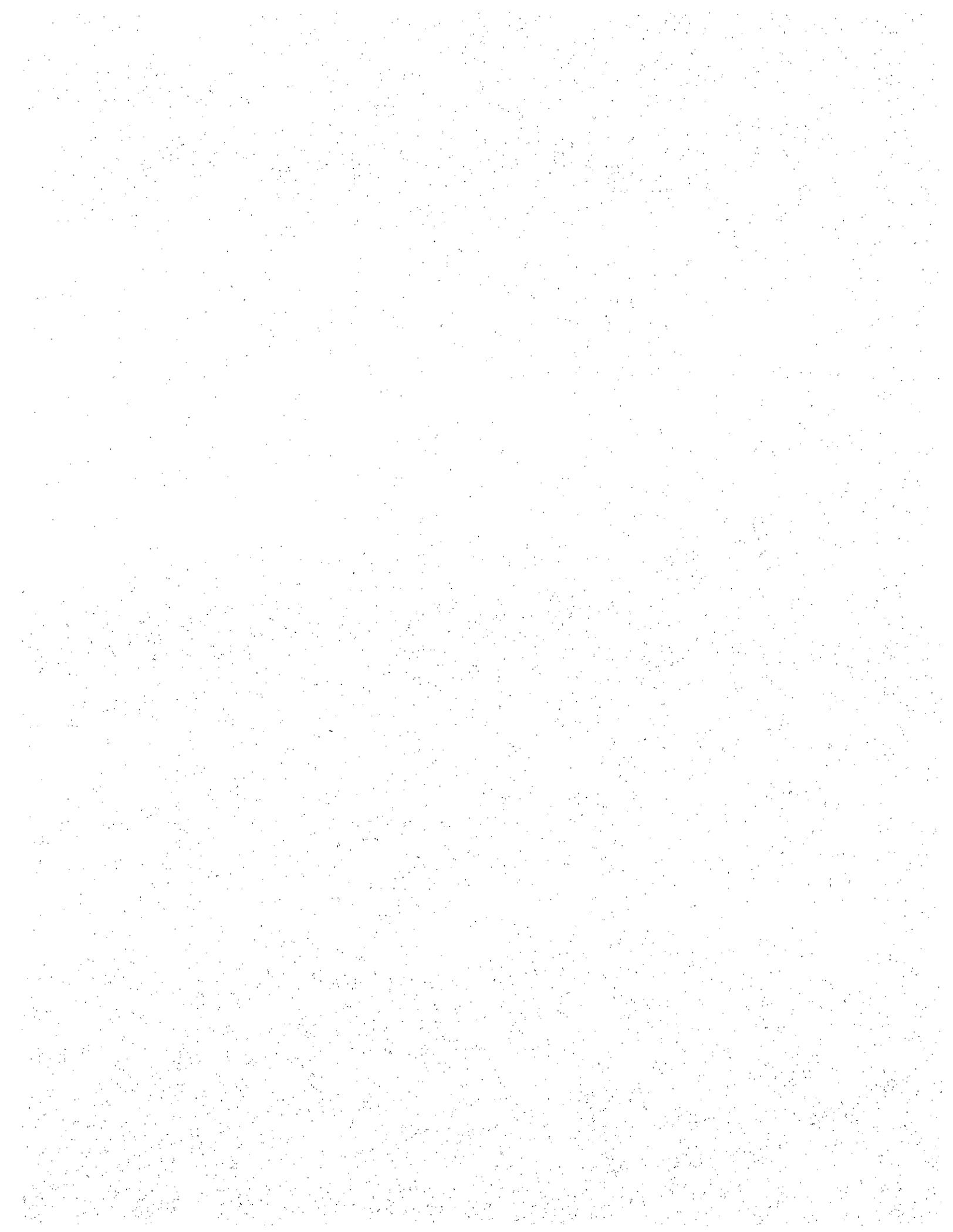


Independent Auditors' Report
Management's Discussion and Analysis
Basic Financial Statements
Required Supplementary Information
Schedules of Investment Expenses
Schedules of Administrative Expenses
Schedules of Professional/Consultant Fees
Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with
Government Auditing Standards



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, 2008 and 2007, 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 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note B, the System's actuary has determined that the System's unfunded actuarial accrued liability (the "UAAL") is approximately \$9,090,000,000. The funding of the actuarial accrued liabilities is predicated on a funding schedule mandated by Oklahoma Statutes. Under the present funding schedule, the UAAL will be fully amortized in 54.4 years.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the System at June 30, 2008 and 2007, 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 October 24, 2008, 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 in schedule 1 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory Section, the Investment Section, the Actuarial Section, the Statistical Section and schedules 2 through 4 within the Financial Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information included in schedules 2 through 4 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section, the Investment Section, the Actuarial Section and the Statistical Section have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 24, 2008

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Teachers' Retirement System of Oklahoma (known collectively as TRS or the System), we offer readers of the TRS financial statements this narrative discussion and analysis of the financial activities of TRS for the fiscal years ended June 30, 2008, 2007, and 2006.

Financial Highlights

- The net assets of TRS exceeded its current liabilities by approximately \$8.946 billion and \$9.651 billion at June 30, 2008 and 2007, respectively. Such amounts are used to meet the System's current and ongoing obligations to its retired and active members and creditors.
- The System's total net assets decreased by approximately \$705 million during the year ended June 30, 2008 and increased \$1.476 billion during the year ended June 30, 2007. The loss in 2008 was due to the credit and liquidity crisis in the United States and global financial markets. The gains in 2007 were due to strong equity market returns. These conditions resulted in net realized and unrealized loss on investments of approximately \$959 million and a realized and unrealized gain on investments of \$1.269 billion in fiscal years 2008 and 2007, respectively.
- At June 30, 2008, TRS's unfunded actuarial accrued liability was approximately \$9.090 billion. The unfunded actuarial accrued liability at June 30, 2007 was approximately \$7.603 billion. The System's funded ratio decreased from 52.6% to 50.5%. The increase in the unfunded accrued actuarial liability and decrease in funded percentage were principally due to an increase in the assumed rate of future cost of living adjustments from 1% to 2% per year. Based on the current contribution schedule, assuming no actuarial gains or losses in the future, the unfunded actuarial accrued liability is expected to decrease starting in fiscal year 2044 until it reaches zero in fiscal year 2063.

Overview of the Financial Statements

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 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 is a cost-sharing multiple-employer public employee retirement system, which is a defined benefit pension plan covering all employees of the public school system.

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview to the Financial Statements, Continued

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements. TRS'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, under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period 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.

Also, it is extremely important that the reader reviews and understands the information on the funding status of the System. This information is detailed in Note B of the *notes to the financial statements* and in the *required supplementary information* section. The funding status information indicates the System's ability to meet current and future benefit payments to its active and retired members.

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

As noted earlier, increases or decreases of plan net assets may serve over time as a useful indicator of the System's financial position. By far the largest portions of the System's assets are in cash and investments, which comprise \$9.118 billion and \$9.857 billion of the plan assets at June 30, 2008 and 2007, respectively. These amounts do not include the amounts shown as securities lending assets. Securities lending assets are offset by a liability for the same amount on the *statement of plan net assets*. Since the securities lending assets are offset by the securities lending liability they are not available for future spending. A summary of the plan net assets as of June 30, 2008, 2007, and 2006 is shown below:

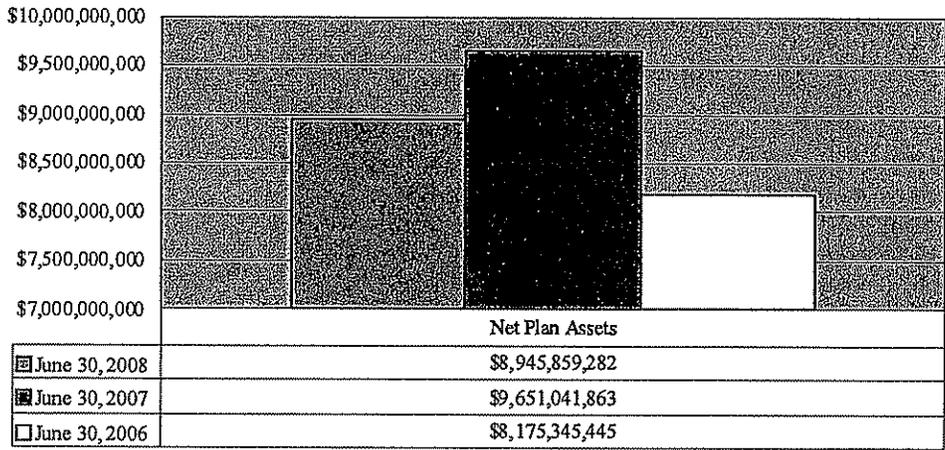
Assets	2008	2007	2006
Cash	\$ 2,124,625	\$ 4,771,218	\$ 3,812,625
Short-term investments	441,182,511	480,385,331	462,979,732
Accrued interest and dividends receivable	33,221,531	28,251,274	26,839,937
Contributions receivable	54,776,735	45,465,506	38,858,770
Receivable from the State of Oklahoma	28,969,735	25,074,415	21,461,402
Due from brokers for securities sold	332,965,959	314,072,578	425,478,770
Securities lending institutional daily assets fund	1,603,992,581	1,760,729,777	-
Long term investments	8,674,517,000	9,372,167,136	7,816,917,553
Capital assets, net	247,186	262,461	292,930
Total Assets	<u>11,171,997,863</u>	<u>12,031,179,696</u>	<u>8,796,641,719</u>
Liabilities			
Benefits in process of payment	67,389,081	16,768,162	16,853,939
Due to brokers for securities purchased	546,550,875	593,318,540	596,121,391
Payable under securities lending agreement	1,603,992,581	1,760,729,777	-
Other liabilities	8,206,044	9,321,354	8,320,944
Total liabilities	<u>2,226,138,581</u>	<u>2,380,137,833</u>	<u>621,296,274</u>
Net Assets			
Net assets held in trust for pension benefits and annuity benefits of electing members	<u>\$ 8,945,859,282</u>	<u>\$ 9,651,041,863</u>	<u>\$ 8,175,345,445</u>

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis, Continued

The graph below illustrates the \$705 million loss and \$1.476 billion gain in net assets for the years ended June 30, 2008 and 2007, respectively. As previously mentioned, the decrease in net assets for 2008 was due to the credit and liquidity crisis affecting the United States and global financial markets and the increase in net assets for 2007 was primarily due to the strong equity markets.

PLAN NET ASSETS AS OF JUNE 30, 2008, 2007, AND 2006



Changes in Selected Revenue and Expense Items

Fiscal Year 2008 compared to 2007

The revenues received from member contributions increased by \$1.3 million or .47% in fiscal year 2008 from the prior fiscal year period due to an increase in both the covered payroll and the number of members purchasing service due to the enactment of HB 1179. This bill created the Education Employees Service Incentive Plan ("EESIP"), which provides for an enhanced benefit at retirement for qualified members. In many cases additional contributions must be made by the member to qualify for EESIP. Employer statutory contributions increased by \$37.8 million or 13.94% during the current year, again, attributed to an increase in the amount of covered payroll and an increase in the employer contribution rate on July 1, 2007 from 7.60% to 7.85% then on January 01, 2008 to 8.35% for K-12 schools, Career Tech, 2-year colleges and state agencies with TRS members. Employer contribution rates increased for comprehensive and regional four-year colleges and universities from 7.05% to 7.55% on January 01, 2008. Dedicated revenue increased by \$23.3 million or 9.55% for the year as a result of an increase in the percentage of revenue received by TRS from 4.50% to 5.00% during fiscal year 2008. Net realized and unrealized gains decreased by \$2.2 billion or 175.57% due to the credit and liquidity crisis in the U.S. financial markets. Retirement, death, survivor, and health benefit payments increased by \$39.3 million or 5.13%.

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Selected Revenue and Expense Items, Continued

Fiscal Year 2008 compared to 2007, Continued

This was due to an increase in the number of retirees receiving monthly benefits. Refunds of member contributions and annuity payments increased by \$6.5 million or 11.41% during fiscal year 2008 from 2007. The change was a result of an increase in the number of members making withdrawals from both the defined benefit plan and the tax-shelter annuity 403(b) optional defined contribution plan. Administrative expenses increased by \$242 thousand due primarily to an increase in employee health insurance costs. A summary of *changes in plan net assets* is presented on page 28. The graphs on page 29 offer a comparison of selected revenue and expense accounts for fiscal years 2008 and 2007.

Fiscal Year 2007 compared to 2006

The revenues received from member contributions increased by \$36.45 million or 14.64% in fiscal year 2007 from the prior fiscal year period due to an increase in both the covered payroll and the number of members purchasing service due to the enactment of HB 1179. This bill created the Education Employees Service Incentive Plan ("EESIP"), which provides for an enhanced benefit at retirement for qualified members. In many cases additional contributions must be made by the member to qualify for EESIP. Employer statutory contributions increased by \$29.84 million or 12.37% during the current year, again, attributed to an increase in the amount of covered payroll and an increase in the employer contribution rate on January 1, 2007 from 7.05% to 7.60% for K-12 schools, Career Tech, 2-year colleges and state agencies with TRS members. Employer contribution rates did not increase for comprehensive and regional four-year colleges and universities because employees in these institutions do not participate in EESIP. Dedicated revenue increased by \$41.30 million or 20.43% for the year as a result of a higher state revenue base due to improved economic conditions and an increase in the percentage of revenue received by TRS from 4.00% to 4.50% during fiscal year 2007. Net realized and unrealized gains increased by \$743.75 million or 141.59% due to strong returns in the equity market. Retirement, death, survivor, and health benefit payments increased by \$39.83 million or 5.48%. This was due to an increase in the number of retirees receiving monthly benefits and a cost of living adjustment (COLA) of 2% received by TRS members that retired before July 1, 2005. Refunds of member contributions and annuity payments increased by \$4.48 million or 8.46%. The change was a result of an increase in the number of members making withdrawals from both the defined benefit plan and the tax-shelter annuity 403(b) optional defined contribution plan. Administrative expenses increased by \$124 thousand due primarily to an increase in employee health insurance costs. A summary of *changes in plan net assets* is presented on page 28. The graphs on page 29 offer a comparison of selected revenue and expense accounts for fiscal years 2007 and 2006.

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

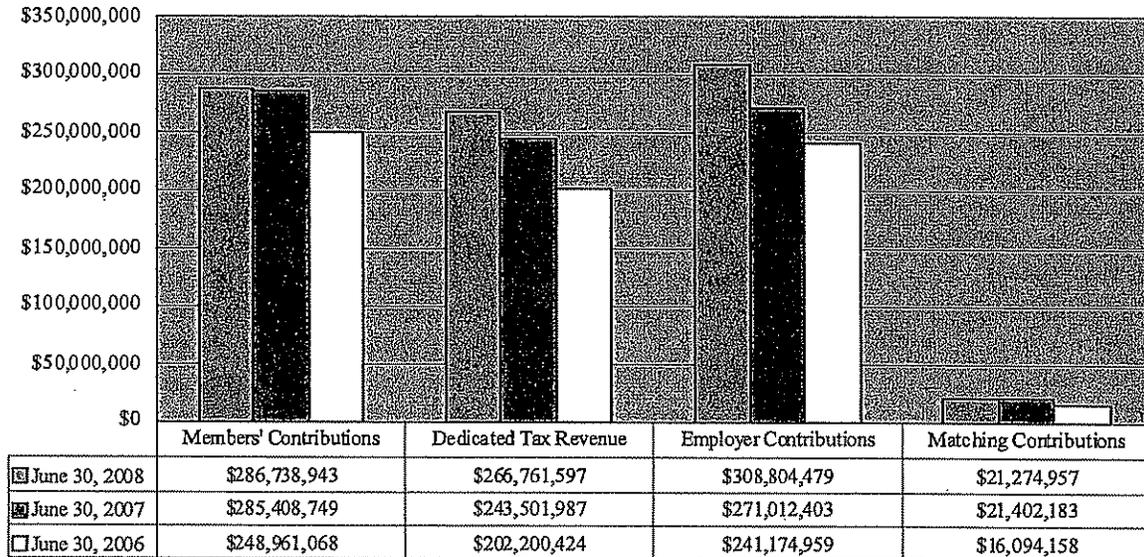
Changes in Selected Revenue and Expense Items, Continued

Additions:	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contributions:			
Members	\$ 286,738,943	\$ 285,408,749	\$ 248,961,068
Members tax shelter	8,922,095	8,883,033	7,625,919
Employer statutory requirement from local school districts	308,804,479	271,012,403	241,174,959
Federal matching	21,274,957	21,402,183	16,094,158
Dedicated tax revenue	<u>266,761,597</u>	<u>243,501,987</u>	<u>202,200,424</u>
Total contributions	<u>892,502,071</u>	<u>830,208,355</u>	<u>716,056,528</u>
Investment income:			
Interest	150,371,986	144,415,428	110,007,891
Dividends	108,697,447	86,986,795	89,658,423
Net realized and unrealized gains (losses)	(959,036,578)	1,269,034,290	525,282,130
Less investment expenses	<u>(32,992,027)</u>	<u>(30,790,763)</u>	<u>(25,899,914)</u>
Gain (loss) from investing activities	<u>(732,959,172)</u>	<u>1,469,645,750</u>	<u>699,048,530</u>
Income from securities lending activities:			
Securities lending income	72,730,061	78,826,796	72,481,517
Borrower rebates	(60,193,255)	(72,992,770)	(67,701,810)
Management fees	<u>(2,004,851)</u>	<u>(850,920)</u>	<u>(796,904)</u>
Income from securities lending activities	<u>10,531,955</u>	<u>4,983,106</u>	<u>3,982,803</u>
Net investment gain (loss)	<u>(722,427,217)</u>	<u>1,474,628,856</u>	<u>703,031,333</u>
Total additions	<u>170,074,854</u>	<u>2,304,837,211</u>	<u>1,419,087,861</u>
Deductions:			
Retirement, death, survivor, and health benefits	806,540,725	767,212,709	727,379,279
Refund of member contributions and annuity payments	63,925,592	57,378,925	52,902,064
Administrative expenses	<u>4,791,118</u>	<u>4,549,159</u>	<u>4,425,007</u>
Total deductions	<u>875,257,435</u>	<u>829,140,793</u>	<u>784,706,350</u>
Net increase (decrease)	(705,182,581)	1,475,696,418	634,381,511
Net assets:			
Beginning of year	<u>9,651,041,863</u>	<u>8,175,345,445</u>	<u>7,540,963,934</u>
End of year	<u>\$ 8,945,859,282</u>	<u>\$ 9,651,041,863</u>	<u>\$ 8,175,345,445</u>

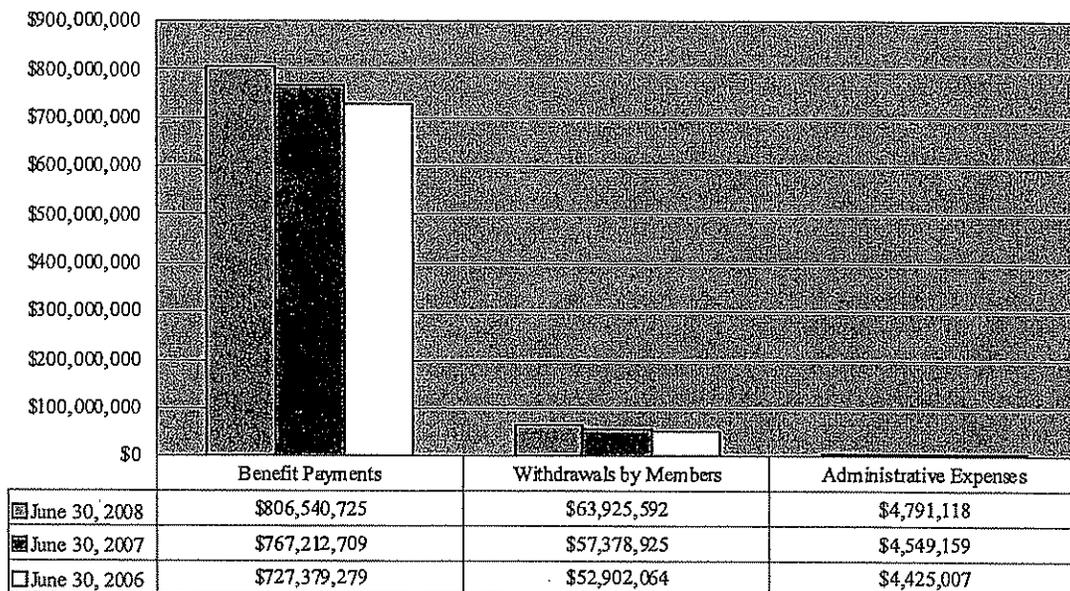
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Selected Revenue and Expense Items, Continued

REVENUES FOR THE FISCAL YEARS ENDED JUNE 30, 2008, 2007, AND 2006



DEDUCTIONS FOR THE FISCAL YEARS ENDED JUNE 30, 2008, 2007, AND 2006



TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors, Future Contribution Rates, and Status of Unfunded Liability

A 7.2% negative return was realized for the fiscal year ended June 30, 2008.

Statutes were amended in 1999 to provide that the System would receive 3.54% of the state sales, use, and corporate and individual income tax collections. This dedicated revenue source along with a percentage of the Education Lottery Trust Fund and the tax on tobacco products provided in House Bill 1020 contributed a total of \$267 million in fiscal year 2008 and \$243 million in fiscal year 2007. The TRS Board of Trustees has adopted an actuarial assumption that this source of revenue should increase at a rate of 3.5% annually. The state sales, use, and corporate and individual income taxes replaced the gross production tax previously dedicated to the System. The change to a broader tax base is intended to provide TRS with a more stable revenue source. Senate Bill 1376, which became law July 1, 2002, provides that the percentage of state revenue would increase from 3.54% to 3.75% July 1, 2004; 4% July 1, 2005; 4.5% July 1, 2006; and 5% July 1, 2007 and thereafter. When the state's contribution reaches 5%, it will approximate 7% of active members' pay, which is the contribution level required by active members.

Senate Bill 357 signed by Governor Henry on May 7, 2007, has been hailed as a step in the right direction and means millions of new dollars for TRS, provided the state pays for increasing costs to the System's reporting entities. Senate Bill 357 increases the contributions employers pay TRS, if the state boosts funding to pay for the hikes. The new law is designed to pump more than \$200 million into TRS over the next five years and when fully implemented, will infuse \$60 million a year into the System. Changes implemented by SB 357 are expected to increase TRS funding to 80% by 2026. Employer contributions from K-12 schools, Career Tech, two-year colleges and state agencies with TRS members increased to 7.85% on July 1, 2007; 8.35% on January 1, 2008; 8.5% on July 1, 2008; 9% on January 1, 2009; 9.5% on January 1, 2010; and thereafter. For comprehensive regional four-year colleges and universities, employer contributions were 7.05% through December 31, 2007, and then increased to 7.55% on January 1, 2008. On January 1, 2009 the rate will be 8.05% and 8.55% beginning January 1, 2010. Employer contribution rates for comprehensive and regional four-year colleges and universities are lower than those for other TRS reporting entities because their employees do not participate in the Education Employees Service Incentive Plan, also known as EESIP or the Wear-Away Plan, enacted in the fiscal year ending June 30, 2006. Senate Bill 357 also requires the State Board of Equalization to determine an initial baseline amount of revenue TRS receives from the state's general revenue fund and prohibits reducing that amount below the established baseline. This ensures that funding to TRS won't change because of economic downturns or decreases in tax revenues.

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Discussion of TRS Benefit Formula

Although the return on investments is very important to the System, members' benefits are assured and protected because TRS is a defined benefit plan. As the name implies, a defined benefit plan provides retirement income based on a formula that is fixed or defined. The amount of the member's pension is fixed before retirement. Usually, the formula is calculated as a percent of a worker's average salary prior to retirement. The TRS benefit formula includes a 2% multiplier and generally provides a benefit of 2% times the member's final average salary times years of service. Consequently, a person working for ten years would obtain a pension equal to about 20% of the final average salary, whereas an employee working for 30 years would get a better pension, covering about 60% of final average salary.

However, the TRS retirement formula is modified by state statutes to provide that the final average salary for service performed before July 1, 1995 cannot exceed \$40,000 and other limits apply to certain members employed by comprehensive universities.

Education Employees Service Incentive Plan ("EESIP")

The retirement formula that is applied to members whose membership date in TRS is prior to July 1, 1995, was modified with passage of House Bill 1179 during the Special Session of the 2006 Legislature. This measure has also been referred to as the "Wear Away Plan". The purpose of this bill is to increase benefits for members who work beyond "Normal Retirement Age" and have an average salary greater than \$40,000 at the time of retirement. A legislative task force study in 2004 revealed that the TRS benefit formula for pre-1995 members was different and lower than other governmental employees in Oklahoma pension plans and lower than benefits provided to employees in surrounding states.

Under the EESIP statute, TRS members who joined TRS prior to July 1, 1995, and who work one or more years beyond normal retirement age, will qualify for an enhanced benefit at retirement. "Normal retirement age" is when a TRS member reaches age 62, or when age plus total service equal 80 (90 if the member first joined TRS after June 30, 1992). EESIP includes employees in K-12, career technology, state education agencies and two-year colleges. It does not apply to employees of the state's four-year public colleges and universities. Members, who earned more than \$40,000 between 1987 and 1995, will be required to make an extra contribution payment in order to qualify for an enhanced benefit formula.

For members who retired between July 1, 2006, and June 30, 2007, the maximum average salary that could be used for service moved to a higher salary level was \$60,000. For members who retire between July 1, 2007, and June 30, 2008, the maximum average salary increases to \$80,000, for moved service. For members who retire on or after July 1, 2008, the member's final average salary, regardless of amount, can be used to calculate the benefit for moved service that was performed before July 1, 1995.

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

EESIP Increases Employer Contribution Rates

Employers contributed 7.85% of covered member salaries from July 01, 2007 to December 31, 2007 and 8.35% from January 01, 2008 to June 30, 2008 in fiscal year 2008. Rates for employers covered by EESIP contributions increased from 7.05% to 7.6% beginning January 1, 2007, to 7.85% beginning July 1, 2007. Additional employer contribution increases are as follows; 8.35% January 1, 2008; 8.5% July 1, 2008; 9.0% January 1, 2009 and 9.5% January 1, 2010 and beyond. Increases in average salary limits and employer contribution rates scheduled are contingent upon increases in state appropriations to schools to cover EESIP costs.

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 financial information should be addressed to the Executive Secretary of the Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, OK 73152 or (405) 521-2387.

STATEMENTS OF PLAN NET ASSETS

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

	June 30	
	2008	2007
ASSETS		
Cash	\$ 2,124,625	\$ 4,771,218
Short-term investments	441,182,511	480,385,331
Accrued interest and dividends receivable	33,221,531	28,251,274
Member contributions receivable	24,090,118	20,546,577
Employer contributions receivable	30,686,617	24,918,929
Receivable from the State of Oklahoma	28,969,735	25,074,415
Due from brokers for securities sold	332,965,959	314,072,578
Security lending institutional daily assets fund	1,603,992,581	1,760,729,777
Long-term investments:		
U.S. government securities	1,707,962,910	1,740,096,979
U.S. corporate bonds	952,772,559	835,990,203
International corporate bonds and government securities	159,133,690	103,107,148
Equity securities	5,854,647,841	6,692,972,806
Total long-term investments	8,674,517,000	9,372,167,136
Capital assets, net	247,186	262,461
Total assets	<u>11,171,997,863</u>	<u>12,031,179,696</u>
LIABILITIES		
Benefits in process of payment	67,389,081	16,768,162
Due to brokers for securities purchased	546,550,875	593,318,540
Payable under security lending agreement	1,603,992,581	1,760,729,777
Other liabilities	8,206,044	9,321,354
Total liabilities	<u>2,226,138,581</u>	<u>2,380,137,833</u>
NET ASSETS		
Net assets held in trust for pension benefits and annuity benefits (see Note B) of electing members (a schedule of funding progress is presented on page 57)	<u>\$ 8,945,859,282</u>	<u>\$ 9,651,041,863</u>

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

	Year Ended June 30	
	2008	2007
Additions:		
Members	\$ 286,738,943	\$ 285,408,749
Members tax shelter	8,922,095	8,883,033
Employer statutory requirement from local school districts	308,804,479	271,012,403
Matching funds	21,274,957	21,402,183
Dedicated tax	266,761,597	243,501,987
Total contributions	892,502,071	830,208,355
Investment income:		
Interest	150,371,986	144,415,428
Dividends	108,697,447	86,986,795
Net realized and unrealized (loss) gain	(959,036,578)	1,269,034,290
Investment expenses	(32,992,027)	(30,790,763)
(Loss) Gain from investing activities	(732,959,172)	1,469,645,750
Income from securities lending activities:		
Securities lending income	72,730,061	78,826,796
Securities lending expenses:		
Borrower rebates	(60,193,255)	(72,992,770)
Management fees	(2,004,851)	(850,920)
Income from securities lending activities	10,531,955	4,983,106
Net investment (loss) gain	(722,427,217)	1,474,628,856
Total additions	170,074,854	2,304,837,211
Deductions:		
Retirement, death, survivor, and health benefits	806,540,725	767,212,709
Refund of member contributions and annuity payments	63,925,592	57,378,925
Administrative expenses	4,791,118	4,549,159
Total deductions	875,257,435	829,140,793
Net (decrease) increase	(705,182,581)	1,475,696,418
Net assets, beginning of year	9,651,041,863	8,175,345,445
Net assets, end of year	\$ 8,945,859,282	\$ 9,651,041,863

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

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 is a cost-sharing multiple-employer public employee retirement system, which is a defined benefit pension plan covering all employees of the public school system.

The System's membership consisted of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Retirees and beneficiaries currently receiving benefits	45,238	43,506
Terminated vested members	6,915	6,637
Active members	<u>88,678</u>	<u>88,133</u>
	<u>140,831</u>	<u>138,276</u>

There are 629 contributing employers in the System. In addition, there were 6,908 and 6,613 of nonvested inactive members at June 30, 2008 and 2007, respectively, which are entitled to a refund of their accumulated contributions.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

NOTE B--FUNDING STATUS

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 decreased from the funding level at June 30, 2007. 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 54.4 years. The period to fully amortize the UAAL as of June 30, 2007 was 21.6 years. The actuarial accrued liability increased \$2,323 million and the actuarial value of assets increased \$834.9 million. As a result, the System's unfunded actuarial accrued liabilities increased \$1,488 million to \$9,090 million at June 30, 2008. The funded ratio -- actuarial value of assets divided by actuarial accrued liability -- decreased from 52.6% to 50.5%. The increase in the UAAL and the decrease in the funded ratio were primarily due to the increase in the assumed rate of future cost of living adjustments from 1% to 2% per year. Based on the current contribution schedule, assuming no actuarial gains or losses in the future, the unfunded actuarial accrued liability is expected to decrease starting in fiscal year 2044 until it reaches zero in fiscal year 2063. A Schedule of Funding Progress is presented on page 57. Actuarial assumptions and methods are discussed in Note M.

Based on calculations using Government Accounting Standards Board ("GASB") Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, the System's funded ratio is 50.5% at June 30, 2008 and 52.6% at June 30, 2007.

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 (earning 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 (\$9.257 billion) is \$623 million smaller than the fair value (\$8.634 billion).

The financial condition of the System and its ability to meet future obligations is predicated on a funding schedule set in Oklahoma Statutes, which provides an increasing revenue stream based on a percentage of active members' pay. Under the present funding schedule, the UAAL will be fully amortized in 54.4 years.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

NOTE C--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 Secretary may approve changes within the budget, but a change to the total budget must be handled according to the provision 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.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

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

The System's international investment managers enter into forward foreign exchange contracts to hedge the exposure of the international investments to fluctuations in foreign currency. Active 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, 2008, the System had sold forward currency contracts with fair values of \$115,405,051 and had bought forward currency contracts with fair values of \$114,543,505. The gains and losses on these contracts are included in the income in the period in which the exchange rates change.

The System invests in various traditional financial instruments that fall under the broad definitions of derivatives. The System's derivatives include U. S. Treasury Strips, collateralized mortgage obligations, futures and options, convertible stocks and bonds, and variable rate instruments. These investments are not speculative in nature and do not increase investment risk beyond allowable limits specified in the System's investment policy.

Presently, the System has investments in interest rate swaps. Swaps afford a very liquid means of adjusting duration and targeting areas of yield curve exposure, with very low transactions costs. The risks of swaps are not only interest rate changes but also counter-party exposure. These risks are not inherently different from the risk of corporate bonds. Both require credit risk evaluations of the issuer or counter-party and the establishment of exposure limits to ensure that the portfolio remains adequately diversified. At June 30, 2008 the System had approximately \$15,000,000 exposure to interest rate swaps.

The System's investment policy provided 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.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

NOTE C--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 \$310,000 and \$306,000 at June 30, 2008 and 2007, 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.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

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

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.

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.

Changes in Accounting Principles: The System adopted Government Accounting Standards Board Statement No. 50, *Pension Disclosures* ("GASB 50") which amends GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers* by requiring disclosure in the notes to the financial statements of pension plans and certain employer governments of the current funded status of the plan and other actuarial information which had previously been provided as required supplementary information. The adoption of GASB 50 had an impact on the presentation of the notes to the financial statements but no impact on net assets.

NOTE D--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 Federal Deposit Insurance Corporation, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

NOTE D--CASH AND INVESTMENTS--Continued

At June 30, 2008 and 2007, the carrying amount of the System's bank deposits was approximately \$2,125,000 and \$4,771,000, respectively. The bank balance of the System's bank deposits at June 30, 2008 and 2007 was approximately \$4,928,000 and \$7,071,000, 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, 2008 and 2007, the System had uninsured and uncollateralized cash and cash equivalents of approximately \$441,183,000 and \$480,385,000, respectively, with its custodial agent. The System's custodial agent for the year ended June 30, 2008 and 2007 was JP Morgan.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

NOTE D--CASH AND INVESTMENTS--Continued

Credit Risk--Continued:

Investment Type	Moody's Ratings (Unless Noted)	Fair Value	Fair Value as a Percent of Total Fixed Maturity Fair Value
		<i>(Amounts in thousands)</i>	
U.S. Agency Securities (1)	Aaa	\$ 855,900	30.35%
U.S. Government Securities (2)	A1	3,316	0.12%
	Aa1	963	0.02%
	Aa2	6,755	0.24%
	Aa3	3,885	0.14%
	Aaa	788,994	27.98%
	Baa3	5,110	0.18%
	Not Rated	<u>43,040</u>	<u>1.53%</u>
Total U.S. Government Securities		<u>\$ 852,063</u>	<u>30.21%</u>
International Government Securities	Aa1	\$ 1,014	0.03%
	Aa2	3,615	0.13%
	Aa3	7,913	0.28%
	Aaa	55,789	1.98%
	B1	988	0.04%
	B2	203	0.01%
	Ba1	4,575	0.16%
	Ba2	450	0.02%
	Ba3	2,350	0.08%
	Baa1	4,342	0.15%
	Not Rated	<u>1,598</u>	<u>0.06%</u>
Total International Government Securities		<u>\$ 82,837</u>	<u>2.94%</u>

(1) Agency Securities are those implicitly guaranteed by the U.S. Government.

(2) U.S. Government Securities are treasury securities and agencies explicitly guaranteed by the U.S. Government.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

NOTE D--CASH AND INVESTMENTS--Continued

Credit Risk--Continued:

Investment Type	Moody's Ratings (Unless Noted)	Fair Value	Fair Value as a Percent of Total Fixed Maturity Fair Value
<i>(Amounts in Thousands)</i>			
Domestic Corporate Bonds	A1	\$ 48,114	1.71%
	A2	55,205	1.96%
	A3	27,375	0.97%
	Aa1	14,947	0.53%
	Aa2	29,287	1.04%
	Aa3	56,332	2.00%
	Aaa	321,793	11.41%
	B1	15,354	0.54%
	B2	8,435	0.30%
	B3	22,889	0.81%
	Ba1	14,859	0.53%
	Ba2	11,709	0.42%
	Ba3	11,982	0.42%
	Baa1	38,160	1.35%
	Baa2	65,313	2.32%
	Baa3	65,541	2.32%
	Ca1	98	0.00%
	Caa1	7,741	0.27%
	Caa2	2,027	0.07%
	Caa3	20	0.00%
	Not Rated	<u>135,592</u>	<u>4.81%</u>
Total Domestic Corporate Bonds		<u>\$ 952,773</u>	<u>33.79%</u>

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

NOTE D--CASH AND INVESTMENTS--Continued

Credit Risk--Continued:

<u>Investment Type</u>	<u>Moody's Ratings (Unless Noted)</u>	<u>Fair Value</u>	<u>Fair Value as a Percent of Total Fixed Maturity Fair Value</u>
<i>(Amounts in Thousands)</i>			
International Corporate Bonds	A1	\$ 1,148	0.04%
	A2	5,672	0.20%
	A3	8,485	0.30%
	Aa1	6,998	0.25%
	Aa2	7,119	0.25%
	Aa3	2,472	0.09%
	Aaa	2,633	0.09%
	B1	3,462	0.12%
	B2	192	0.01%
	B3	4,010	0.14%
	Ba1	2,243	0.08%
	Ba2	737	0.03%
	Ba3	399	0.01%
	Baa1	9,234	0.33%
	Baa2	9,338	0.33%
	Baa3	2,762	0.10%
	Ca	58	0.00%
	Ca2	80	0.00%
	Not Rated	9,255	0.33%
Total International Corporate Bonds		<u>\$ 76,297</u>	<u>2.71%</u>

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

NOTE D--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, 2008, the System had the following investments with maturities:

Investment Type	Investment Maturities at Fair Value (in Years)				Total Fair Value
	Less than One	One to Five	Five to Ten	More Than Ten	
U.S. Government securities	\$ 21,795	\$ 191,483	\$ 170,969	\$ 1,323,716	\$ 1,707,963
International government securities	4,273	37,972	15,250	25,342	82,837
Domestic corporate bonds:					
Asset-backed securities	503	47,317	10,665	32,861	91,346
CMBS	-	-	-	241,086	241,086
CMBS/CMO/REMIC	-	2,270	6,204	101,671	110,145
Corporates Bonds	26,907	133,123	205,327	144,839	510,196
	27,410	182,710	222,196	520,457	952,773
International corporate bonds	6,897	13,578	32,356	23,466	76,297
	<u>\$ 60,375</u>	<u>\$ 425,743</u>	<u>\$ 440,771</u>	<u>\$ 1,892,981</u>	<u>\$ 2,819,870</u>

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

NOTE D--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, 2008 is shown in the following table by monetary unit to indicate possible foreign currency risk.

Currency	Equities	Corporate Bonds	Government Bonds	Cash and Cash Equivalents	Grand Total
Austalian Dollar	\$ 11,063,509	\$ -	\$ -	\$ 114,743	\$ 11,178,252
Brazilian Real	2,284,940	-	-	1,763,853	4,048,793
British Pound Sterling	216,251,833	3,679,198	4,448,945	1,475,611	225,855,587
Canadian Dollar	74,360,524	-	840,727	17,519	75,218,770
Danish Krone	12,996,516	-	-	-	12,996,516
Egyptian Dollar	-	-	-	124,153	124,153
Euro	504,276,760	-	24,043,028	15,494,726	543,814,514
Hong Kong Dollar	25,271,811	-	-	(57)	25,271,754
Indonesian Rupiah	345,998	-	-	-	345,998
Japanese Yen	312,884,030	4,417,609	22,763,685	289,579	340,354,903
Mexican Peso	4,484,298	-	-	286,869	4,771,167
New Tawain Dollar	5,240,525	-	-	346	5,240,871
New Zealand Dollar	3,363,219	-	-	-	3,363,219
Norwegian Krone	11,170,289	-	-	-	11,170,289
Singapore Dollar	1,032,896	-	-	-	1,032,896
South African Rand	2,092,883	-	-	-	2,092,883
South Korean Won	16,190,161	-	-	2	16,190,163
Swedish Krona	34,476,881	-	-	-	34,476,881
Swiss Franc	107,204,902	-	-	-	107,204,902
(1) Not subject to foreign currency risk	127,731,760	68,200,026	30,740,472	21,762,730	248,434,988
Grand Total	\$ 1,472,723,735	\$ 76,296,833	\$ 82,836,857	\$ 41,330,074	\$ 1,673,187,499

(1) These investments are not subject to foreign currency risk as they are held and traded in the United States

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

NOTE E--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% for loans of securities for which the principal trading market is the United States of America and 105% for securities for which the principal trading market is outside the United States of America.

The fair value of securities on loan at June 30, 2008 was approximately \$1,748,114,000. The underlying collateral for these securities had a fair value of approximately \$1,803,781,000 at June 30, 2008. Collateral of securities and letters of credit represented approximately \$199,789,000 of total collateral at June 30, 2008. 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.

At June 30, 2008 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. However, should a collateral deficiency occur beyond the lending agent's responsibilities, the deficiency is allocated pro rata among all lenders.

There have been no significant losses on security lending transactions, or recoveries from prior period losses, during 2008 or 2007 resulting from the default of a borrower or the lending agent. The System's lending agent is not affiliated or related to the System's investment managers or brokers. Accordingly, the System is not exposed to custodial credit risk in relation to its securities lending transactions.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

NOTE E--SECURITIES LENDING ACTIVITY--Continued

All securities loans can be terminated on demand by either the System or the borrower. However, the average term of the loans cannot be determined. Cash collateral is invested in the lending agent's institutional daily assets fund. The weighted average maturity at June 30, 2008 and 2007 of the cash collateral investments was 10 and 12 days, respectively. The relationship between the maturities of the investment fund and the System's loans is affected by the maturities of the securities loans made by other entities that use the lending agent's fund, which the System cannot determine.

NOTE F--CAPITAL ASSETS

Capital assets consist of the following at June 30:

	<u>2008</u>	<u>2007</u>
Furniture and fixtures	\$ 1,413,763	\$ 1,396,332
Accumulated depreciation	<u>(1,166,577)</u>	<u>(1,133,871)</u>
Capital assets, net	<u>\$ 247,186</u>	<u>\$ 262,461</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, 2008 was approximately \$207,000. The System's leases are one-year renewable contracts. Rental expense for all operating leases amounted to approximately \$215,000 and \$211,000 for the years ended June 30, 2008 and 2007, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

NOTE G--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 major funds is as follows:

- The Teachers' Deposit Fund represents funds in the tax-sheltered annuity program, which is an optional program for members as allowed by Section 403(b) of the IRC.
- 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 balances at June 30:

	<u>2008</u>	<u>2007</u>
Teachers' deposit fund (tax-sheltered annuities)	\$ 312,160,000	\$ 357,841,000
Expense fund	58,443,000	56,214,000
Capital assets fund	<u>247,000</u>	<u>262,000</u>
	<u>\$ 370,850,000</u>	<u>\$ 414,317,000</u>

NOTE H--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.

All members must contribute 7% of regular annual compensation, not to exceed the member's maximum compensation level. For members other than those employed by a comprehensive university on or before June 30, 1995, the maximum compensation level will be the member's regular annual compensation. For those members employed by a comprehensive university, the maximum compensation level for the years ended June 30, 2008 was the full amount of regular annual compensation and June 30, 2007 was \$77,500 for those who elected the \$25,000 limit prior to June 30, 1995, respectively, and in fiscal year 2008 was the full amount of regular annual compensation and in fiscal year 2007 was \$94,000 for all other members.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

NOTE H--CONTRIBUTIONS--Continued

Maximum compensation levels increased by \$5,000 each year through June 30, 2007, after which the full amount of regular annual compensation will be considered subject to contribution limits established under the Internal Revenue Code.

The employers are required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate was 7.85% from July 1, 2007 to December 31, 2007 and 8.35% from January 1, 2008 to June 30, 2008 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 and 7.55% from January 1, 2008 to June 30, 2008 for comprehensive and four year universities. The rates for fiscal years 2008 and 2007 are applied up to defined caps depending upon the member's elections as previously described.

As discussed in Note L, Senate Bill 357 became effective July 1, 2007. Employer contributions from K-12 Schools, Career Tech, two-year colleges and state agencies with TRS members will increase to 7.85% on July 1, 2007; 8.35% on January 1, 2008; 8.5% on July 1, 2008; 9% on January 1, 2009; and 9.5% on January 1, 2010 and thereafter. For comprehensive and regional four-year colleges and universities, employer contributions will stay at 7.05% through December 31, 2007, and then increase to 7.55% on January 1, 2008; 8.05% on January 1, 2009; and 8.55% beginning January 1, 2010 and thereafter.

NOTE I--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.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

NOTE I--BENEFITS--Continued

- 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.
- 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 2008 and 2007. Such amounts were approximately \$30,404,000 and \$30,492,000 in 2008 and 2007, respectively, and are included in retirement and other benefits expense. Amounts due to OSEEGIB at June 30, 2008 and 2007, respectively are approximately \$2,474,000 and \$2,524,000, 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.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

NOTE J--DEDICATED TAX

The System receives 5.0% of the State's sales, use, and corporate and individual income taxes collected as dedicated tax. Senate Bill 1376, which became law in July 2002, provides that the percentage of the State's collected sales, use, and corporate and individual income taxes allocated by the State to the System will increase from 4.5% to 5.0% on July 1, 2007 and thereafter. 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 \$267,000,000 and \$244,000,000 from the State in 2008 and 2007, respectively. Amounts due from the State were approximately \$28,970,000 and \$25,074,000 at June 30, 2008 and 2007, respectively.

NOTE K--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 H. 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 I. The total employee and employer contributions paid by the System for its employees were approximately \$451,000, \$408,000, and \$375,000 for 2008, 2007, and 2006 respectively.

NOTE L--PLAN AMENDMENTS

House Bill 2074 was enacted during the 2008 legislative session. This bill removes the post-retirement earnings limit for retirees who have been retired for 36 months or more. Previously, the earnings limit for employment in the public schools of Oklahoma was \$30,000 for members who had been retired for three years. The post-retirement earnings limit for retirees who have been retired less than 36 months remains the same. Retirees under age 62, who have been retired less than 36 months, is the lesser of \$15,000 or one-half the final average salary used in calculating the retiree's monthly retirement benefit. The earnings limit for retirees age 62 or older is the lesser of \$30,000 or one-half the final average salary used in calculating the retiree's monthly retirement benefit. A retiree's earnings limit is prorated during the year when the member reaches age 62.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

NOTE L--PLAN AMENDMENTS--Continued

House Bill 2276 included \$16.8 million to common education, \$1.3 million to career tech and \$5.8 million to higher education to cover employer contribution rate increases provided in House Bill 1179 (the 2006 EESIP act) and Senate Bill 357 (2007). Employer contribution rates for K-12, career-tech, 2-year colleges and state education agencies will increase to 8.50% effective July 1, 2008. Beginning January 1, 2009, the employer contribution rate will increase to 9% for K-12, career tech, 2-year colleges and state education agencies. Beginning January 1, 2009, the employer contribution rate will increase to 8.05% for 4-year colleges and universities.

House Bill 2793 amends 70 O.S. 6-101.1 that authorizes school districts to provide tax-sheltered annuity plans to education employees. The amendments to this section do not change the school's ability to offer 403(b) plans, but does update Oklahoma statutes to comply with new federal regulations on 403(b) plans.

House Bill 3112 provides a 2% cost-of-living increase to all retired members who retired prior to July 1, 2007. The bill also increases the age of a dependent in the Oklahoma State Education Employees Insurance Plan from 23 to 25.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, June 30, 2007, is as follows:

NOTE M--ACTUARIAL ASSUMPTIONS AND METHODS

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.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 30, 2008

NOTE M--ACTUARIAL ASSUMPTIONS AND METHODS--Continued

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.

Significant actuarial assumptions employed by the actuary for funding purposes as of July 1, 2008 are as follows:

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

Salary Increases: 4.25% to 6% per year (includes inflation of 3% and a productivity increase of 1.25%).

NOTE N--NEW PRONOUNCEMENTS

On June 30, 2008 GASB issued Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments* ("GASB 53") which provides guidance to governments to improve the reporting of derivative instruments in their financial statements. GASB 53 applies to all state and local governments and is effective for financial statements for periods beginning after June 15, 2009.

NOTE O--SUBSEQUENT EVENT

The fair value of the System's investments decreased approximately \$746,906,000 from June 30, 2008 to September 30, 2008 due to the credit and liquidity crisis in the United States and throughout the global financial systems. The System also holds a \$35 million position in JP Morgan's securities lending program with Lehman Brothers bonds as collateral. The potential impact of this position in Lehman Brothers bonds has not yet been determined.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

(Dollars 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, 2003	\$ 6,436.9	\$ 11,925.2	\$ 5,488.3	54.0%	\$ 3,045.7	180.2%
June 30, 2004	6,660.9	14,080.1	7,419.2	47.3%	3,030.7	244.8%
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%

SCHEDULE OF EMPLOYERS' CONTRIBUTIONS (UNAUDITED)

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2003	\$ 585,168,488	61.9%
2004	534,811,845	70.2%
2005	722,095,783	56.2%
2006	535,228,038	85.8%
2007	575,745,142	93.1%
2008	590,495,652	101.1%

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.

OTHER SUPPLEMENTARY INFORMATION

SCHEDULES OF INVESTMENT EXPENSES

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

	Year Ended	
	June 30	
	2008	2007
Investment custodian	\$ -	\$ 15,000
Investment managers	32,879,081	30,715,161
Investment consultants	880,407	744,126
Investment information services	22,200	21,730
Commission recapture	(789,661)	(705,254)
Total investment expenses	<u>\$ 32,992,027</u>	<u>\$ 30,790,763</u>

See accompanying independent auditors' report

SCHEDULES OF ADMINISTRATIVE EXPENSES

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

	Year Ended June 30	
	<u>2008</u>	<u>2007</u>
Salaries and benefits	\$ 3,460,187	\$ 3,280,183
General and miscellaneous	751,031	740,633
Professional/consultant fees	407,093	366,039
Travel and related expenses	97,863	79,204
Depreciation expense	74,944	83,100
Total administrative expenses	<u>\$ 4,791,118</u>	<u>\$ 4,549,159</u>

See accompanying independent auditors' report

SCHEDULES OF PROFESSIONAL/CONSULTANT FEES

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

	Year Ended	
	June 30	
	2008	2007
Actuarial	\$ 64,343	\$ 136,738
Medical	7,040	13,328
Legal	159,020	156,204
Audit	42,200	35,406
Data processing	120,392	8,818
Miscellaneous	14,098	15,545
Total professional/consultant fees	<u>\$ 407,093</u>	<u>\$ 366,039</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, 2008, and have issued our report thereon dated October 24, 2008, which includes explanatory paragraphs related to 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.

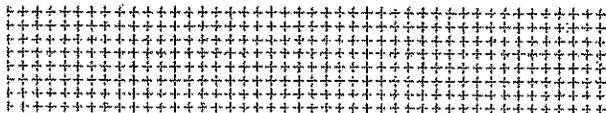
Compliance and Other Matters

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*. We noted certain matters that we reported to management in a separate letter dated October 24, 2008.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the System's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis.



A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting 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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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
October 24, 2008