u>	<u>14,365</u>	<u>1,416,973</u>
Not subject to foreign currency risk	-	-	18,171	-	-	18,171
Total	<u>\$1,351,161</u>	<u>\$ 9,336</u>	<u>\$ 60,748</u>	<u>\$ (466)</u>	<u>\$ 14,365</u>	<u>\$1,435,144</u>

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE C--CASH AND INVESTMENTS--Continued

Derivative Instruments: The System's investment derivatives include forward currency contracts. These investments are not speculative in nature and do not increase investment risk beyond allowable limits specified in the System's investment policy. The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2011, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2011 financial statements are as follows:

<i>(Amounts in Thousands)</i>					
Investment Derivatives	Classification	Change in fair value Amount	Classification	Fair Value at June 30, 2011 Amount	Notional
Foreign Currency Forward	Investment income	\$ (2,277)	Investments	\$ (466)	\$ (624,240)

A foreign currency forward contract is an agreement that obligates the parties to exchange given quantities of currencies at a pre-specified exchange rate on a certain future date. The fair values of the forward contracts are estimated based on the present value of their estimated future cash flows.

The foreign currency forward contracts subject the System to foreign currency risk because the investments are denominated in international currencies. The risks are described in foreign currency risk schedule where the fair value of the foreign currency contracts in U.S. dollars is presented.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE D--SECURITIES LENDING ACTIVITY

The System's investment policy and State statutes provide for its participation in a securities lending program. The program is administered by the System's master custodian and there are no restrictions on the amount of loans that can be made. Certain securities of the System are loaned to participating brokers, who must provide collateral in the form of cash, U. S. Treasury or government agency securities, or letters of credit issued by approved banks. Under the terms of the agreement, collateralization of the fair value of the loaned securities must be provided in the amount of 102% when the security to be loaned and the collateral are in the same currency and 105% when the loan and collateral currencies are dissimilar.

The fair value of securities on loan at June 30, 2011 was approximately \$2,187,781,000. The underlying collateral for these securities had a fair value of approximately \$2,229,583,000 at June 30, 2011. Collateral of securities and letters of credit represented approximately \$205,935,000 of total collateral at June 30, 2011. Because the System cannot pledge or sell collateral securities and letters of credit received unless the borrower defaults, the collateral and related liability are not presented in the accompanying statements of plan net assets. The following table describes the types of securities lent and collateral as of June 30, 2011.

<u>Type of securities on loan</u>	<i>(Amounts in Thousands)</i>	
	<u>Market Value of Securities on Loan</u>	<u>Collateral Value</u>
Government loans compared to cash collateral	\$ 432,795	\$ 443,863
Equity loans compared to cash collateral	1,552,616	1,579,785
Government loans compared to non-cash collateral	199,527	203,058
Government loans compared to non-cash collateral	2,843	2,877
	<u>\$ 2,187,781</u>	<u>\$ 2,229,583</u>

At June 30, 2011, the System had no credit risk exposure since the amounts the System owed to borrowers exceeded the amounts borrowers owed the System. The contract with the System's lending agent requires it to indemnify the System if the borrowers fail to return the lent securities. In the event of a collateral shortfall due to a loss in value of investments made with cash collateral, such loss would be the responsibility of the System. The System previously held a \$35 million position in JP Morgan's securities lending program with Lehman Brothers bonds as collateral. At June 30, 2010 the market value had increased to \$6.8 million, resulting in an unrealized gain of \$1.7 million in the statement of changes in plan net assets. At June 30, 2011 the market value had increased to \$9.0 million, resulting in an unrealized gain of \$2.2 million in the statement of changes in plan net assets. The outcome of the Lehman Brothers bankruptcy has yet to be determined at November 7, 2011.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE D--SECURITIES LENDING ACTIVITY--Continued

All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in a separate account for the System in accordance with investment guidelines approved by the System. At June 30, 2011 and 2010, the weighted average maturity of the cash collateral investments was 24 days and 23 days, respectively. The cash collateral investments are structured and maintained by the lending agent's investment desk utilizing an asset and liability methodology designed to manage to an appropriate extent any mismatch between the investment maturities and the System's loans.

NOTE E--CAPITAL ASSETS

Capital assets consist of the following at June 30:

	<i>(Amounts in Thousands)</i>	
	2011	2010
Furniture and fixtures	\$ 1,908	\$ 1,289
Accumulated depreciation	(1,033)	(1,101)
Capital assets, net	<u>\$ 875</u>	<u>\$ 188</u>

The System has commitments to lease building space as well as leases on certain equipment. The future minimum commitment for operating leases as of June 30, 2011 was approximately \$185,000. The System's leases are one-year renewable contracts. Rental expense for all operating leases amounted to approximately \$213,000 and \$228,000 for the years ended June 30, 2011 and 2010, respectively.

NOTE F--RESERVE AND DESIGNATED FUNDS

The amount included in the Teachers' Deposit Fund, the Expense Fund, and the Capital Assets Fund is not available to pay regular retirement benefits. A brief description of the funds is as follows:

The Teachers' Deposit Fund represents funds in the DC Plan. During FY 2010, the System hired ING as the service provider for the DC Plan. This process was undertaken to steadfastly provide a supplemental retirement program that will enhance the System's clients' retirement future. ING provides a comprehensive educational strategy, an array of investment options, clients have 24 hours a day access to their accounts on line, and dedicated customer service representatives available each weekday from 7:00 am to 7:00 pm.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE F--RESERVE AND DESIGNATED FUNDS--Continued

- The Expense Fund represents funds accumulated to pay for the expense of administering and maintaining the System budgeted for the next fiscal year plus any accrued administrative costs as of the current fiscal year-end.
- The Capital Assets Fund represents the net book value of furniture and fixtures for the System.

The Funds had the following approximate balances at June 30:

	<i>(Amounts in Thousands)</i>	
	<u>2011</u>	<u>2010</u>
Teachers' deposit fund (DC Plan)	\$ 223,452	\$ 214,957
Expense fund	61,830	64,297
Capital assets fund	875	188
	<u>\$ 286,157</u>	<u>\$ 279,442</u>

NOTE G--CONTRIBUTIONS

All contribution rates are defined or amended by the Oklahoma Legislature. All active members contribute to the System; however, the employer may elect to make all or part of the contribution for its employees. There are special provisions for members of higher education who joined the System before July 1, 1995. The annual employer contributions reported for the years ended June 30, 2011 and 2010 were \$364,025,589 and \$366,282,238, respectively. Employers satisfied 100% of their contribution requirements for 2011 and 2010.

All members must contribute 7% of regular annual compensation, not to exceed the member's maximum compensation level, which for the years ended June 30, 2011 and 2010, was the full amount of regular annual compensation.

The employers are required to contribute a fixed percentage of annual compensation on behalf of active clients. The employer contribution rate was 7.85% from July 1, 2007 to December 31, 2007; 8.35% from January 1, 2008 to June 30, 2008; 8.5% on July 1, 2008; 9% from January 1, 2009 to December 31, 2009; and 9.5% on January 1, 2010 for all remitting entities other than comprehensive and four year regional universities. The employer contribution rate was 7.05% from July 1, 2007 to December 31, 2007; 7.55% starting on January 1, 2008; 8.05% starting on January 1, 2009; and 8.55% starting on January 1, 2010 for comprehensive and four year universities. The rates for fiscal years 2011 and 2010 are applied on the full amount of the Client's regular annual compensation up to certain limits prescribed by the Internal Revenue Code.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE H--BENEFITS

The System provides defined retirement benefits based on members' final compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. Title 70 O. S. Sec. 17-105 defines all retirement benefits. The authority to establish and amend benefit provisions rests with the State Legislature.

Benefit provisions include:

- Members become 100% vested in retirement benefits earned to date after five years of credited Oklahoma service. Members, who joined the System on June 30, 1992, or prior, are eligible to retire at maximum benefits when age and years of creditable service total 80. Members joining the System after June 30, 1992 are eligible for maximum benefits when their age and years of creditable service total 90. Members whose age and service do not equal the eligible limit may receive reduced benefits as early as age 55, and at age 62 receive unreduced benefits based on their years of service. The maximum retirement benefit is equal to 2% of final compensation for each year of credited service.
- Final compensation for members who joined the System prior to July 1, 1992 is defined as the average salary for the three highest years of compensation. Final compensation for members joining the System after June 30, 1992 is defined as the average of the highest five consecutive years of annual compensation in which contributions have been made. The final average compensation is limited for service credit accumulated prior to July 1, 1995 to \$40,000 or \$25,000, depending on the member's election. Monthly benefits are 1/12 of this amount. Service credits accumulated after June 30, 1995 is calculated based on each member's final average compensation, except for certain employees of the two comprehensive universities.
- Upon the death of a member who has not yet retired, the designated beneficiary shall receive the member's total contributions plus 100% of interest earned through the end of the fiscal year, with interest rates varying based on time of service. A surviving spouse of a qualified member may elect to receive, in lieu of the aforementioned benefits, the retirement benefit the member was entitled to at the time of death as provided under the Joint Survivor Benefit Option.
- Upon the death of a retired member, the System will pay \$5,000 to the designated beneficiary, in addition to the benefits provided for the retirement option selected by the member.
- A member is eligible for disability benefits after ten years of credited Oklahoma service. The disability benefit is equal to 2% of final average compensation for the applicable years of credited service.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE H--BENEFITS--Continued

- Upon separation from the System, members' contributions are refundable with interest based on certain restrictions provided in the plan, or by the IRC.
- Members may elect to make additional contributions to a tax-sheltered annuity program up to the exclusion allowance provided under the IRC under Code Section 403(b).

At the election of each eligible member initiating receipt of retirement benefits, the System remits between \$100 and \$105 per month per eligible retiree to the Oklahoma State and Education Employees Group Insurance Board ("OSEEGIB"), depending on the members' years of service during 2011 and 2010. Such amounts were approximately \$29,405,000 and \$29,916,000 in 2011 and 2010, respectively, and are included in retirement and other benefits expense. Amounts due to OSEEGIB at June 30, 2011 and 2010, respectively are approximately \$2,424,000 and \$2,394,000 and are included in benefits in process of payment. The System performs no administrative functions related to the benefits provided by OSEEGIB and the payments have a minimal and declining impact on the operation of the System.

NOTE I--DEDICATED TAX

The System receives 5.0% of the State's sales, use, and corporate and individual income taxes collected as dedicated tax. The System receives 1% of the cigarette taxes collected by the State and receives 5% of net lottery proceeds collected by the State. The System received approximately \$251,322,000 and \$227,926,000 from the State in 2011 and 2010, respectively. Amounts due from the State were approximately \$27,322,000 and \$23,543,000 at June 30, 2011 and 2010, respectively.

NOTE J--PENSION PLAN FOR EMPLOYEES OF THE SYSTEM

The System also makes employer contributions for its employees who are also members of the System. The System's contributions are under the same terms as other participating employers, as discussed in Note G. In addition to the employer contributions, the System also pays the employees' contributions as a fringe benefit. Benefits paid to members that worked for the System are the same as those described in Note H. The total employee contributions paid by the System for its employees were approximately \$188,135, \$204,000, and \$211,000 for the years ended June 30, 2011, 2010, and 2009, respectively. Total employer contributions paid by the System were approximately \$256,269 and \$251,000, and \$264,000 for the years ended June 30, 2011, 2010, and 2009 respectively. The employer contributions for FY 2011, 2010, and 2009 were 77.6%, 83.6%, and 86.6%, respectively, of the actuarial determined annual required contribution amounts and 100% of the contribution rate amounts determined by the legislature.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE K--PLAN AMENDMENTS

This year's legislative session resulted in several major pension reforms under Senate Bills (SB) 377 and 782 and House Bill ("HB") 2132.

SB 782 eliminated the requirement that statewide retirement systems report a second set of actuarial valuation results to the Oklahoma State Pension Commission using specified actuarial assumptions. These laws will go into effect after July 1, 2011.

SB 377 changes the eligibility conditions for both normal and early retirement members hired on or after November 1, 2011. Members will be eligible for normal retirement at the earlier of age 65 with 5 years of service or when their age plus service equals 90 (rule of 90) with a minimum age of 60. Members will be eligible for early (reduced) retirement at age 60 with 5 years of service.

HB 2132 requires that if the Legislature provides any of the state pension system retirees a cost of living adjustment (COLA), then the Legislature must provide funding for the increased costs, exceeding the unfunded mandate to the retirement system. HB 2132 helped to reduce the System's unfunded liability from \$10,414 million to \$7,600 million and increases the System's funded ratio from 47.9% to 56.7% as of June 30, 2011.

NOTE L--DB PLAN FUNDING STATUS AND ACTUARIAL INFORMATION

The System's actuary conducts an annual valuation to determine the adequacy of the current employer contribution rates, to describe the current financial condition of the System, and to analyze changes in the System's condition. This valuation shows the funded position of the System increased from the funding level at June 30, 2010. Based on current statutes for determining the state, federal, and employer contribution rates, the funded period which is the number of years that would be required to amortize the unfunded actuarial accrued liability (the "UAAL") is 22.0 years. The actuarial accrued liability decreased by \$2,419.8 million and the actuarial value of assets increased \$394 million. As a result, the System's unfunded actuarial accrued liabilities decreased \$2,814 million to \$7,600 million at June 30, 2011. The funded ratio - actuarial value of assets divided by actuarial accrued liability - increased from 47.9% to 56.7%.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE L--DB PLAN FUNDING STATUS AND ACTUARIAL INFORMATION--Continued

The decrease in the UAAL and the funding period is principally due to significant market asset gains as well as changes in assumptions effective in the June 30, 2011 valuation. Based on the current contribution schedule, assuming no actuarial gains or losses in the future, the UAAL is expected to continue increasing from the current level until fiscal year 2013 and decreasing through June 30, 2033 and beyond. The current contribution schedule results in contributions sufficient to cover the interest on the current UAAL plus the normal cost resulting in negative amortization.

The funded status of the System as of June 30, 2011, the most recent actuarial date, is as follows:

	<i>(Amounts in Millions)</i>	
Actuarial value of assets (a)	\$ 9,960.6	
Actuarial accrued liability (AAL) (b)	\$ 17,560.8	
Total unfunded actuarial accrued liability (UAAL) (b-a)	\$ 7,600.2	
Funded ratio (a/b)		56.7%
Covered payroll	\$ 3,733.3	
UAAL as a percentage of covered payroll		201.4%

The Schedule of Funding Progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time. The figures above (the UAAL, the funded ratio, and the funded period) are based on actuarial calculations that make use of the actuarial value of assets, not the fair value. Asset gains and losses (earnings greater or less than the 8% investment return assumption) are recognized 20% per year for five years in the actuarial value of assets; the current actuarial value (\$9,961 million) is \$195 million smaller than the market value of net assets (\$10,156 million).

Significant actuarial assumptions employed by the actuary for funding purposes as of July 1, 2011 are as follows:

Funding Method: Costs are developed using the entry age normal cost method (based on a level percentage of covered payrolls). Under the method used for the System, the accrued liability and the present value of future normal costs are determined by summing the individual entry age results for each participant. The normal cost is then determined in aggregate by spreading the present value of future normal costs as a level percentage of expected future covered payrolls. Entry age is defined as the first day service is credited under the System.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2011

NOTE L--DB PLAN FUNDING STATUS AND ACTUARIAL INFORMATION--Continued

Funding Method--Continued: Experience gains and losses (i.e., decreases or increases in accrued liabilities attributable to deviations in experience from the actuarial assumption) adjust the unfunded actuarial accrued liability.

Asset Valuation Method: The actuarial value of assets is equal to the market value, adjusted for a five-year phase in of actual investment return in excess of expected investment return. The actual return is calculated net of investment and administrative expenses, and the expected investment return is equal to the assumed investment return rate multiplied by the prior year's market value of assets, adjusted for contributions, benefits paid, and refunds.

Amortization: The unfunded actuarial accrued liability is amortized on a percent of pay method over a 30-year open period.

Investment Return: 8% per annum, compounded annually (includes inflation of 3%).

Salary Increases: 4% to 12% per year (includes inflation of 3% and a productivity increase of 1%).

Based on an experience study for the 5 years ended June 30, 2010 certain actuarial assumptions were changed such as modifications to disability, termination and retirement rates. Additionally, the salary increase rate changed from a range of 4% to 6% per year, to 4% to 12% per year and certain mortality rate tables were changed.

SCHEDULE OF FUNDING PROGRESS AND SCHEDULE OF EMPLOYERS' CONTRIBUTIONS (UNAUDITED)

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

(Dollar Amounts in Millions)

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)	Funded Ratio (a / b)	Annual Covered Payroll	UAAL as % of Covered Payroll ((b-a) / c)
June 30, 2005	\$ 6,952.7	\$ 14,052.4	\$ 7,099.7	49.5%	\$ 3,175.2	223.6%
June 30, 2006	7,470.4	15,143.4	7,672.9	49.3%	3,354.9	228.7%
June 30, 2007	8,421.9	16,024.4	7,602.5	52.6%	3,598.9	211.2%
June 30, 2008	9,256.8	18,346.9	9,090.1	50.5%	3,751.4	242.3%
June 30, 2009	9,439.0	18,950.9	9,512.0	49.8%	3,807.9	249.8%
June 30, 2010	9,566.7	19,980.6	10,414.0	47.9%	3,854.8	270.2%
June 30, 2011	9,960.6	17,560.8	7,600.2	56.7%	3,773.3	201.4%

SCHEDULE OF EMPLOYERS' CONTRIBUTIONS (UNAUDITED)

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2005	\$ 722,095,783	56.2%
2006	535,228,038	85.8%
2007	575,745,142	93.1%
2008	590,495,652	101.1%
2009	714,367,558	86.6%
2010	742,286,289	83.6%
2011	822,419,996	77.6%

The employer contribution rates are established by the Oklahoma Legislature and are less than the annual required contribution, which is performed to determine the adequacy of such contribution rates.

Unaudited - see accompanying independent auditors' report.

SCHEDULES OF INVESTMENT EXPENSES

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

	Year Ended June 30	
	2011	2010
Investment managers	\$ 35,208,804	\$ 30,038,521
Investment consultants	702,000	768,424
Investment information services	22,800	4,139
Total investment expenses	<u>\$ 35,933,604</u>	<u>\$ 30,811,084</u>

See accompanying independent auditors' report.

SCHEDULES OF ADMINISTRATIVE EXPENSES

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

	Year Ended June 30	
	2011	2010
Salaries and benefits	\$ 3,293,768	\$ 3,527,880
General and miscellaneous	826,192	829,973
Professional/consultant fees	446,770	450,095
Travel and related expenses	106,717	106,981
Depreciation expense	43,033	64,660
Total administrative expenses	<u>\$ 4,716,480</u>	<u>\$ 4,979,589</u>

See accompanying independent auditors' report.

SCHEDULES OF PROFESSIONAL/CONSULTANT FEES

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

	Year Ended June 30	
	2011	2010
Actuarial	\$ 123,661	\$ 99,368
Medical	9,590	9,600
Legal	88,714	69,735
Audit	44,800	44,800
Data processing	12,518	120,505
Miscellaneous	167,487	106,087
Total professional/ consultant fees	<u>\$ 446,770</u>	<u>\$ 450,095</u>

See accompanying independent auditors' report.

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Teachers' Retirement System of Oklahoma

We have audited the financial statements of Teachers' Retirement System of Oklahoma (the "System"), which is a component unit of the state of Oklahoma, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 7, 2011, which includes explanatory paragraphs related to the System's required supplementary information and other supplementary information. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 of the financial statements of the System as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the System's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's 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 Board of Trustees, the Oklahoma State Auditor and Inspector, and management and is not intended to be and should not be used by anyone other than these specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 7, 2011