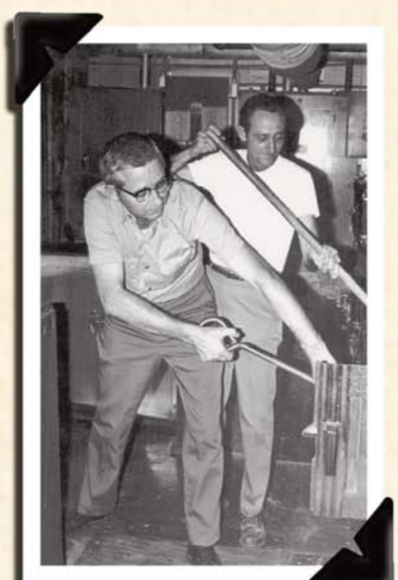
School Employees Retirement System of Ohio

CELEBRATING 70 YEARS OF
"SERVING THE PEOPLE WHO SERVE OUR SCHOOLS"



Comprehensive Annual Financial Report

FOR THE YEAR ENDED JUNE 30, 2007

Comprehensive Annual Financial Report

For the Year Ended June 30, 2007

Prepared by SERS Staff

James R. Winfree, Executive Director

School Employees Retirement System of Ohio

300 East Broad Street, Suite 100

Columbus, Ohio 43215-3746

www.ohsers.org

"The mission of SERS is to provide pension benefit programs and services to our members, retirees, and beneficiaries that are soundly financed, prudently administered, and delivered with understanding and responsiveness."

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SERS Retirement Board

Left to right: Standing – Barbara Overholser, James Rossler, Jr., Jeannie Knox, Mark Anderson, Paul Peltier, Barbra Phillips, James Winfree.
Seated – Catherine Moss, Daniel Wilson, Mary Ann Howell.

Chair:
Daniel L. Wilson
Term Expires Sept. 28, 2008

Vice-Chair:
Mark E. Anderson
Term Expires June 30, 2008

Retiree Member:
Mary Ann Howell
Term Expires June 30, 2009

Employee Member:
Jeannie C. Knox
Term Expires June 30, 2007

Retiree Member:
Catherine P. Moss
Term Expires June 30, 2008

Employee Member:
Barbara E. Overholser
Term Expires June 30, 2009

Appointed Member:
Paul E. Peltier*
Term Expires Dec. 2, 2008

Employee Member:
Barbra M. Phillips
Term Expires June 30, 2009

Appointed Member:
James A. Rossler, Jr.
Term Expires Nov. 4, 2008

*Resigned as of February 28, 2007

SERS Executive Staff

James R. Winfree
Executive Director

Lisa J. Morris
Deputy Executive Director

Virginia S. Brizendine
Finance Director

Robert G. Cowman
Investments Director

Douglas C. Foust
Health Care Services Director

Adam J. Frumkin
Information Technology Director

Jimmie L. Kinnan
Legal & Legislative Director

Karen G. Kloss
Member Services Director

Alan D. Tharp
Administrative Services Director

Left to right: Standing – Robert Cowman, Karen Kloss, Alan Tharp, James Winfree.
Seated – Virginia Brizendine, Jimmie Kinnan, Adam Frumkin, Lisa Morris, Douglas Foust.

Organizational Chart

SERS Retirement Board

- **Executive Director**
  James Winfree
- INTERNAL AUDITOR — **Dennis Trzeciak**

Reporting to the Executive Director

LEGAL/LEGISLATIVE — Jimmie Kinnan
- Legal Counsel
- Legislative Outreach
- Communications

Deputy Executive Director
Lisa Morris

INVESTMENTS — Robert Cowman
- Portfolio Management
- Investment Operations

Reporting to the Deputy Executive Director

ADMINISTRATIVE SERVICES — Alan Tharp
- Facilities Management
- Human Resources
- Records Management
- Mail Room & Print Shop

MEMBER SERVICES — Karen Kloss
- Retirement
  - Service
  - Disability
  - Survivor
- Counseling
- Payroll Reporting
- Member/Retiree Communications

FINANCE — Virginia Brizendine
- General Accounting
- Investment Accounting
- Cash Management
- Tax Reporting
- Investment Compliance

INFORMATION TECHNOLOGY — Adam Frumkin
- Data Processing
- Technical Support
- Systems & Programming
- Client Services

HEALTH CARE SERVICES — Douglas Foust
- Retiree Health Plan
- Employee Health Plan

Professional Consultants

Medical Advisor
Dr. Edwin H. Season - Columbus, Ohio

Independent Auditor
KPMG LLP - Columbus, Ohio

Actuary
Buck Consultants - New York, New York

Investment Consultant
Summit Strategies Group - St. Louis, Missouri

Awards

Certificate of Achievement for Excellence in Financial Reporting

Presented to

School Employees Retirement System of Ohio

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

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

President

Executive Director

Public Pension Coordinating Council

Public Pension Standards

2007 Award

Presented to

School Employees Retirement System of Ohio

In recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

300 EAST BROAD ST., SUITE 100 • COLUMBUS, OHIO 43215-3746 • (614) 222-5853
Toll-Free 866-280-7377 • www.ohsers.org

JAMES R. WINFREE
Executive Director

LISA J. MORRIS
Deputy Executive Director

December 21, 2007

Dear Chairman and Members of the Retirement Board:

We are pleased to submit the Comprehensive Annual Financial Report of the School Employees Retirement System of Ohio (SERS) for the fiscal year ended June 30, 2007. The report provides information about the financial operations of the System, including management's stewardship of the funds entrusted to the System and compliance with all legal requirements placed on the System.

Established in 1937 by an act of the Ohio General Assembly, SERS provides pensions and benefits to public and charter school employees who are not required to possess a certificate in order to perform their duties. By statute, benefit plans include retirement for age and service or disability and survivor benefits that are paid upon the death of a member before retirement. A postretirement health care program is also provided, although it is not required by law. SERS is governed by a Board comprised of elected active members and retirees and appointed experts. Members of the Board receive no compensation for their services other than reimbursement of personal expenses. The term of the office for elected and appointed Board members is four years.

The management of SERS is responsible for the accuracy of the contents and the completeness and fairness of the presentation, including disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the System. All disclosures necessary to enable the reader to gain an understanding of SERS' financial activities have been included. Management has provided a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors in the *Financial Section.*

Management has established a system of internal accounting controls to ensure the security of member and employer contributions and to provide reasonable, but not absolute, assurance that assets are properly safeguarded, transactions are properly executed, and that financial statements are reliable. Our independent external auditors have conducted an audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America. They also have full and unrestricted access to the Board to discuss their audit and related findings concerning the integrity of the financial reporting and adequacy of internal controls.

MAJOR INITIATIVES AND HIGHLIGHTS

Strategic Implementation/Organizational Development SERS continues to honor its commitment to follow up on our strategic and organizational development initiatives. Teams meet to hold each other accountable for desired leadership behaviors, to create more proactive communications, to report to the Board on pension plan design and change ready culture, and to finalize a process that will encourage and support innovation.

Other best practices, such as regular supervisor roundtable meetings and goal-setting are now routine for SERS as vehicles for enhancing communication across departments and addressing consistency issues on everything from SERS' policy implementation to annual review and merit increases. Teams continue to search for ways to reinforce a positive SERS culture and maintain a strong position as an employer of choice. Staff is focused on enhancing our understanding of how best to manage change and how to describe the behaviors that support SERS' Mission Statement and Values.

Pension Plan Design Legislative Initiative As an outgrowth of SERS' organizational development efforts in 2005, a cross-departmental study team of SERS' staff formed to review the System's pension plan design, eligibility, and early retirement reduction factors in light of changing demographic trends. Many of the variables used to calculate pension amounts and retirement eligibility had not been reviewed in more than 50 years. Increases in life expectancy and double-digit increases in health care costs were cited as just two reasons changes were being considered.

The Pension Plan Design Team recommended to the SERS Board in 2006 that the System pursue legislative changes to affect pension eligibility and early retirement reduction factors. After extensive consultation with SERS' member and retiree advocacy groups, the team recommended to the Board that a new eligibility tier be adopted for new SERS members only after the effective date of the bill. Current SERS members would not be affected. The Board approved staff's recommendation, and in April 2007 Senate Bill 148 was introduced by Sen. Keith Faber (R-Celina).

In May 2007, the Ohio Retirement Study Council unanimously recommended passage of SB 148. Proponent testimony was provided by the Ohio Association of School Business Officials (OASBO), Ohio School Boards Association (OSBA), and School Employee Retirees of Ohio (SERO) in the Senate Health, Human Services and Aging Committee, where it was reported out by an 11-1 vote on May 30, 2007. The bill was then passed by the Senate 31-2 on October 24, 2007. SB 148 now goes to the House for consideration, and SERS is hopeful for speedy passage in early 2008.

Defined Benefit Benchmarking Analysis In 2006, SERS participated in a benchmarking study to evaluate cost structure and service delivery systems as compared to other peer pension systems. Results indicate that SERS is providing a high level of service in a complex environment at a cost consistent with its peers. Responses to a survey were analyzed by Cost Effectiveness Measurement, Inc. (CEM), and a report was presented to SERS. Staff continues to implement many of the study's recommended best practices, such as the direct deposit initiative that will improve SERS' pension delivery system by making it safer, less costly, and more reliable.

Iran/Sudan Investment Policy House Bill 151 was introduced by Rep. Josh Mandel (R-Lyndhurst) and Rep. Shannon Jones (R-Springboro) and specifies procedures for public investors to divest investments that are directly held in publicly traded companies conducting specified types of business in the Islamic Republic of Iran and/or the Republic of Sudan. SERS opposed the bill, which had numerous hearings in the House Financial Institutions, Real Estate and Securities Committee. The bill was reported out of committee, informally passed in the House, and then re-referred to the Rules Committee based on an agreement that the boards of the five Ohio Retirement Systems consider a voluntary divestment policy. The SERS Board unanimously adopted such a policy on September 26, 2007. The policy is consistent with the Board's fiduciary duty to act solely in the best interests of active and retired members while honoring the intent of the bill.

Health Care Preservation Task Force Beginning in November 2006, the SERS Health Care management team met on several occasions with various stakeholders (e.g., Ohio Association of Public School Employees; Ohio Education Association; Ohio Federation of Teachers; American Federation of State, County, and Municipal Employees Ohio Council 8 and Retiree Chapter 1184; School Employee Retirees of Ohio; Ohio Association of School Business Officials; Ohio School Boards Association; and the Ohio Association of Community Colleges) for the purpose of providing long-term solvency in SERS' health care program. The group discussed SERS' health care funding and solvency projections, plan coverage/design, experience ratings, member contributions, trend assumptions, and other factors bearing on premium development.

During monthly meetings, participants generated ideas to preserve long-term fund solvency. Watson Wyatt helped with facilitation and provided general consultation regarding health care matters, while Buck Consultants provided projections on the financial impact of the ideas considered. At the request of the Task Force, Buck built modeling tool software for use during future meetings so that projections could be tested and compared at the time of the discussions. Future meetings of the Task Force have been scheduled, and the goal is to have a recommendation to the SERS Board during fiscal year 2008.

740-Hour Rule SERS' staff held several internal meetings to discuss implementation of the 2008 740-hour rule changes, including revising the 740-hour certification form. The new eligibility rule changes the way a year of service is calculated for subsidy of health insurance premiums. Retiring members must have worked at least 740 hours per year to count as contributing service toward health care benefits. Each school district will be responsible for certifying the number of years and earnings at the 740-hour level. The revised form was ready for the employer payroll seminars held in March 2007, and samples of the form were provided to all participants. In some cases, employers noted that they could not certify whether retirees met the requirement. Improvements were made through the 740-Hour Certification Phase II initiative that implemented procedures to satisfy changes to health care eligibility as defined by SERS' Retirement Board.

Medicare Advantage Plans A request for proposal on Medicare Advantage products for our 47,000 retirees and dependents over 65 was sent to 12 vendors in February 2007. Based upon the information received on service area, plan design, pricing, and customer service, four vendors were invited to appear before the Retirement Board in April 2007 to discuss the Medicare Advantage Plan. Staff negotiated with each vendor on pricing and plan design, coordinating plan design for uniformity among the vendors. The SERS Board approved the plan offerings by Aetna, Medical Mutual, Paramount, and AultCare that will begin January 2008.

New Pharmacy Benefit Plan SERS joined the RxOhio Collaborative (ROC), a joint effort with the Ohio Public Employees Retirement System (OPERS) and the State Teachers Retirement System (STRS) to explore innovative, cost-effective approaches to our prescription drug program. Several vendors submitted proposals, ROC representatives reviewed data, and SERS' staff conducted on-site visits to the finalists. After meeting with the five semi-finalist pharmacy benefit managers, staff recommended and the Board approved Express Scripts, Inc. Contract negotiations have been successfully concluded, with implementation on track for a January 2008 effective date.

LifeMasters Disease Management SERS implemented a Disease Management (DM) program for retirees not covered by Medicare and those who have only Medicare Part B coverage–approximately 9,000 participants. The goal of the DM program is to improve the quality of life and health of non-Medicare patients and to reduce health care expenditures. LifeMasters ranked retirees for disease severity and then placed them in targeted programs. Retirees receive disease management services for chronic states including, but not limited to, diabetes, coronary artery disease, congestive heart failure, chronic obstructive pulmonary disease, and asthma.

Enterprise Content Management (ECM) The ECM Project was implemented to create a vision, develop governances, deploy technologies, and revamp work processes to effectively capture, store, and deliver content and documents needed to support our business processes. The goals are to improve the timeliness of services provided to our active and retired members and to ensure proper management of SERS' records to support legal, operational, regulatory, and historical requirements.

INVESTMENTS

The primary objective of our investment policy is to assure that the System meets its responsibilities for providing retirement and other benefits. The portfolio is diversified to maximize total return on assets while operating within prudent parameters of risk, to protect principal from severe depreciation during adverse market conditions, and to achieve investment results competitive with those of the broad market and of similar funds.

SERS works with St. Louis-based consulting firm Summit Strategies Group as its independent investment consultant. The firm assists in selection, monitoring, and evaluation of investment programs and managers. Summit, founded in 1995, currently serves 70 public and private fund clients with aggregate assets of nearly $120 billion.

Summit recommended a new asset allocation structure which SERS' Board adopted in February 2007. The fair value of the net investments in custody on an accrual basis was $11.68 billion on June 30, 2007, an increase of $1.72 billion from the previous fiscal year. The portfolio returned 19.26%, exceeding our investment policy benchmark of 17.99%. The strongest sectors of the portfolio were international stocks, private equities, and US stocks.

FUNDING

SERS' objective is to establish and receive contributions that, when expressed in terms of percent of active member payroll, will remain approximately level from one generation to the next; and, when combined with present assets and future investment returns, will be sufficient to meet present and future financial obligations. The annual actuarial valuation measures the progress toward funding pension obligations of SERS by comparing the actuarial assets to the actuarial liabilities. The actuarial accrued liability for pension benefits on June 30, 2007 increased 5.4% to $13.3 billion; the actuarial value of assets increased 11.5% to $10.6 billion; and, the funded ratio over a 29-year period increased from 75.6% to 80.0%.

The employer contribution rate of 14% is allocated by Board policy to cover the normal cost and amortization of the unfunded actuarial accrued liabilities for basic pension benefits. As a result of the fiscal 2007 actuarial valuation, the allocation for the basic pension benefits will be decreased from 10.68% to 9.82%. The remainder of the employer contribution rate of 14% is applied toward postretirement health care benefits, which are funded separately.

GASB Statement 43 was issued to provide more complete financial reporting regarding the costs and financial obligations incurred when public entities provide postemployment benefits other than pensions (OPEB). SERS Medicare B and health care benefits are OPEB; fiscal year 2007 was the first year of SERS' implementation of Statement 43. The actuarial accrued liability for health care benefits on December 31, 2006 is $4.3 billion; and the actuarial value of assets in the Health Care Fund is $340 million. The funded ratio of the Health Care Fund is 7.9%. The actuarial accrued liability for Medicare B benefits on December 31, 2006 is $299 million; and the actuarial value of assets in the Medicare B Fund is $127 million. The funded ratio of the Medicare B Fund is 42.5%. For more information on the funding of OPEB, please see the *Required Supplementary Information* in the Financial Section of this report.

To provide additional funding for health care, employers pay a surcharge for members whose salary is less than a minimum amount. SERS' actuary reviews the minimum salary subjected to the surcharge annually and submits a recommendation for a new amount to the Board. For fiscal year 2007, the Board voted to maintain the minimum salary at $35,800. However, the annual earnings level of employees does not affect the cost of health care premiums at retirement; instead, all benefit recipients enrolled in the health care program pay a premium based on the date of retirement and/or years of service credit.

GASB 43 is one way to measure health care benefits. SERS prefers to measure its Health Care Fund in terms of years of solvency, which is currently fiscal year 2021 if Medicare Advantage continues indefinitely. Ensuring affordable, accessible, and high quality health care for retirees is an enormous challenge for public and private pension funds. We continue to aggressively pursue structural changes to the health care program to strengthen and extend the longevity of the Health Care Fund.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SERS for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the twenty-second consecutive year that SERS has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized comprehensive annual financial report that satisfies both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

SERS also received the Public Pension Coordinating Council (PPCC) Public Pension Standards Award for 2007. This annual award recognizes SERS for excellence in meeting professional standards for plan design and administration. Developed by the PPCC to promote excellence among state and local public retirement systems, the Public Pension Standards are the benchmark for measuring current practices of defined benefit plans. The award is based on compliance with specific principles that underlie retirement system achievements in the areas of benefits, actuarial valuations, financial reporting, investing, and disclosure to members.

ACKNOWLEDGEMENTS

The Retirement Board officially recognized Mrs. Jeannie Knox with a proclamation recognizing her 16 years of service as a Board Trustee. Mrs. Knox provided extraordinary leadership as president of the Board for four terms and vice-president for two terms. Mrs. Knox has been a tireless advocate for Social Security Offset and Windfall Elimination Provision reform and oversaw tremendous growth of SERS' assets from $3.2 billion in 1991 to more than $12 billion today. The Retirement Board regretfully accepted the resignation of appointed investment expert Paul Peltier as of February 28, 2007. We appreciate his significant contributions in his focus on the area of investments.

The preparation of this report is the combined effort of the System's staff under the direction of the Retirement Board. It will be mailed to all employer members of SERS and other interested parties and published on our website. Summary financial information will be distributed to active and retired SERS membership.

The cooperation of SERS' employers contributes significantly to the success of SERS and is greatly appreciated. We would also like to express our gratitude to the Board, the staff, consultants, and others who help ensure the successful operation of the School Employees Retirement System.

Respectfully submitted,

James R. Winfree
Executive Director

Virginia S. Brizendine
Finance Director

Legislative Summary

SERS and its members can be significantly affected by legislation enacted by the Ohio General Assembly and Congress. The impact of legislation and federal regulatory activities on SERS and other public retirement systems has increased in recent years. SERS closely monitors legislative activities and, when appropriate, provides testimony or otherwise educates Ohio legislators, congressional representatives, and regulatory agencies on the impact of these proposals.

State Legislation

From the 126th General Assembly:

HB 9 Public Records (Effective 3/29/2007; certain sections 9/29/2007)
As a public entity, this bill will cause SERS to make several changes, among them: the System must adopt a public records policy, distribute the policy to its records custodian, post the policy in a conspicuous place in the building for the public to see, place the policy in the employee handbook, and have records retention schedules readily available for inspection.

HB 71 Military Service Credit (Effective 3/30/2007)
This bill permits a member of the public retirement systems to purchase credit for active duty, including training activities, in the Ohio National Guard or a reserve component of the United States armed forces. "Active duty" includes assembly for drill and instruction; training at encampments, maneuvers, outdoor target practice, or other exercises; and any training or duty in the state ordered by the governor.

HB 272 OPERS (Effective 4/6/2007)
This bill includes amendments recommended by the Ohio Retirement Study Council (ORSC) for all five retirement systems, including allowing the systems the authority to establish voluntary savings accounts for the payment of health care expenses in retirement, the continuation of a required annual report on disability experience, and other technical corrections.

From the 127th General Assembly:

HB 8 State Retirement Systems (Passed by the House 6/14/2007)
This bill provides that a member of a state retirement system, on conviction of certain felonies committed in the course of official duties, will forfeit the portion of any state retirement benefit that is based on employer contributions.

HB 151 Foreign Company Investments (Reported out of House Committee 5/30/2007)
This bill specifies procedures for divesting investments a public investor holds in directly held, publicly traded companies conducting specified types of business in the Islamic Republic of Iran and/or the Republic of Sudan; prohibits public investors from investing in such a company; and authorizes the Ohio public deferred compensation board, the alternative retirement program, and the Ohio college savings program to offer a terror-free investment option.

HB 152 Alternative Retirement Plans (Introduced 4/17/2007)
This bill requires school boards to establish alternative retirement plans for teachers and school employees.

HB 240 Public Retirees (Introduced 5/29/2007)
This bill restricts a public employer's ability to rehire an "administrative employee" in the same position from which he or she retired. An "administrative employee" is defined as one with managerial responsibilities and duties, excluding school board members. The bill requires the Retirement Board to "authorize" the reemployment; places a limit on the reemployed retirant's annual compensation to 60% of his or her final average salary; and prohibits nonmonetary compensation, other than health care coverage, during reemployment.

HB 270 State Retirees (Introduced 6/19/2007)
This bill provides that a member of the public retirement systems who retires and then returns to public employment in the same position within 180 days of their retirement will not receive a pension while earning a salary for that employment. The employer-provided portion (pension portion) of the retirement allowance would be forfeited for each month that the retirant is reemployed. Upon termination of employment, such allowance would be reinstated. The employee-provided portion (annuity portion) of the retirement allowance would be suspended for each month the retirant is reemployed. Upon termination of employment, the accumulated value of suspended annuity payments would be paid in a lump sum to the retirant.

HB 315 STRS Health Care Fund (Introduced 9/18/2007)
This bill creates a Health Care Fund in the State Teachers Retirement System through an ongoing, dedicated revenue stream of employer and employee contributions. Contributions for each would be increased .5% per year for five years, for a total of 2.5% each. This would provide an extra 5% in contributions overall.

SB 3 Office Holders (Passed by the Senate 5/16/2007)
This bill provides that the privilege of holding a position of honor, trust, or profit that is forfeited by reason of conviction of certain felonies is not restored on completion of a prison term, period of community control sanctions, or pardon or release by the Adult Parole Authority; imposes, as part of the sentence of a person convicted of certain felonies committed while serving in such a position, the forfeiture of the offender's right to a retirement allowance, pension, disability benefit, or other right or benefit, other than payment of the offender's accumulated contributions; provides for the notification of the appropriate public retirement system if a member is charged with one of the felonies that could result in such a forfeiture; and imposes a lifetime ban against serving as, and the termination of any current registration of, a legislative agent, retirement system lobbyist, or executive agency lobbyist upon a person convicted of certain felonies.

SB 148 SERS Retirement Eligibility (Passed by the Senate 10/24/2007)
This SERS-initiated bill revises the retirement eligibility requirements and early retirement reduction factors for new members of the System after the effective date of the bill.

SB 161 Investments-Sudan (Introduced 5/3/2007)
This bill specifies procedures for divesting investments a public authority holds in a company conducting specified types of business in Sudan, and prohibits public authorities from investing in such a company.

Federal Legislation

From the 110th Congress:

HR 82 Social Security Fairness Act of 2007 (Introduced 1/4/2007)
This bill repeals the Government Pension Offset (GPO) and Windfall Elimination Provision (WEP). A companion bill, S 206, was introduced by Sen. Dianne Feinstein. Co-sponsors currently include 14 Ohioans: Reps. Hobson, Kaptur, Kucinich, LaTourette, Pryce, Regula, Ryan, Schmidt, Space, Sutton, Tiberi, Tubbs-Jones, Turner, and Wilson.

HR 726 Windfall Elimination Provision Relief Act of 2007 (Introduced 1/20/2007)
This bill eliminates the windfall penalty if a recipient's combined monthly Social Security and public pension benefit is $2,500 or less, and provides a graduated penalty over $2,500.

HR 2772 Public Servant Retirement Protection Act of 2007 (Introduced 6/19/2007)
This bill repeals the WEP and replaces it with a formula based on an individual's actual earnings during his/her years of work. A companion bill, S 1647, was introduced by Sen. Kay Bailey Hutchison.

HR 2988 Government Pension Offset Reform Act of 2007 (Introduced 7/10/2007)
This bill eliminates the offset penalty if a recipient's combined monthly Social Security and public pension benefit is $1,200 or less, adjusted for inflation. A companion bill, S 1254, was introduced by Sen. Barbara Mikulski.

S 206 Social Security Fairness Act of 2007 (Introduced 1/9/2007)
This bill repeals the GPO and WEP. A companion bill, HR 82, was introduced by Rep. Howard Berman. S 206 currently has one Ohio co-sponsor, Sen. Sherrod Brown.

S 1254 Government Pension Offset Reform Act of 2007 (Introduced 5/1/2007)
This bill eliminates the offset penalty if a recipient's combined monthly Social Security and public pension benefit is $1,200 or less, adjusted for inflation. A companion bill, HR 2988, was introduced by Rep. Albert Russell Wynn. S 1254 currently has one Ohio co-sponsor, Sen. George Voinovich.

S 1647 Public Servant Retirement Protection Act of 2007 (Introduced 6/19/2007)
This bill repeals the WEP and replaces it with a formula based on an individual's actual earnings during his/her years of work. A companion bill, HR 2772, was introduced by Rep. Kevin Brady.

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SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

Financial Section

KPMG LLP
Suite 500
191 West Nationwide Boulevard
Columbus, OH 43215-2568

Independent Auditors' Report

The Retirement Board
The School Employees Retirement System of Ohio

and

The Honorable Mary Taylor, CPA
Auditor of State:

We have audited the accompanying statement of plan net assets of the School Employees Retirement System of Ohio (SERS) as of June 30, 2007, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of SERS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SERS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SERS as of June 30, 2007, and the changes in its plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2007, on our consideration of SERS' internal control over financial reporting and on 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 18 through 21 and the schedules of funding progress and employer contributions on page 37 and 38 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 supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information included on pages 40 and 41 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section on pages 4 through 13, the investments section on pages 44 through 64, the actuarial section on pages 66 through 72, and the statistical section on pages 74 through 85 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

Columbus, Ohio
December 21, 2007

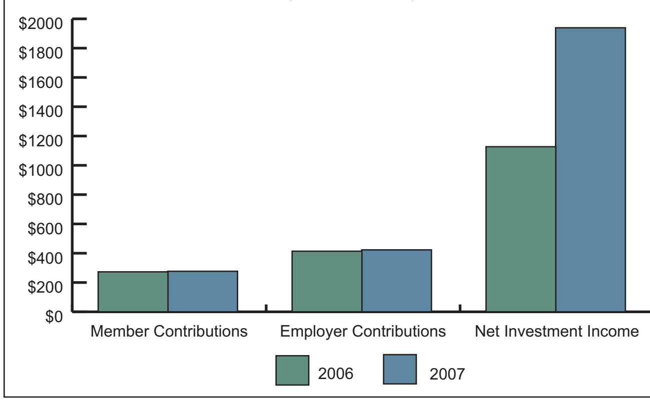
Management's Discussion and Analysis (Unaudited)

This discussion and analysis of the School Employees Retirement System's financial performance provides a narrative overview of financial activities for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the information in our Letter of Transmittal, which can be found in the Introductory Section of this report.

FINANCIAL HIGHLIGHTS

- Total additions to plan net assets were $2.7 billion. The largest share (71%) came from net investment income of $1.9 billion.
- Total deductions from plan net assets for fiscal year 2007 totaled $909 million, an increase of 3.6% over fiscal 2006 deductions.
- Total plan net assets increased by $1.8 billion; all funds recorded increases in net assets, except the Qualified Excess Benefit Arrangement (QEBA) Fund.
- Administrative expenses increased by 2.6% and investment expenses, which include investment advisor fees, custodial and recordkeeping costs as well as salaries and benefits for investment staff, increased 16.7%.

COMPARATIVE ADDITIONS BY SOURCE
FY 2006 & 2007
(in millions)



OVERVIEW OF FINANCIAL STATEMENTS

Following the management's discussion and analysis are the financial statements: the *Statement of Plan Net Assets* and the *Statement of Changes in Plan Net Assets*. Reviewing these statements, along with the accompanying notes will give the reader a better understanding of SERS' financial position. SERS' financial statements are prepared using the accrual basis of accounting and are in compliance with applicable Governmental Accounting Standards Board (GASB) statements. The Statement of Plan Net Assets provides a view at the fiscal year-end of the amount the plans have accumulated in assets to pay for future benefits and any current liabilities that are owed as of the statement date. Investments are shown at fair value.

CONDENSED SUMMARY OF TOTAL PLAN NET ASSETS
(in millions)

			Change	
ASSETS	2007	2006	Amount	Percent
Cash	$ 413.6	$ 296.5	$ 117.1	39.5%
Receivables	473.6	366.1	107.5	29.4
Investments	12,421.1	10,432.4	1,988.7	19.1
Property & Equipment	49.0	50.3	(1.3)	(2.6)
Other Assets	33.7	30.7	3.0	9.8
Total Assets	13,391.0	11,176.0	2,215.0	19.8
LIABILITIES				
Benefits & Accounts Payable	29.5	26.7	2.8	10.5
Investments Payable	1,263.9	873.5	390.4	44.7
Total Liabilities	1,293.4	900.2	393.2	43.7
Net Assets Held in Trust	$12,097.6	$10,275.8	$1,821.8	17.7%

The *Statement of Changes in Plan Net Assets* presents what has happened to the plans during the fiscal year. If net assets increased, then additions to the plans were greater than the deductions. If net assets decreased, then additions to the plans were less than the deductions from the plans.

CONDENSED SUMMARY OF CHANGES IN TOTAL PLAN NET ASSETS
(in millions)

			Change	
ADDITIONS	2007	2006	Amount	Percent
Contributions	$ 792.0	$ 756.3	$ 35.7	4.7%
Net Investment Income	1,939.1	1,128.5	810.6	71.8
Total Additions	2,731.1	1,884.8	846.3	44.9
DEDUCTIONS				
Benefits	853.4	824.6	28.8	3.5
Refunds & Transfers	36.5	34.6	1.9	5.5
Admin. Expenses	19.4	18.9	.5	2.6
Total Deductions	909.3	878.1	31.2	3.6
Net Increase	1,821.8	1,006.7	815.1	81.0
Balance, Beginning of Year	10,275.8	9,269.1	1,006.7	10.9
Balance, End of Year	$12,097.6	$10,275.8	$1,821.8	17.7%

The *Notes to Financial Statements* supply additional information that is essential for a full understanding of the data provided in the financial statements. The notes describe the history and purpose of the plans; present information about accounting policies and significant account balances and activities; and disclose material risks, commitments, subsequent events, and contingent liabilities, if any, that may significantly impact SERS' financial position. During 2007, SERS implemented GASB Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting standards for postemployment benefit plans, commonly referred to as OPEB, using an approach that generally is consistent with GASB Statement 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans*. Please see Note 12 for more information.

In addition to the financial statements and notes, *Required Supplementary Information* (RSI) is provided. The *Schedules of Funding Progress* show on an actuarial basis whether SERS' ability to pay for benefits is improving or deteriorating over time. Also included in the RSI is the *Schedules of Employer Contributions* and a note to the *Schedule of Funding Progress*. For pension benefits, six years of trend information is provided; for OPEB only one year is available. Following the RSI is other supplementary information. These schedules include detailed information on investment and administrative expenses incurred by SERS.

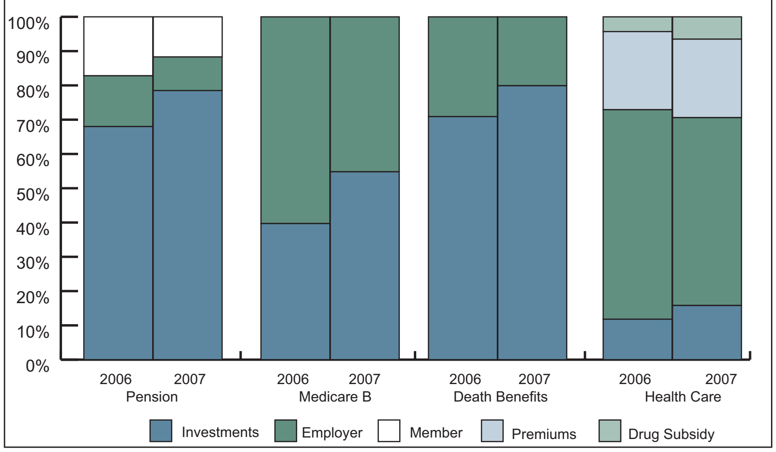
FINANCIAL ANALYSIS

A cost-sharing defined benefit public retirement system, such as SERS, has a long-term perspective on financial activities. Pension benefits are funded on an actuarial basis, not by using today's inflow of contributions from members and employers to pay the pensions of current retirees. Instead, the contributions are set aside for investments that build a base so that members and retirees alike can feel secure that their pension benefits will be available when due. Investment income makes up the largest proportion of SERS' additions to net assets.

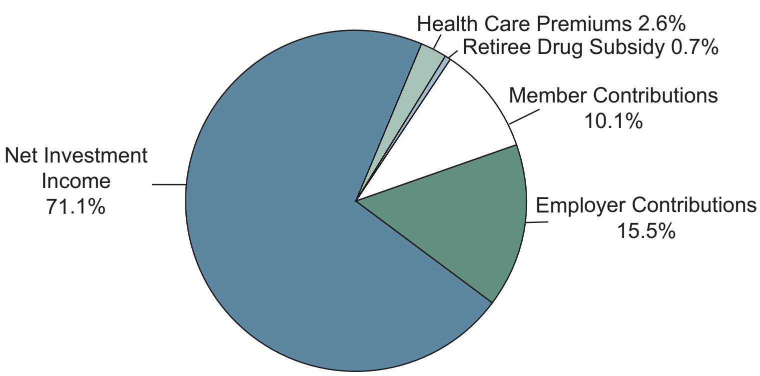
Additions SERS is comprised of five separate plans – the Pension Trust Fund, the Medicare B Fund, the Death Benefit Fund, the QEBA Fund, and the Health Care Fund. Pension benefits are funded through a combination of employee and employer contributions and investment income. Medicare Part B premium reimbursements and death benefits are funded through employer contributions and investment income. The QEBA is funded by contributions from the retiree's last employer. Funding for the health care program comes from employers, retiree premium payments, the federal government (Medicare Part D subsidy), and investment income. The graph on the next page labeled *"Comparison of Additions to Plan Net Assets by Fund"* depicts the proportion that each source adds to the individual fund's assets. Total plan additions increased by 45%.

The maximum limits for employer (14%) and employee (10%) contribution rates are set by statute, and both contribution rates have reached those maximums. Contributions from members and employers increased 2.0% over the previous fiscal year.

COMPARISON OF ADDITIONS TO PLAN NET ASSETS BY FUND



ADDITIONS TO PLAN NET ASSETS



Active membership declined slightly continuing a trend in membership totals that has remained relatively static since 2003; therefore the increase in contributions was driven by cost-of-living increases in payroll.

Employer contributions to the Health Care Fund are derived from two sources. The first source is an allocation of the employers' 14% contribution after pension benefits are actuarially funded. This allocation decreased from 3.42% to 3.32% in 2007. The second is a health care surcharge for members who earn less than an actuarially determined minimum salary, $35,800, which remained unchanged for fiscal year 2007. However, legislated limits on SERS' surcharge revenue restrict the actual surcharge to 1.5% of statewide payroll and no employer will pay more than 2.0% of the district's payroll. As a result, the 2.4% increase in health care surcharge revenue, from $39.9 million to $40.8 million, is tied directly to the increase in total payroll. Although employer contributions to the Health Care Fund decreased because of the lower allocation, it was offset in part by a $41.1 million adjustment of employer contributions during fiscal year 2007 to correct a prior period when the assets of the Health Care Fund were assigned an assumed rate of return instead of the actual rate of return.

Investment net income increased by $810.6 million; it is presented net of investment fees and is comprised of interest, dividends, and realized and unrealized investment gains and losses. Income from interest and dividends increased by $46.7 million. The total portfolio had a net appreciation in fair value of $1.9 billion. Total investment expenses increased from $49.2 million to $57.4 million. Investment income is distributed proportionately to all funds except the QEBA.

In addition to employer contributions and investment income, additions to the Health Care Fund include health care premiums paid by retirees which increased 22% over the previous fiscal year. SERS received $20.2 million from the federal government's Medicare Part D subsidy program in fiscal year 2007 and has received a total of $31.3 million since the program began in January 2006.

Deductions Expenses are incurred primarily for the purpose for which SERS was created: the payment of benefits to non-teaching Ohio public and charter school employees. Included in the deductions from plan assets for 2007 were benefit payments, refunds of contributions due to member terminations or deaths, the net transfers to other Ohio retirement systems to provide benefits for those members who had membership in more than one system, and administrative expenses.

Payments to service, disability, and survivor benefit recipients increased by $39.8 million, or 6.8%. Retirees receive an annual 3% cost of living allowance on the anniversary of their retirement date. The balance of the increase in retirement benefits results from a larger number of retirees and an increase in the average new annual retirement allowance.

SERS reimburses a portion of the Medicare Part B premium to retirees eligible for SERS' health care program who provide proof of enrollment in Part B. For calendar year 2007, SERS reimbursed $45.50 of the $93.50 monthly Part B premium. The amount of Medicare B reimbursement is statutorily defined, so any change in this amount would require legislation. Medicare Part B expense increased 1.6% in fiscal 2007.

SERS pays a $1,000 death benefit to the designated beneficiary of service and disability retirees. Payments of death benefits decreased 7.8% in 2007.

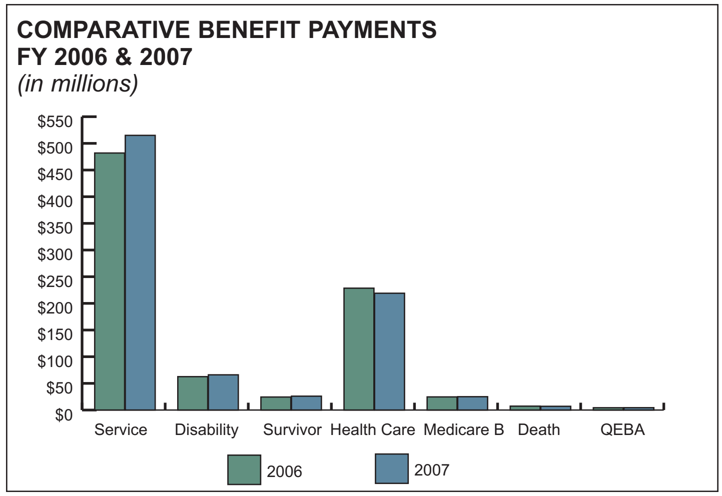
Health care claims expense decreased 4.0% from $228.6 million to $219.4 million. Decreases in reimbursements to doctors and hospitals and payments for prescription drugs were offset by increases in administrative payments to third-party administrators. Total expense for prescription drugs decreased 5.8% as a result of the negotiated agreement with the Pharmacy Benefit Manager for improved drug pricing and SERS' 100% retention of drug company rebates.

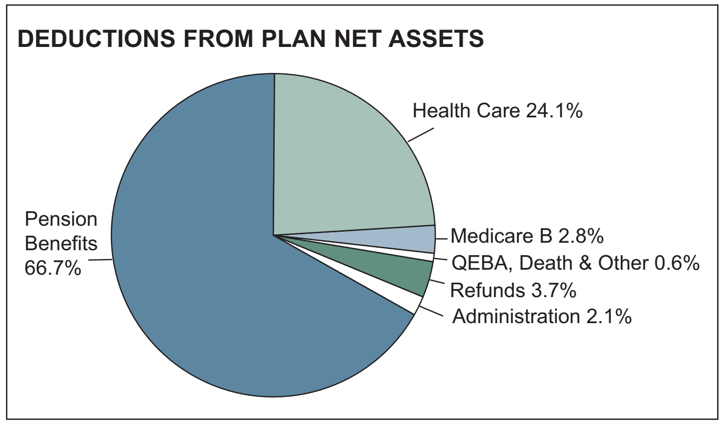
SERS recognizes the importance of the health care program to our retirees, however health care benefits are not guaranteed. As the actuarial valuation of the Health Care Plan indicates, the funded status is 7.9%, thus it is likely that more changes will be necessary in the future if we are to preserve the program.

REQUEST FOR INFORMATION

This financial report is designed to provide the Retirement Board, our membership, employers, and investment managers with a general overview of SERS' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to:

School Employees Retirement System of Ohio
Finance Department
300 East Broad Street, Suite 100
Columbus, Ohio 43215





FINANCIAL SECTION

Statement of Plan Net Assets
as of June 30, 2007

ASSETS	PENSION TRUST FUND	MEDICARE B FUND	DEATH BENEFIT FUND
Cash & Operating Short Term Investments	$ 373,708,639	$ 4,860,681	$ 1,049,342
Receivables			
Contributions			
Employer	119,679,442	7,222,863	529,792
Employee	20,625,135	–	–
Investments Receivable	216,124,419	2,524,795	481,937
Other Receivables	917,934	–	–
Total Receivables	357,346,930	9,747,658	1,011,729
Investments at Fair Value			
US Equity	3,024,019,037	35,327,008	6,743,280
Non-US Equity	3,586,474,528	41,897,690	7,997,503
Private Equity	440,923,540	5,150,930	983,218
Fixed Income	2,816,882,914	32,907,215	6,281,385
Real Estate	1,176,571,923	13,744,875	2,623,646
Total Investments	11,044,871,942	129,027,718	24,629,032
Securities Lending Collateral	906,527,190	10,590,176	2,021,471
Capital Assets			
Land	3,315,670	–	–
Property & Equipment, at Cost	60,421,347	–	–
Accumulated Depreciation	(14,772,752)	–	–
Total Capital Assets	48,964,265	–	–
Prepaids and Other Assets	33,736,111	–	–
TOTAL ASSETS	12,765,155,077	154,226,233	28,711,574
LIABILITIES			
Accounts Payable & Accrued Expenses	2,214,092	96,000	–
Benefits Payable	733,700	20,521	728,945
Investments Payable	309,618,081	3,617,001	690,419
Obligations under Securities Lending	906,527,190	10,590,176	2,021,471
TOTAL LIABILITIES	1,219,093,063	14,323,698	3,440,835
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER POSTEMPLOYMENT BENEFITS	$ 11,546,062,014	$ 139,902,535	$ 25,270,739

(Unaudited Schedules of Funding Progress are presented on page 37.)

See accompanying notes to the financial statements.

QEBA FUND	HEALTH CARE FUND	TOTAL
$ 5,100	$ 34,004,851	$ 413,628,613
–	89,868,326	217,300,423
–	–	20,625,135
–	5,486,656	224,617,807
–	10,153,934	11,071,868
–	105,508,916	473,615,233
–	76,769,440	3,142,858,765
–	91,048,250	3,727,417,971
–	11,193,532	458,251,220
–	71,510,966	2,927,582,480
–	29,869,113	1,222,809,557
–	280,391,301	11,478,919,993
–	23,013,607	942,152,444
–	–	3,315,670
–	–	60,421,347
–	–	(14,772,752)
–	–	48,964,265
–	266	33,736,377
5,100	442,918,941	13,391,016,925
201	25,689,826	28,000,119
–	–	1,483,166
–	7,860,138	321,785,639
–	23,013,607	942,152,444
201	56,563,571	1,293,421,368
$ 4,899	$ 386,355,370	$ 12,097,595,557

Statement of Changes in Plan Net Assets for the year ended June 30, 2007

ADDITIONS	PENSION TRUST FUND	MEDICARE B FUND	DEATH BENEFIT FUND
Contributions			
Employer	$ 232,846,344	$ 18,450,617	$ 1,070,630
Employee	276,759,362	–	–
Other Income			
Health Care Premiums	–	–	–
Medicare Part D Subsidy	–	–	–
	509,605,706	18,450,617	1,070,630
Income from Investment Activity			
Net Appreciation in Fair Value	1,619,178,596	19,425,633	3,707,804
Interest and Dividends	296,284,593	3,529,407	677,094
	1,915,463,189	22,955,040	4,384,898
Investment Expenses	(55,167,112)	(657,126)	(126,047)
Net Income from Investment Activity	1,860,296,077	22,297,914	4,258,851
Income from Securities Lending Activity			
Gross Income	40,590,901	483,528	92,762
Brokers' Rebates	(37,041,736)	(441,249)	(84,651)
Management Fees	(618,473)	(7,367)	(1,413)
Net Income from Securities Lending Activity	2,930,692	34,912	6,698
Total Investment Income, Net	1,863,226,769	22,332,826	4,265,549
TOTAL ADDITIONS	2,372,832,475	40,783,443	5,336,179
DEDUCTIONS			
Benefits			
Retirement	514,824,466	22,350,668	–
Disability	66,278,496	1,317,953	–
Survivor	25,650,405	1,387,173	–
Death	–	–	2,083,437
Health Care Expenses	–	–	–
	606,753,367	25,055,794	2,083,437
Refunds and Lump Sum Payments	33,638,741	–	–
Net Transfers to other Ohio Systems	2,873,755	–	–
Administrative Expenses	17,453,275	3,336	58,465
	53,965,771	3,336	58,465
TOTAL DEDUCTIONS	660,719,138	25,059,130	2,141,902
NET INCREASE / (DECREASE)	1,712,113,337	15,724,313	3,194,277
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER POSTEMPLOYMENT BENEFITS			
Balance, Beginning of Year	9,833,948,677	124,178,222	22,076,462
Balance, End of Year	$ 11,546,062,014	$ 139,902,535	$ 25,270,739

See accompanying notes to the financial statements.

QEBA FUND	HEALTH CARE FUND	TOTAL
$ 82,745	$ 170,948,274	$ 423,398,610
–	–	276,759,362
–	71,620,083	71,620,083
–	20,202,965	20,202,965
82,745	262,771,322	791,981,020
32	42,927,630	1,685,239,695
–	7,745,573	308,236,667
32	50,673,203	1,993,476,362
–	(1,442,327)	(57,392,612)
32	49,230,876	1,936,083,750
–	1,061,140	42,228,331
–	(968,357)	(38,535,993)
–	(16,169)	(643,422)
–	76,614	3,048,916
32	49,307,490	1,939,132,666
82,777	312,078,812	2,731,113,686
85,106	–	537,260,240
–	–	67,596,449
–	–	27,037,578
–	–	2,083,437
–	219,438,662	219,438,662
85,106	219,438,662	853,416,366
–	–	33,638,741
–	–	2,873,755
201	1,846,713	19,361,990
201	1,846,713	55,874,486
85,307	221,285,375	909,290,852
(2,530)	90,793,437	1,821,822,834
7,429	295,561,933	10,275,772,723
$ 4,899	$ 386,355,370	$ 12,097,595,557

FINANCIAL SECTION

Notes to Financial Statements
June 30, 2007

1. Summary of Significant Accounting Policies

Basis of Accounting SERS' financial statements are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Administration costs are financed by investment earnings.

Use of Estimates In preparing financial statements in conformity with governmental accounting principles generally accepted in the United States of America, SERS' management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions. Certain SERS investment assets, such as global real estate and global private equity, use some estimates in reporting fair value in the financial statements. These estimates are subject to a certain amount of uncertainty in the near term, which could result in changes in the values reported for those assets in the statement of net assets.

Employer Contributions Receivable SERS recognizes long-term receivables from employers whose contributions are deducted from the money paid to them through the School Foundation Program, administered by the Ohio Department of Education. Employer contributions for fiscal year 2007 will be received by the end of calendar year 2007; the surcharge owed for fiscal year 2007 will be received by the end of calendar year 2008.

Health Care Benefits Incurred and Unpaid Amounts accrued for health care benefits payable in the Health Care Fund are based upon estimates that have been developed from prior claims experience.

Allocation of Expenses to Plans Direct expenses are charged to the plan for which they are incurred. All indirect expenses are paid by the Pension Trust Fund and are reimbursed by the Medicare B, Death Benefits, and Health Care Funds, in proportion to their use of the assets.

Investments Investment purchases and sales are recorded as of the trade date. Dividend income is recognized on the ex-dividend date. Other investment income is recognized when earned.

Plan investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Fixed income securities, REITs, derivatives (with the exception of swaps), and common and preferred stocks are valued based on published market prices and quotations from national security exchanges and securities pricing services. Swap contracts are valued at fair value as determined by the manager. International stocks are then adjusted to reflect the current exchange rate of the underlying currency. Real estate is valued at fair value by the manager or independent appraisers. Private equity is valued at fair value by the respective manager. Short-term securities are valued at amortized cost, which approximates fair value.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the beginning of the year and the end of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense consists of external expenses directly related to SERS' investment operations, as well as the internal administrative expenses associated with SERS' investment program.

The monies held by the Pension Trust, Medicare B, Death Benefit, and Health Care Funds are pooled for the purpose of the investment of those plans. Each plan holds units of the investment pool, which are adjusted on a monthly basis. The value of one unit of the Pool on June 30, 2007 was $1,414.0934. The unit holdings and net value of each of the funds at the close of the fiscal year were:

	Units	Value
Pension Trust Fund	8,006,473.323	$11,321,901,050
Medicare B Fund	93,532.726	132,264,010
Death Benefits Fund	17,853.687	25,246,780
Health Care Fund	203,256.813	287,424,117
Total	8,321,116.549	$11,766,835,957

Office Building, Equipment, and Fixtures (Non-Investment Assets) The equipment and fixtures in excess of $5,000, and the office building are capitalized at cost when acquired. Improvements that increase the useful life of the property are capitalized. Maintenance and repairs are charged to expense as incurred. Software costs in excess of $25,000 are also capitalized. Depreciation has been provided using the straight-line method over the following useful lives:

Description	Estimated Lives (years)
Furniture, equipment, and software	3-10
Building and improvements	40

Reserves Ohio Revised Code 3309.60 establishes various reserves to account for future and current benefit payments. The state statute gives these reserves the title of "Funds," but for accounting and reporting purposes they are treated as accounts. These are:

- **The Employees' Savings Account** Accumulated members' contributions are held in trust pending refund or transfer to a benefit disbursement account.
- **The Employers' Trust Account** Accumulated employer contributions are held for future benefit payments.
- **The Annuity and Pension Reserve Account** This reserve contains the monies set aside to pay all annuities and pensions. Money is transferred to this account from the Employees' Savings Account, Employers' Trust Account, and Guarantee Account at the time of retirement.
- **The Survivors' Benefit Account** Monies in this account are set aside to finance payments to beneficiaries of deceased members. Money is transferred to this account from the Employees' Savings Account, Employers' Trust Account, and Guarantee Account in an amount to fund all liabilities at the end of each year.
- **The Guarantee Account** Income derived from the investment pool and any gifts or bequests are accumulated in this account. The balance in this account is transferred to other reserve accounts to aid in the funding of future benefit payments and administrative expenses.
- **The Expense Account** This account provides for the payment of administrative expenses with the necessary money allocated to it from the Guarantee Account.

RESERVE ACCOUNT BALANCES AS OF JUNE 30, 2007

	Pension Trust Fund	Medicare B Fund	Death Benefits Fund	QEBA Fund	Health Care Fund	**Reserve Account Totals**
Employees' Svgs Acct.	$2,365,747,373	$ –	$ –	$ –	$ –	**$2,365,747,373**
Employers' Trust Acct.	1,899,441,559	–	–	–	386,355,370	**2,285,796,929**
Annuity and Pension Reserve Acct.	5,943,188,580	139,902,535	25,270,739	4,899	–	**6,108,366,753**
Survivors' Benefit Acct.	259,897,195	–	–	–	–	**259,897,195**
Guarantee Acct.	1,077,787,307	–	–	–	–	**1,077,787,307**
Expense Acct.	–	–	–	–	–	–
Fund Totals	**$11,546,062,014**	**$139,902,535**	**$25,270,739**	**$ 4,899**	**$386,355,370**	**$12,097,595,557**

2. Description of the System

Organization The School Employees Retirement System of Ohio (SERS) is a cost-sharing multiple-employer defined benefit public employee retirement system established by the Ohio General Assembly in 1937 to provide retirement benefits to employees of Ohio public and charter schools who are not required to possess a certificate in order to perform their duties.

Responsibility for the organization and administration of SERS is vested in the Retirement Board. As of June 30, 2007 it is comprised of nine members. Four of the nine Board members are elected by the general membership (those who contribute to SERS) and two are elected by retirees. Three members are appointed by the legislature, state treasurer, and governor respectively.

Five separate plans comprise the SERS retirement system. The Pension Trust Fund, the Medicare B Fund, the Death Benefit Fund, and the Qualified Excess Benefit Arrangement Fund are classified as pension plans for federal tax purposes. The Pension Trust Fund holds the funds to pay the basic retirement benefits authorized under Ohio Revised Code (ORC) 3309. The Medicare B Fund reimburses Medicare premiums paid by eligible retirees and beneficiaries as set forth in ORC 3309.69. The Death Benefit Fund (ORC 3309.50) pays $1,000 to a designated beneficiary upon the death of a retiree. The Qualified Excess Benefit Arrangement (QEBA) Fund was established for retirees whose benefits under SERS' statutes exceed IRS 415(m) limits. Money available for health care benefits is in a separate plan known as the Health Care Fund.

Pension Benefits Members are eligible for retirement benefits based upon age and service credit as follows: age 60 and earning 5 years of service credit; age 55 and earning 25 years of service credit; or earning 30 years of service credit at any age. The benefit is equal to 2.2% of the member's final average salary, or a minimum of $86, multiplied by the number of years of credited service. Members retiring with more than 30 years of service credit receive an increased benefit multiplier of 2.5% for each year of earned service in excess of 30 years. Death benefits of $1,000 are payable upon the death of a retiree to a beneficiary. Members are eligible for disability benefits after completion of 5 years of service. Qualified dependents of a deceased member are eligible for monthly survivor benefits.

EMPLOYER AND EMPLOYEE MEMBERSHIP DATA (as of June 30, 2007)	
Employer Members	
Local	374
City	192
Educational Service Center	60
Village	49
Higher Education	15
Vocational/Technical	49
Community Schools	235
Other	8
Total	982
Employee Members and Retirees	
Retirees and beneficiaries currently receiving benefits	63,529
Terminated employees entitled to but not yet receiving benefits	10,681
Total	74,210
Active Employees	
Vested active employees	79,156
Non-vested active employees	43,857
Total	123,013

Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The current reimbursement amount is $45.50.

A SERS member who is also a member of the State Teachers Retirement System of Ohio (STRS) or the Ohio Public Employees Retirement System (OPERS) may have all deposits, salary, and service credit combined for the purpose of determining a greater benefit and earlier eligibility. The system in which the member has the greatest service will calculate the benefit. However, members cannot receive more than one year of total credit for all employment during a twelve-month period.

Retirees of any of the five state retirement systems must contribute to SERS if they are employed in a non-certificated position in the public schools. These contributions are credited to a separate money purchase annuity payable at age 65 in either monthly payments (if the monthly amount is $25 or more) or in a lump sum. A refund of the member's contributions, without employer contributions or interest, is available for those who stop working before age 65.

Health Care Benefits ORC 3309.375 and 3309.69 permit SERS to offer health care benefit programs to retirees and beneficiaries. SERS' pension benefits are mandated by statute; however SERS reserves the right to change or discontinue any health plan or program.

SERS offers several types of health plans from various vendors, including HMO's, PPO's, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. SERS self-insures 50,264 of the 55,818 covered benefit recipients and dependents as of June 30, 2007.

Members retiring July 1, 1986 or later must have ten years of service credit to qualify for health care benefits. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 25% for those who qualify. Health care premiums paid by benefit recipients in fiscal years 2007 and 2006 were $71.6 million and $58.7 million, respectively.

The health care program is funded through employer contributions, premium payments, and investment earnings. The portion of the employer contribution not required to actuarially fund the pension plans (Pension Trust Fund, Medicare B Fund, and Death Benefit Fund) is available for the Health Care Fund. During fiscal year 2007, the amount of employer contributions directed to the Health Care Fund was 3.32% of covered payroll or $89.1 million. An additional $41.1 million of employer contributions was directed to the Health Care Fund to correct a prior period when an assumed rate of return rather than the actual rate was used to determine its investment earnings.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2007, the minimum compensation level was established at $35,800. The surcharge accrued for fiscal year 2007 and included in employer additions on the Statement of Changes in Plan Net Assets is $40.8 million.

3. Contributions

The Ohio Revised Code requires contributions by active members and their employers. The Retirement Board establishes contribution rates within the allowable rates established by the Ohio Revised Code. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. During fiscal year 2007, active members and their employers were required to contribute 10% and 14%, respectively, of active member payroll.

The Retirement Board, acting with the advice of the actuary, allocates the current employer contribution rate among four plans of the System. For fiscal year 2007, the allocation of the employer contribution rate to pension plan benefits was established as the rate necessary to cover normal cost. Of the 14% contribution rate paid by employers, 10.68% was allocated to the pension plans in the following rates:

Pension Trust Fund	9.96%
Medicare B Fund	.68%
Death Benefit Fund	.04%

During fiscal year 2007, the remaining 3.32% of the 14% employer contribution rate was allocated to the Health Care Fund.

Employer and employee contributions were $381.2 million and $272.3 million, respectively, in 2007. The employee contribution amounts in the financial statements also include employee contributions for purchased service credit.

4. Cash Deposits and Investments

Custodial Credit Risk, Deposits Custodial credit risk for deposits is the risk that in the event of a bank failure, SERS' deposits may not be returned. In accordance with the state statute, the Board of Deposit designates SERS' depository bank, and the Ohio Treasurer of State serves as custodian and contracts depository services for all SERS' deposits. Therefore, SERS does not have a policy for custodial credit risk.

At June 30, 2007, the carrying amounts of SERS' operating and investment cash deposits totaled $22,719,414 and the corresponding bank balances totaled $5,214,104. Of the bank balances, the Federal Deposit Insurance Corporation insured $184,857. Also in accordance with the state statute, additional bank balances of $712,456 were collateralized at

INVESTMENTS AND SHORT-TERM HOLDINGS AS OF JUNE 30, 2007

	Fair Value *(in thousands)*
Commercial Paper	$ 105,198
Commingled - Bonds	733,002
Commingled - Non-US Equity	1,023,876
Foreign Warrants, Rights & Vouchers	46,244
Mutual Fund - Money Market	258,211
Foreign Obligations	132,747
Non-US Common and Preferred	2,557,933
Private Equity	458,251
Private Real Estate	989,188
Real Estate Investment Trusts	233,621
Repurchase Agreements	27,500
US Agency	392,251
US Common & Preferred	3,067,134
US Corporate Bonds	922,919
US Government	31,231
Securities on Loan:	
Foreign Obligations	$ 2,018
Non-US Common and Preferred	98,159
US Government	364,098
US Agency	326,459
US Corporate Bonds	38,159
US Common & Preferred	75,725
Total Investments Fair Value	$11,883,924
Securities Lending Collateral Pool	$ 942,152

102% with securities held in the name of SERS' pledging financial institutions. The value collateralized by SERS' pledging financial institutions overlaps with the FDIC insurance by $184,857. The remaining bank deposits of $4,501,648 were uncollateralized.

Custodial Credit Risk, Investments Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, SERS will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Ohio Revised Code assigns the Ohio Treasurer of State as the System's custodian. Therefore, SERS does not have a policy for investment custodial credit risk.

Credit Risk Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. ORC section 3309.15 and the Board's "Statement of Investment Policy" (adopted October 2005) direct that the funds of the System will be invested following the prudent person standard. This fiduciary standard dictates that the Board consider the probable safety of investments, avoid speculative investments, and invest as persons of prudence, discretion, and intelligence would manage their own affairs. The Board accomplishes this through a combination of internal and external investment professionals.

Concentration of Credit Risk Concentration of credit risk is the risk of loss attributed to the magnitude of a plan's investment in a single issuer. The Retirement Board has the responsibility to invest the available funds of the System, in accordance with the applicable state law and the guidelines set forth by the Board. SERS does not hold investments in any one organization representing five percent or more of plan net assets.

Interest Rate Risk Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SERS does not have a policy for managing interest rate risk.

At June 30, 2007, SERS holds interest-only strips that had a total fair value of $616,887. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. The System also holds principal-only strips that had a total fair value of $11,462,200. These principal-only strips are sensitive to interest rate increases that may result in decreasing mortgage prepayments, thus increasing the average maturity of this investment.

FAIR VALUE SUBJECT TO CREDIT RISK

	S&P Credit Quality Rating	Fair Value (in thousands)
US Corporate Obligations	AAA	$ 314,589
	AA	66,201
	A	132,972
	BBB	254,936
	BB	132,109
	B	36,235
	CCC	9,117
	Not rated	14,919
Total		$ 961,078
Foreign Obligations	AAA	5,286
	AA	14,774
	A	36,602
	BBB	67,802
	BB	2,190
	Not rated	8,111
Total		$ 134,765
Commingled - Bonds	AAA	646,967
	BBB	25,098
	BB	29,341
	B	31,596
Total		$ 733,002
US Agency	AAA	718,710
US Government	AAA	395,329
Commercial Paper	A-1	105,198
Mutual Fund - Money Market	A-1	258,211
Repurchase Agreements	A-1	27,500
Total Debt Securities		**$ 3,333,793**

FAIR VALUE SUBJECT TO INTEREST RATE RISK

Investment	Fair Value (in thousands)	Option Adjusted Duration (in years)
US Agency	$ 718,710	3.51
US Corporate Obligations	961,078	3.60
Commingled - Bonds	733,002	4.72
US Government	395,329	4.78
Foreign Obligations	134,765	4.48
Commercial Paper	105,198	0.02
Mutual Fund - Money Market	258,211	N/A*
Repurchase Agreements	27,500	0.00
Total Debt Securities	$3,333,793	3.61

*Not available from our custodial banks, but impact would be immaterial.

Foreign Currency Risk Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The System's exposure to foreign currency risk derives from its positions in foreign currency and foreign currency-denominated investments. The System's policy is to hedge 50% of the fair value of its equities in non-US developed countries.

FAIR VALUE SUBJECT TO FOREIGN CURRENCY RISK *(in thousands)*

Currency	Cash & Cash Equivalents	Fixed Income	Non–US Equities	Real Estate	Private Equity
Argentina Peso	$ –	$ 972	$ –	$ –	$ –
Australian Dollar	(54,293)	221	112,832	–	–
Brazilian Real	(12,065)	4,452	52,298	–	–
British Pound Sterling	(256,108)	–	403,201	21,576	–
Bulgarian Lev	75	–	758	–	–
Canadian Dollar	(41,104)	(9,336)	83,861	–	–
Chilean Peso	2	–	717	–	–
Chinese Yuan	81	–	–	–	–
Colombian Peso	294	–	–	–	–
Czech Koruna	(753)	–	4,986	–	–
Danish Krone	(5,174)	–	7,167	–	–
Euro	(435,744)	536	796,872	–	9,590
Hong Kong Dollar	(20,362)	–	100,608	–	–
Hungarian Forint	(866)	–	16,445	–	–
Indonesian Rupiah	544	–	16,105	–	–
Israeli Shekel	674	–	12,307	–	–
Japanese Yen	(269,709)	(160)	425,259	–	–
Lithuanian Lats	1	–	29	–	–
Malaysian Ringgit	29	–	13,522	–	–
Mexican New Peso	1,426	1,593	17,909	–	–
New Taiwan Dollar	1,189	–	21,628	–	–
New Turkish Lira	106	–	15,292	–	–
New Zealand Dollar	(7,266)	–	8,044	–	–
Norwegian Krone	(12,296)	–	27,000	–	–
Pakistan Rupee	302	–	7,006	–	–
Philippines Peso	1	–	4,258	–	–
Polish New Zloty	(541)	(74)	17,324	–	–
Romanian Leu	66	–	4,035	–	–
Russian Rubel	–	–	2,189	–	–
Singapore Dollar	(33,007)	–	50,541	–	–
South African Rand	1,759	–	30,107	–	–
South Korean Won	(1,364)	–	72,859	–	–
Swedish Krona	(24,926)	–	54,957	–	–
Swiss Franc	(66,177)	–	88,999	–	–
Thailand Baht	(81)	–	9,465	–	–
Ukraine Hryvana	–	–	130	–	–
Total	**($1,235,287)**	**($1,796)**	**$2,478,710**	**$21,576**	**$9,590**

Derivatives Derivatives are generally defined as investment instruments whose cash flows or fair values are derived from the value of some other asset or index. SERS uses a variety of derivatives primarily to maximize yields and offset volatility due to interest rate and currency fluctuations. The System is exposed to various types of credit, market, and legal risks related to these investments. Investment staff monitors these types of investments with extreme care and is not aware of any undue risks at this time.

Foreign exchange forward currency contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date, with delivery and settlement in the future. SERS enters into these contracts to hedge the foreign currency movements of assets held in the underlying funds. The contracts do not subject SERS to risk due to exchange rate movements since gains and losses on the contracts offset gains and losses on the transactions being hedged. SERS could be at risk for replacing these contracts at current market rates, should the counterparty default. SERS seeks to control this risk through contracting only with counterparties who meet credit guidelines.

FOREIGN CURRENCY CONTRACTS	Notional Value (in thousands)
Forward Currency Purchases	$ (2,225,267)
Forward Currency Sales	2,217,930

SWAP CONTRACTS Contract Type	Notional Value (in thousands)
Credit Default	$ 157,348
Interest Rate	459,841
Total Return	65,707

A futures contract is a contract to buy or sell units of an index or financial instrument on a specified future date at a price agreed upon when the contract is originated. SERS uses futures contracts in an effort to obtain an equity return for the entire equity allocation. The System also uses equity and fixed income futures during the fiscal year to rebalance its asset allocation. Only the most liquid futures are used by SERS to directly hedge the temporary and transactional cash held in domestic equity portfolios and to rebalance asset allocations between asset classes. The maximum risk from the purchase of a futures contract (long position) is the contract value. The risk from the sales of futures contracts (short positions) depends upon the amount that the contract increases in value.

Options give buyers the right, but not the obligation, to buy or sell an asset at a predetermined strike price over a specified period. The option premium is usually a small percentage of the underlying asset's value. When writing an option, SERS receives a premium upfront and bears the risk of an unfavorable change in the price of underlying asset during the option's life. When SERS purchases an option, it pays a premium to a counterparty who bears the risk of an unfavorable change in the price of the underlying asset during the option's life.

Swaps represent an agreement between two or more parties to exchange a sequence of cash flows during a predetermined timeframe. SERS utilizes swaps for several different reasons; to manage interest rate fluctuations, default by a borrower, and to gain market exposure without having to actually own the asset.

Securities Lending SERS participates in two securities lending programs, as authorized by Board policy. SERS receives pro-rated income from participation in the securities lending programs of several commingled funds. SERS has no direct responsibility for these programs and the collateral held by these securities lending programs is not held in SERS' name. Total net proceeds from these commingled funds were $443,366 during fiscal year 2007.

SERS has a securities lending program for the System's directly held equity and REIT investments using Boston Global Advisors (BGA) as a third-party lending agent. SERS also has a securities lending program for directly held fixed income investments using Wachovia as a third-party lending agent. Securities are loaned to independent brokers/dealers in exchange for cash collateral equal to

FUTURES CONTRACTS Contract Type	Expiration Date	Net Long/ Short	Notional Value (in thousands)
90-Day Eurodollar	Sep 07, Dec 07, Mar 08, Jun 08, Sep 08	Long	$192,063
US Treasury 2-year Note	Sep 07	Long	49,315
US Treasury 5-year Note	Sep 07	Short	(164,131)
US Treasury 10-year Note	Sep 07, Dec 07	Short	(70,924)
US Treasury 30-year Bond	Sep 07	Long	58,077
Canada 10-year Bond	Sep 07	Short	(2,709)
CAC 40 Euro Index	Jul 07	Long	9,675
DAX Index	Sep 07	Long	7,910
DJ Euro Stoxx 50 Index	Sep 07	Long	26,891
E-mini S&P 500 Index	Sep 07	Long	5,985
FTSE 100 Index	Sep 07	Long	25,171
Hang Seng Index	Jul 07	Long	2,518
IBEX 35 Index	Jul 07	Long	3,604
Mini-Russell 2000 Index	Sep 07	Long	6,905
Russell 1000 Index	Sep 07	Long	8,662
S&P 500 Index	Sep 07	Long	288,686
S&P/MIB Index	Sep 07	Long	3,147
S&P/TSE 60 Index	Sep 07	Long	8,626
SPI 200 Index	Sep 07	Long	6,923
TOPIX Index	Sep 07	Long	24,578

OPTIONS CONTRACTS Contract Type	Number of Contracts	Notional Value (in thousands)
Fixed Income Purchased Call Options	247	$ 24,730
Fixed Income Written Call Options	2,092	209,200
Fixed Income Written Put Options	900	90,000
Currency Purchased Call Options	954	954,000
Currency Written Call Options	264	264,000
Currency Purchased Put Options	113	113,000
Currency Written Put Options	137	137,000

approximately 102% of the market value of domestic securities on loan and 105% of the market value of international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. SERS continues to recognize ownership of the loaned securities in the financial statements. At the same time, SERS records a liability for the collateral held by the System in the securities lending program. Total net proceeds from BGA and Wachovia were $1,665,181 and $940,369, respectively, during fiscal year 2007.

At June 30, 2007, SERS had no credit risk exposure on the securities lending collateral because the collateral exceeded the value of the securities loaned. Securities on loan at year-end totaled $904,618,282 and total collateral held for those securities was $942,152,444. Under the terms of the lending agreement, SERS is fully indemnified against losses that might occur in the program due to the failure of a broker to return a security that was borrowed where the collateral is inadequate to replace the security. SERS is also indemnified should the borrower fail to pay distributions of earnings on securities lent.

Securities on loan can be recalled on demand by SERS or returned by the borrower at any time. There is no matching of the securities lent with the invested cash collateral. The lending agent reinvests the cash collateral in accordance with contractual investment guidelines that are designed to ensure the safety of principal and obtain a moderate rate of return. Earnings generated from the collateral investments, less the amount of rebates paid to the dealers, result in the gross earnings from lending activities, which is then split on a 83/17% basis with BGA and Wachovia. SERS is at risk to contribute additional funds should the earnings from the invested SERS collateral not be sufficient to pay the negotiated dealer rebate. At June 30, 2007, the BGA collateral portfolio had an average weighted maturity of 35 days. The Wachovia collateral portfolio had an average weighted maturity of 15 days.

Commitments As of June 30, 2007, unfunded commitments related to the real estate and private equity investment portfolios totaled $1,192.2 million.

5. Capital Assets (Non-Investment Assets)

CAPITAL ASSETS ACTIVITY for the year ended June 30, 2007

	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 3,315,670	$ –	$ –	$ 3,315,670
Office building & improvements	52,059,047	69,936	–	52,128,983
Furniture & equipment	6,843,858	55,618	(21,651)	6,877,825
Computer hardware & software	908,553	416,891	(2,377)	1,323,067
Vehicles	91,472	–	–	91,472
	63,218,600	542,445	(24,028)	63,737,017
Accumulated depreciation	(12,951,178)	(1,845,602)	24,028	(14,772,752)
	$50,267,422	**$(1,303,157)**	**$ –**	**$48,964,265**

6. Pension Plan

For its employees, SERS contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing, multiple-employer public retirement system comprised of three separate plans: the Traditional Plan – a defined benefit plan; the Combined Plan – a combination defined benefit/defined contribution plan; and the Member-Directed Plan – a defined contribution plan. Under the authority granted by Chapter 145 of the Ohio Revised Code, OPERS provides retirement, disability, and survivor benefits for the public employees of Ohio. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing OPERS, 277 East Town Street, Columbus, Ohio 43215.

Plan members are required to contribute 9.0% of earnable salary and employers are required to contribute at an actuarially determined rate. The rate for miscellaneous employers during calendar year 2007 was 13.8% of covered payroll. As of January 1, 2007 the employee and employer contributions were raised to 9.5% and 13.85% respectively. The contribution requirements for employees and employers are established and may be amended within statutory limits by the OPERS Board. The payroll for employees covered by OPERS for the year ended June 30, 2007 was $10,010,500; SERS' total payroll was $10,297,567. SERS' contributions to OPERS for the years ended June 30, 2007, 2006, and 2005 were $1,381,449, $1,310,626, and $1,272,331, respectively; equal to the required contributions for each year.

OPERS is permitted to provide postemployment health care benefits, in accordance with state statutes, to retirees and beneficiaries of the Traditional and Combined Plans and to disability recipients. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care. The current rate is 4.0% of member covered payroll. For the year ended June 30, 2007, approximately $400,420 of employee payroll contributed by SERS to OPERS was the portion used to fund health care. Net assets held in trust at December 31, 2006 for postemployment health care benefits were $12.8 billion.

The actuarial present value of accrued postemployment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions used in the December 31, 2005 valuation (most recent available) were: an investment rate of return of 8.0%; investments valued at book value plus or minus realized or unrealized investment gains and losses amortized at 25% per annum over a four-year period; no change in the number of active employees; base pay rate increases of 4.0% and annual pay increases over and above the 4.0% base increase ranging from 0.5% to 4.0%.

7. Compensated Absences

As of June 30, 2007 and 2006, $1,447,653, and $1,510,090, respectively, were accrued for unused vacation and sick leave for the System's employees. The corresponding long-term portion of these liabilities is estimated at $732,326 and $791,275. The net decrease of $62,437 from June 30, 2006 included increases of $897,552 and decreases of $959,989. Employees who retire or resign are entitled to full compensation for all earned unused vacation. Unused sick leave pay is forfeited upon termination. However, employees who retire, become disabled, or die after five years of service are entitled to receive payment for a percentage of unused sick leave.

8. Self-insured Health Care for Employees

SERS is self-insured for employee benefits for dental, general health, and hospitalization. A third-party administrator manages the program. SERS holds a stop-loss policy of $150,000 per employee per year and places a maximum lifetime coverage limit per employee of $2,000,000.

9. Federal Income Tax Status

The SERS Pension Trust Fund is considered a qualified entity under Section 501(a) of the Internal Revenue Code (IRC) and is therefore exempt from federal income taxes. The Medicare B Fund is established pursuant to IRC Section 401(h). The Death Benefit Fund is an insurance fund and is in compliance with IRC 101(a). The QEBA Fund is a qualified entity, created in accordance with IRS 415(m) limits. The Health Care Fund is structured to meet the requirements of IRC Section 105(e).

10. Risk Management

SERS is exposed to various risks of loss including theft or destruction of assets, general liability, employee injuries, and legal challenges to fiduciary decisions. SERS self-insures some risk through deductibles and retention, and purchases insurance for the remainder. For the past three years there has been no reduction in coverage, and no claims have exceeded purchased limits.

11. Contingent Liabilities

On February 1, 2006, a Petition for Damages was filed against multiple defendants, including the School Employees Retirement Board, in the Civil District Court for the Parish of Orleans, State of Louisiana. The suit is captioned *Timothy Ivan Usry et al. v. Baha Towers Limited Partnership et al*. Timothy Usry was employed by MCI from 1991 through 2004, and throughout his employment with MCI, he worked on the premises of Plaza Tower in New Orleans. SERS owned Plaza Tower from 1987 through September 1993. Mr. Usry claimed that during his employment in Plaza Tower he was exposed to high levels of toxic substances, including asbestos and mold, and that as a result of this exposure he contracted mesothelioma. SERS filed its answer on May 26, 2006. While the final outcome of this case cannot be determined at this time, management is of the opinion that the potential liability in this action will not have a material adverse effect on SERS' financial position.

SERS is also a defendant in various other cases relating to claims concerning individual benefits and accounts (denial of disability benefits or domestic relations suits to determine spousal interests). While the final outcome of these lawsuits cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on SERS' financial position.

12. Funded Status and Funding Progress

The funded status of the Health Care Fund and Medicare B Fund as of the most recent actuarial valuation dates is as follows:

FUNDED STATUS OF THE MEDICARE B FUND *(in millions)*

Valuation Date June 30	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2007	$299	$127	$172	42.5%	$2,603	7%

FUNDED STATUS OF THE HEALTH CARE FUND *(in millions)*

Valuation Date December 31	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2006	$4,307	$340	$3,967	7.9%	$2,598	153%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality, and health care cost trend. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future. The Schedules of Funding Progress present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. These schedules are presented in the *Required Supplementary Information* section.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the Actuarial Required Contributions (ARC). The ARC is actuarially determined using the parameters of GASB Statement 43 and the assumptions adopted by the Retirement Board. The ARC represents a projected rate (cost) required on an ongoing basis to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

As mentioned previously, qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The current reimbursement is $45.50. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Several of the key methods and assumptions used in the latest Medicare B actuarial valuation are presented below.

KEY METHODS AND ASSUMPTIONS USED IN MEDICARE B ACTUARIAL VALUATION

Valuation date	June 30, 2007
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Remaining amortization period	29 years
Assets valuation method	4 year smoothed market
Actuarial assumptions	
Investment rate of return	8.0% compounded annually

As disclosed previously, health care benefits are not guaranteed and are subject to change at any time. The health care valuation and projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations. Several of the key methods and assumptions used in the latest health care actuarial valuation are presented below.

KEY METHODS AND ASSUMPTIONS USED IN HEALTH CARE ACTUARIAL VALUATION

Valuation date	December 31, 2006
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	30 years
Assets valuation method	Market value of assets
Actuarial assumptions	
Investment rate of return (Discount Rate)	5.25% per annum, compounded
Health care cost trend rate	12% initially, decreasing 1% per year to 5%, and remaining level thereafter

Required Supplementary Information

Schedule of Funding Progress *(in millions)*
Pension Benefits and Lump Sum Death Benefit

Valuation Date June 30	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2007	$13,004	$10,513	$2,562^	80.8%	$2,603	98%
2006	12,327	9,423	2,974^	76.4	2,553	116
2005	11,659	8,780	2,948^	75.3	2,453	120
2004	10,953	8,550	2,403	78.1	2,394	100
2003(1)	10,336	8,646	1,690	83.6	2,302	73
2002	9,692	8,742	950	90.2	2,176	44
2001(2)(3)	9,109	8,650	459	95.0	1,974	23

Schedule of Funding Progress *(in millions)*
Medicare B Fund

Valuation Date June 30	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2007	$299	$127	$172^	42.5%	$2,603	7%
2006	300	119	181^	39.7	2,553	7
2005	302	113	189^	37.4	2,453	8
2004	298	117	181	39.3	2,394	8
2003(1)	298	126	172	42.3	2,302	7
2002	294	137	157	46.6	2,176	7
2001(2)(3)	148	141	7	95.3	1,974	0

(1) After change in asset value
(2) After change in benefit provisions
(3) After change in actuarial assumptions
^ After change in calculation methods of health care assets, resulting in a $70 million future liability due to Pension plans by the Health Care Fund

Schedule of Funding Progress *(in millions)*
Health Care Fund

Valuation Date December 31	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2006	$4,307	$340	$3,967	7.9%	$2,598	153%

Schedule of Employer Contributions
Pension Benefits and Lump Sum Death Benefit

Year ended June 30	Actuarial Annual Required Contributions	Percentage Contributed
2007	$260,779,627[(1)]	90%
2006	272,358,393[(1)(2)]	87
2005	239,089,392	100
2004	195,852,937	100
2003	165,929,757	100
2002	96,388,194	100

Schedule of Employer Contributions
Medicare B Fund

Year ended June 30	Actuarial Annual Required Contributions	Percentage Contributed
2007	$17,729,746	104%
2006	21,677,505[(1)(2)]	95
2005	16,956,695	100
2004	16,340,531	100
2003	15,306,355	100
2002	14,407,499	100

Schedule of Employer Contributions
Health Care Fund

Year ended June 30	Actuarial Annual Required Contributions	Percentage Contributed
2007	#	#

(1) The percentage contributed is less than 100% due to contributions made toward the health care adjustment.
(2) ARC decreased due to the adoption of the new actuarial assumptions retroactive to July 1, 2005.
\# The ARC is equal to the ARC rate of 11.50% times the fiscal 2007 payroll. The expected contribution is 4.82% of payroll, or about 42% of the ARC. The ARC and the percentage contributed will be reported by the actuary in the January 1, 2008 valuation report.

Note to Required Supplementary Schedules

Description of Schedule of Funding Progress

Each time a new benefit is added that applies to service already rendered, an unfunded accrued liability is created. Laws governing the System require that these unfunded accrued liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded accrued liabilities.

The Schedule of Funding Progress includes two ratios that provide information about whether the financial strength of the System is improving or deteriorating over time. An improvement is indicated when the funded ratio (assets expressed as a percentage of the actuarial accrued liability) is increasing and the ratio of the unfunded actuarial liability to payroll is decreasing.

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated.

Additional information as of the latest Pension Fund and Lump Sum Death Benefit Fund actuarial valuation follows:

Valuation date:	June 30, 2007
Actuarial cost method:	Entry age normal
Amortization method:	Level percent, open
Remaining amortization period:	29 years
Asset valuation method:	4 year smoothed market, with a limit of actuarial value of assets to a minimum of 80% and a maximum of 120% of the market value of assets
Actuarial assumptions:	Investment rate of return^ - 8.0%
	Projected salary increases* - 4.50% to 24.75%
	Cost of living adjustments - 3%

Additional information as of the latest Medicare B Fund actuarial valuation follows:

Valuation date:	June 30, 2007
Actuarial cost method:	Entry age normal
Amortization method:	Level percent, open
Remaining amortization period:	29 years
Asset valuation method:	4 year smoothed market, with a limit of actuarial value of assets to a minimum of 80% and a maximum of 120% of the market value of assets
Actuarial assumptions:	Investment rate of return^ - 8.0%

^ Includes price inflation at 3.50%

* Includes wage inflation at 4.00%

Additional information as of the latest Health Care Fund actuarial valuation follows:

Valuation date:	December 31, 2006
Actuarial cost method:	Entry age normal
Amortization method:	Level percent of payroll, open
Remaining amortization period:	30 years
Asset valuation method:	Market value of assets
Actuarial assumptions:	Investment rate of return (Discount Rate) 5.25% per annum, compounded
	Health care cost trend rate 12% initially, decreasing 1% per year to 5%, and remaining level thereafter

See accompanying independent auditors' report.

Schedule of Administrative Expenses for the year ended June 30, 2007

	General Expenses	Investment Related Expenses	Total
Personnel Services			
Salaries	$ 8,748,704	$ 1,548,863	$ 10,297,567
Retirement Contributions	1,168,990	212,459	1,381,449
Insurance	1,560,963	167,511	1,728,474
Total Personnel Services	11,478,657	1,928,833	13,407,490
Professional Services			
Actuarial Advisors	485,700	–	485,700
Audit Services	131,967	–	131,967
Custodial Banking	106,662	–	106,662
Investment Related	–	5,379,668	5,379,668
Medical	511,427	–	511,427
Technical	1,227,528	168,411	1,395,939
Total Professional Services	2,463,284	5,548,079	8,011,363
Communications			
Postage	651,770	–	651,770
Telephone	190,048	–	190,048
Member/Employer Education	36,508	–	36,508
Printing and Publications	235,735	–	235,735
Total Communications	1,114,061	–	1,114,061
Other Services			
Computer Support Services	723,024	–	723,024
Office Equipment and Supplies	190,529	9,425	199,954
Training	200,069	20,553	220,622
Transportation and Travel	170,835	90,312	261,147
Memberships and Subscriptions	72,142	20,569	92,711
Property and Fiduciary Insurance	380,660	–	380,660
Maintenance	595,741	–	595,741
Administrative Banking Fees	35,226	–	35,226
Ohio Retirement Study Council	34,455	–	34,455
Miscellaneous	57,705	–	57,705
Total Other Services	2,460,386	140,859	2,601,245
Total Administrative Expenses before Depreciation	17,516,388	7,617,771	25,134,159
Depreciation			
Furniture & Equipment	539,866	–	539,866
Building	1,305,736	–	1,305,736
Total Depreciation	1,845,602	–	1,845,602
Total Administrative Expenses	$ 19,361,990	$ 7,617,771	$ 26,979,761

See accompanying independent auditors' report.

Schedule of Investment Expenses for the year ended June 30, 2007

Description of Expense	Net Assets Under Management June 30, 2007	Direct Fees
US Equity	$ 3,552,290,564	$ 11,855,380
Non US Equity	3,710,190,644	11,219,947
Private Equity	418,464,248	10,358,220
Fixed Income	2,733,936,294	3,336,532
Real Estate	1,143,402,945	13,004,762
Total Investment Management Fees		49,774,841
Custody Service Fees		2,496,320
Master Recordkeeper Fees		1,380,547
Investment Consulting and Performance/Analytics Fees		1,345,904
Investment Pool Administrative Expenses (see page 40)		2,395,000
Total Other Investment Expenses		7,617,771
Total Investment Expenses		$ 57,392,612

Schedule of Payments to Consultants

SERS paid the following non-investment related consulting fees in fiscal year 2007:

Actuarial Advisors	$ 485,700
Audit Services	131,967
Legal Counsel	132,229
Medical Consultant	29,040
Information Technology Consultants	666,359
Health Care Consultants	153,138
Other Consultants	382,464
Disability Exams	482,387
Total	$ 2,463,284

See accompanying independent auditors' report.

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SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

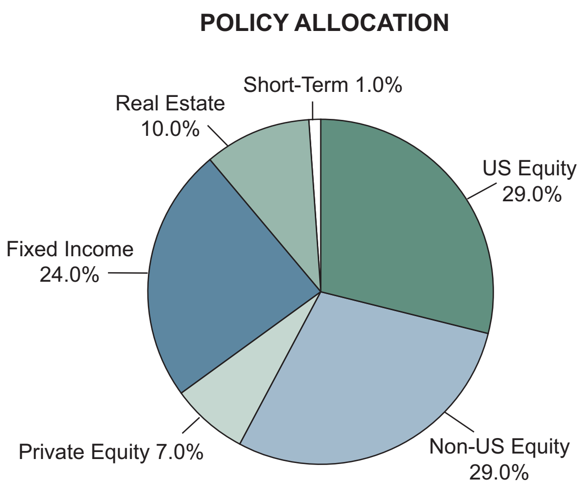
Investment Section

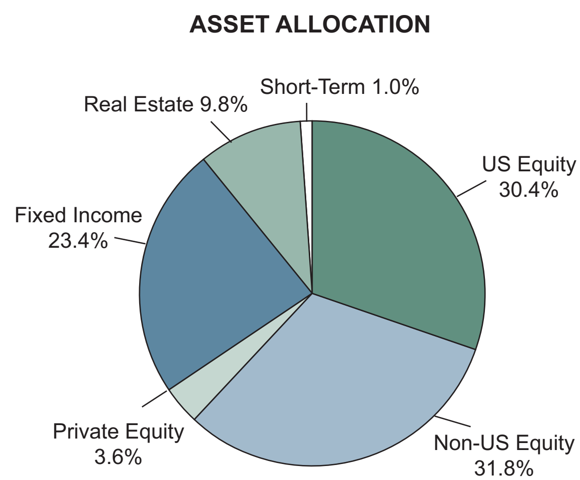
Investment Summary as of June 30, 2007

	Fair Value*	Actual	Target	Range
US Equity	$3,552,290,564	30.4%	29.0%	24% - 34%
Non-US Equity	3,710,190,644	31.8	29.0	24 - 34
Private Equity	418,464,248	3.6	7.0	0 - 10
Fixed Income	2,733,936,294	23.4	24.0	19 - 29
Real Estate	1,143,402,945	9.8	10.0	5 - 15
Short-Term	119,065,560	1.0	1.0	0 - 2
Net Portfolio Value	$11,677,350,255	100.0%	100.0%	

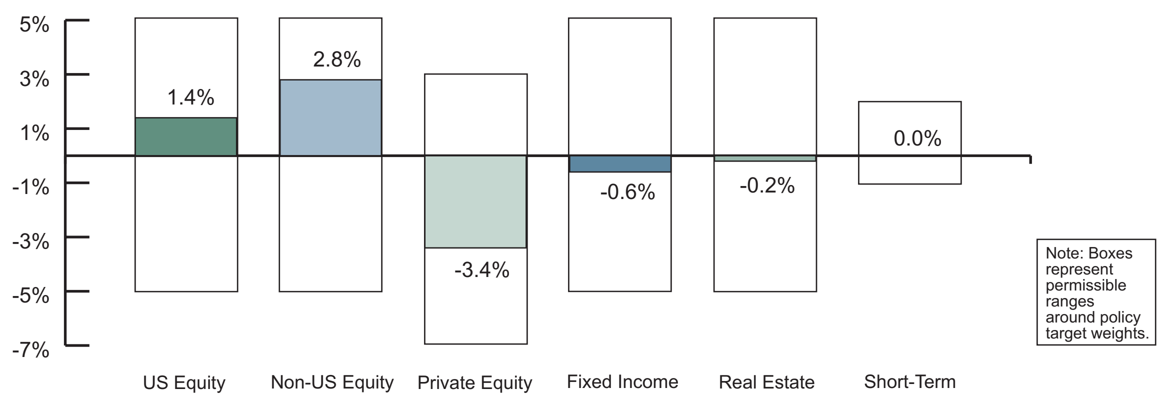
*See Reconciliation to Statement of Plan Net Assets on page 56.

Asset Allocation – Total Fund as of June 30, 2007





Asset Allocation vs. Policy



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

300 EAST BROAD ST., SUITE 100 • COLUMBUS, OHIO 43215-3746 • (614) 222-5853
Toll-Free 866-280-7377 • www.ohsers.org

JAMES R. WINFREE
Executive Director

LISA J. MORRIS
Deputy Executive Director

December 6, 2007

Retirement Board, Members, and Retirees of the Retirement System:

On behalf of the SERS Investment Department, I respectfully submit the Investment Section of the Comprehensive Annual Financial Report for the year ended June 30, 2007. Information in this section was compiled by our Investment Staff, SERS' Finance Department, and Mellon Analytical Solutions.

The Fund had strong returns again this fiscal year. Each asset class had double-digit returns except fixed income. Non-US equities and private equities had very strong returns of 34.3% and 22.5%, respectively. All asset classes contributed positively to the Total Fund return of 19.3% for the fiscal year.

In addition to the strong investment returns, the Investment Department remained very active during the fiscal year.

- The Board approved major changes in asset allocation targets for US equities, non-US equities, and private equities. Changes were implemented in June for the US and non-US equity portfolios.
- The Board approved hiring seven public markets managers.
- The Board approved dismissing eight US equity managers and one non-US equity manager.
- The Board committed funds to eight private equity partnerships.
- The Board committed funds to seven real estate funds.

Details about each asset class are included in the following pages.

Investment results provided by Mellon Analytical Solutions are based upon a time-weighted rate of return methodology.

SERS' investment portfolio is diversified by asset class and by manager style within each asset class. This disciplined investment approach should result in attractive long term returns. The Investment Staff appreciates the opportunity to work for the Retirement Board and SERS' members and retirees. We take the responsibilities of the job very seriously and work very hard to maintain the confidence and trust of the Board and SERS' members and retirees.

Respectfully,

Robert G. Cowman
Director of Investments

Investment Report

Chapter 3309 of the Ohio Revised Code and the Board-adopted Investment Policy govern investment activity at the School Employees Retirement System of Ohio (SERS). The Board is responsible for managing the assets of the Fund effectively, prudently, and for the exclusive benefit of its members and beneficiaries.

INVESTMENT POLICY

The purpose of SERS' Statement of Investment Policy is to define SERS' investment philosophy and objectives. The policy establishes return objectives and risk tolerances within which the Fund is to be managed. The policy also defines the responsibilities of the fiduciaries that implement the strategies and manage SERS' investment portfolio.

INVESTMENT OBJECTIVES

The primary objective of the investment portfolio is to achieve investment returns exceeding the return of our Policy benchmark within prudent risk parameters. On June 30, 2007, SERS' policy portfolio and its corresponding benchmark were as follows:

Asset Allocation	Benchmark
• 29% US Equities	Russell 3000 Index
• 29% Non-US Equities	MSCI-All Country World Ex-US Index 50% Hedged
• 7% Private Equity	S&P 500 Index + 3% (one quarter in arrears)
• 24% Fixed Income	Lehman Brothers Aggregate Bond Index
• 1% Short-Term	Citigroup 30-day US Treasury Bill Index
• 10% Real Estate	80% NCREIF Property Index (one quarter in arrears) & 20% NAREIT Equity Index

INVESTMENT STRATEGIES

Asset Allocation SERS' investment consultant, Summit Strategies Group, performed an asset liability study during calendar year 2006. Based on the results of that study and Summit's recommendation, SERS' Board adopted new asset allocation targets in February 2007. SERS' US equity allocation target was reduced from 46% to 29%; the non-US equity target was increased from 16% to 29%; the private equity target was increased from 3% to 7%; and the fixed income target was increased from 23% to 24%. The US equity, non-US equity, and fixed income portfolios were rebalanced in June to conform to the new targets. Private equity will be increased gradually over the next several years. Also included in the Board's new asset allocation is a provision to add hedge funds to the portfolios. The Board intends to hire a consultant to help in the selection of hedge fund managers. The addition of hedge funds to the portfolios will occur during the next fiscal year.

Diversification Broad diversification within an investment portfolio is used to control the level of risk and volatility within the portfolio. SERS has broadly diversified the assets within its portfolios, and the strategies used within each portfolio have also been diversified.

Besides the broad diversification of assets and strategies within SERS' portfolio, SERS also employs a diverse group of investment managers. The purpose of employing multiple managers within SERS' portfolio is to further reduce risk and volatility within the portfolio.

INVESTMENT PERFORMANCE

Long-Term Investment Performance Long-term performance continues to compare quite favorably with SERS' policy benchmark return. Ten-year performance for the period ended June 30, 2007, was a positive 8.6% which exceeded the 8.2% policy benchmark return. Three- and five-year returns for the fund were also ahead of the policy benchmark returns. Investment returns also exceeded SERS' actuarial rate of 8% over all periods.

The *Schedule of Investment Results* on the following page summarizes fund performance gross of fees versus benchmark performance for the total fund and each asset class over selected periods. The schedule also reports the total fund performance net of fees.

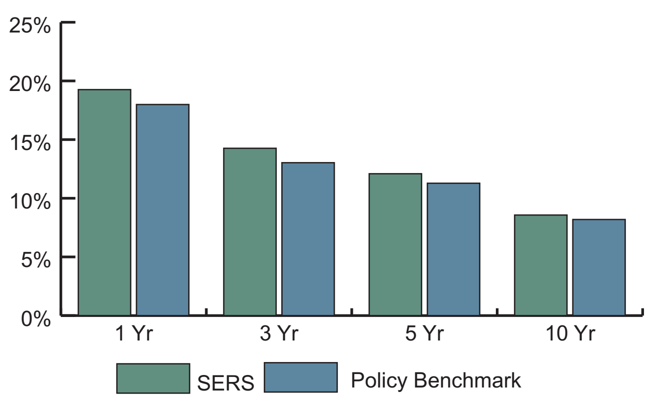
Fiscal Year 2007 Results Strong returns in the non-US equity and private equity portfolios, plus double digit returns in the US equity and real estate portfolios enabled SERS' total fund to return 19.3% for the fiscal year ended June 30, 2007. The 19.3% fund return exceeded the 18% policy benchmark return by 1.3%.

Schedule of Investment Results
for the years ended June 30 (Gross of Fees)

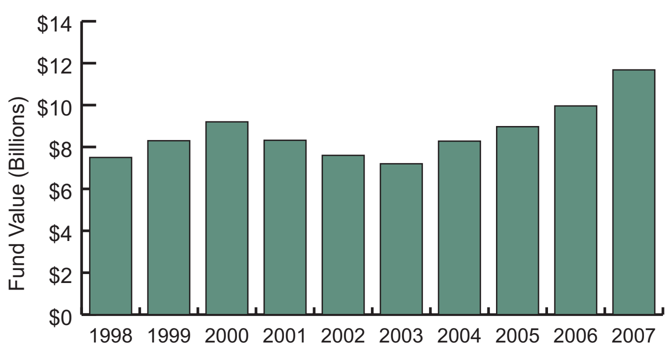
	2007	2006	2005	2004	2003	Annualized Rates of Return 3 Years	5 Years	10 Years
US Equity								
SERS[(1)]*	18.8 %	10.8 %	7.3%	21.4%	0.2 %	12.2 %	11.4 %	7.6 %
Russell 3000 Index	20.1	9.6	8.1	20.5	0.8	12.4	11.5	7.6
Non-US Equity								
SERS	34.3	30.4	19.3	27.6	(8.1)	27.9	19.6	9.7
Custom Non-US Equity Benchmark[(2)]*	29.6	27.8	16.9	27.8	(8.7)	24.6	17.7	8.7
Private Equity								
SERS[(3)]*	22.5	23.2	7.7	8.5	(18.0)	17.6	7.7	9.2
Custom Private Equity Benchmark[(4)]*	14.8	14.7	9.7	38.1	(21.8)	13.1	9.3	9.8
Fixed Income								
SERS	6.6	0.4	7.0	1.3	11.1	4.6	5.2	6.6
Lehman Brothers Aggregate Bond Index	6.1	(0.8)	6.8	0.3	10.4	4.0	4.5	6.0
Real Estate								
SERS[(5)]*	14.3	20.7	22.4	13.2	5.6	19.1	15.1	12.0
Custom Real Estate Benchmark[(6)]*	16.0	20.1	19.2	13.2	6.6	18.4	14.9	13.5
Short-Term								
SERS[(7)]*	5.5	4.4	2.4	1.0	1.3	4.1	2.9	4.2
Citigroup 30-Day Treasury Bill Index	5.0	4.0	2.0	0.9	1.4	3.6	2.6	3.5
Total Fund (Gross of Fees)								
SERS[(8)]*	19.3	13.2	10.5	16.5	1.8	14.3	12.1	8.6
Policy Benchmark[(9)]*	18.0	11.0	10.3	16.1	1.7	13.0	11.3	8.2
Total Fund (Net of Fees)								
SERS[(8)]*	18.7	12.7	10.1	16.2	1.4	13.8	11.7	8.2
Policy Benchmark[(9)]*	18.0	11.0	10.3	16.1	1.7	13.0	11.3	8.2

Source: Mellon Analytical Solutions
Investment results provided by Mellon Analytical Solutions are based upon a time-weighted rate of return methodology.
*See footnotes to schedule on page 56.

Total Fund Rates of Return vs Policy Benchmark



Total Fund at Fair Value



US Equity

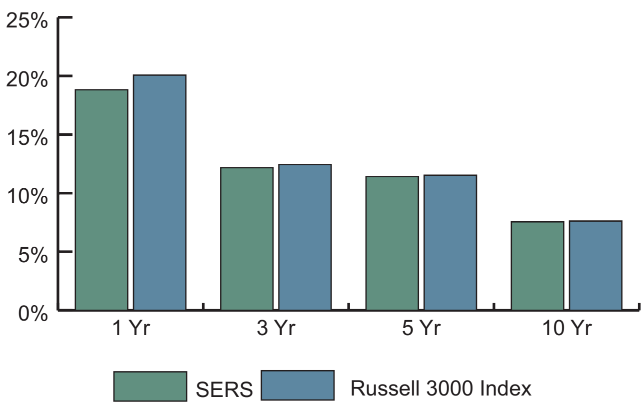
For the fiscal year ended June 30, 2007 SERS' US equity portfolio returned 18.82%, nearly doubling the previous fiscal year's return of 10.76%, but underperforming the benchmark Russell 3000 Index by 1.25%. Fiscal year performance has pulled longer-term average performance down. As a result, SERS' US equity portfolio has underperformed its benchmark on an annualized basis over the past three years by 0.27%, and over the past five years by 0.12%. Over the past ten years, the US equity portfolio has performed almost in line with its benchmark, earning 7.55% on an annualized basis versus the Russell 3000 Index's 7.62%.

The US stock market rose 20.07% this fiscal year compared to 9.56% one year ago. The US stock market rallied in the second half of calendar year (CY) 2006. However, a growing level of defaults in the subprime loan market raised concerns about a potential tightening of liquidity early in CY 2007. Volatility returned to the market and the US stock market experienced its worst single day sell-off in nearly four years on February 27. Nonetheless, the US stock market – as measured by the Russell 3000 Index – still managed to end the first quarter of CY 2007 in positive territory earning 1.30%. In the second quarter of CY 2007, stock prices moved up sharply before settling back somewhat in June.

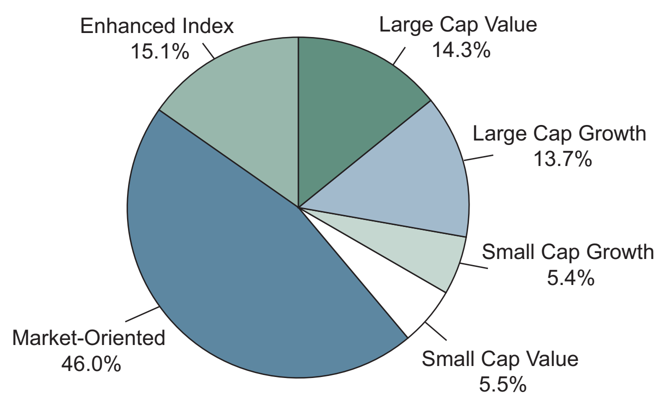
Large capitalization stocks outperformed small capitalization stocks by 4.00% in the fiscal year, reversing a trend that has persisted over recent years; but value continued its dominance by outperforming growth by 2.50%.

Two enhanced index managers were approved and funded during the fiscal year. Staff and the Board's new investment consultant evaluated the US equity portfolio and developed a plan of action that was mutually agreed upon and approved by the Board. The portfolio was restructured during implementation of the new asset mix. The reduction in the US equity allocation from 46% to 29% and the restructuring of the US equity portfolio resulted in the termination of eight accounts and the hiring of one new US large cap growth manager.

US EQUITY RETURNS



US EQUITY ALLOCATIONS



LARGEST INDIVIDUAL US EQUITY HOLDINGS AS OF JUNE 30, 2007

	Description	Shares	Market Price	Fair Value
1	Exxon Mobil Corp.	893,022	$83.88	$74,906,685
2	General Electric Co.	1,449,870	38.28	55,501,024
3	Citigroup, Inc.	940,682	51.29	48,247,580
4	Procter & Gamble Co.	720,211	61.19	44,069,711
5	AT&T, Inc.	961,389	41.50	39,897,644
6	Microsoft Corp.	1,349,000	29.47	39,755,030
7	Pfizer, Inc.	1,413,788	25.57	36,150,559
8	Chevron Corp.	424,621	84.24	35,770,073
9	JP Morgan Chase & Co.	692,215	48.45	33,537,817
10	Google, Inc.	59,500	522.70	31,100,650

All monetary values stated in US dollars.
A complete listing of holdings is available upon request.

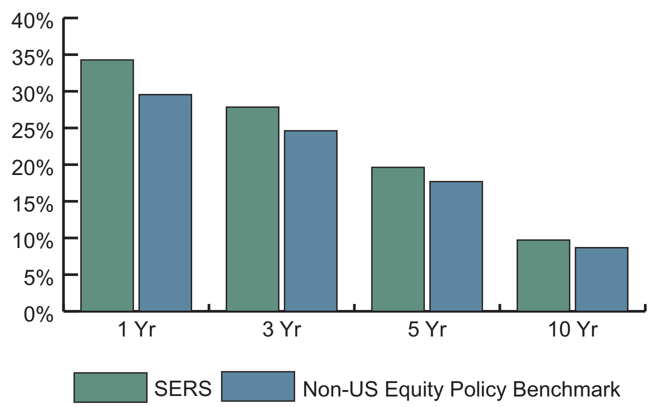
Non-US Equity

For the fiscal year ended June 30, 2007, SERS' non-US equity portfolio returned 34.28%, outperforming its policy benchmark (MSCI All Country World Excluding the US Index with developed countries 50% hedged) by 4.73%. On an annualized basis, the SERS non-US equity portfolio outperformed its benchmark by 3.23% over the past three years, by 1.94% over the past five years, and by 1.04% over the past ten years.

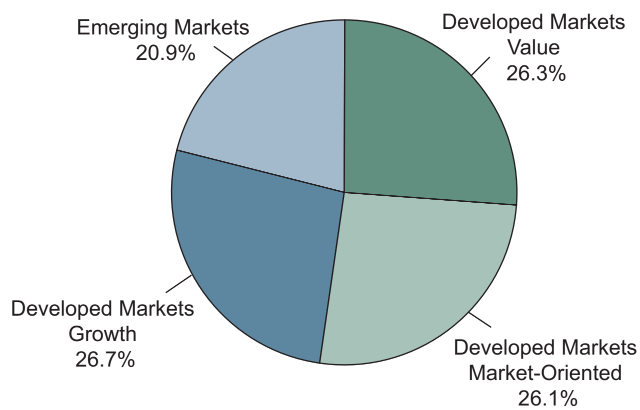
Non-US stocks bounced back in the third quarter of CY 2006 with strong gains in continental Europe somewhat offset by weak results in Japan. Europe continued to lead Non-US markets in the fourth quarter. Corporate restructuring, expansion into new markets especially Central and Eastern Europe, and strong exports boosted European corporate profitability. Emerging markets ended another year with strong gains. Similar to the US market, overseas equity markets experienced significant volatility during the first quarter of CY 2007. The return of volatility in part was the result of the unwinding of the "yen-carry trade" in which participants borrow a low yielding currency (in this case the Japanese yen) and convert it into a high yielding currency (the US dollar). In spite of several recurring worries (e.g., US subprime lending, the hint of inflation, and the exuberant Chinese stock market), relatively good economic data and plentiful liquidity allowed Non-US markets to finish the fiscal year with robust returns.

Two active currency managers began working for SERS during the fiscal year. In addition to funding two emerging markets growth managers, SERS funded a frontier markets account. As part of the new asset mix implementation, one international small cap manager was terminated and an international small cap value and an international micro cap manager were hired. The new asset mix policy increased the allocation to non-US equity from 16% to 29%.

NON-US EQUITY RETURNS



NON-US EQUITY ALLOCATIONS



LARGEST INDIVIDUAL NON-US EQUITY HOLDINGS AS OF JUNE 30, 2007

	Description	Country	Shares*	Market Price	Fair Value
1	Vodafone Group PLC	United Kingdom	9,675,782	$3.37	$32,575,017
2	Total SA	France	381,325	81.38	31,033,785
3	BP PLC	United Kingdom	2,254,770	12.10	27,278,858
4	Novartis AG	Switzerland	464,335	56.30	26,141,562
5	Bayer AG	Germany	292,672	75.77	22,174,542
6	Glaxosmithkline PLC	United Kingdom	838,585	26.18	21,956,547
7	Toyota Motor Corp.	Japan	343,615	63.16	21,702,873
8	Royal Bank of Scotland Group PLC	United Kingdom	1,704,517	12.70	21,647,695
9	Societe Generale	France	114,685	185.74	21,301,660
10	ING Groep N.V.	Netherlands	478,722	44.28	21,199,998

All monetary values are stated in US dollars.
A complete listing of holdings is available upon request.
**Includes shares owned directly and indirectly via commingled funds.*

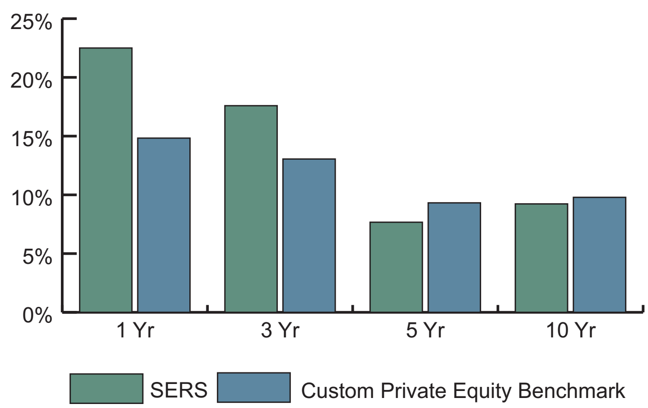
Global Private Equity

Global private equity consists of investments in venture capital limited partnerships, buyout limited partnerships, special situations limited partnerships, and other "non-public" investments in the US and outside the US. Private equity also includes investments in fund-of-funds, which invest in a diversified portfolio of venture capital and buyout limited partnerships, as well as additional public and non-public investments.

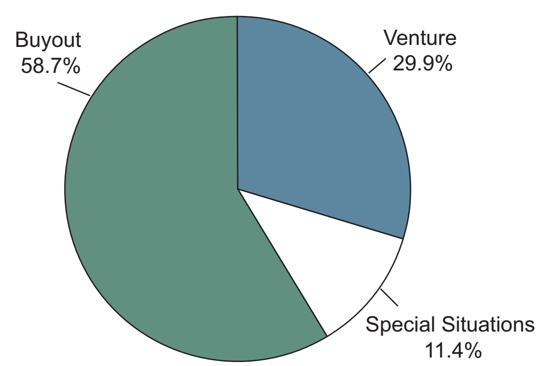
As of June 30, 2007, the market value of SERS' private equity portfolio was $418.5 million, or 3.6% of the total fund. Unfunded commitments to private equity partnerships totaled $784.5 million at fiscal year end. Over the past fiscal year, SERS closed on commitments to eight private equity partnerships totaling $355 million. Approximately $275 million was committed to buyout funds and $80 million to special situations funds. In February 2007, SERS' Board approved an increase in the allocation target to global private equity from 3% to 7%, and as a result the private equity portfolio will continue to grow for the next few years.

During the fiscal year, SERS' private equity portfolio had an investment return of 22.5% versus the custom benchmark return of 14.8%. For the three-, five- and ten-year periods, the private equity portfolio returned 17.6%, 7.7%, and 9.2% respectively. Private equity returns are reported one quarter in arrears.

GLOBAL PRIVATE EQUITY RETURNS



ALLOCATION BY STRATEGY



LARGEST INDIVIDUAL GLOBAL PRIVATE EQUITY HOLDINGS AS OF JUNE 30, 2007

	Description	Fair Value
1	GS Private Equity Partners 2002-Manager Fund, LP	$ 23,861,587
2	Horsley Bridge VII, LP	22,533,860
3	Thomas H. Lee Equity Fund VI, LP	21,413,018
4	Kohlberg Investors V, LP	21,068,289
5	J.P. Morgan European Pooled Corporate Finance Institutional Investors Fund II, LLC	19,581,597
6	The Peppertree Fund, LP	19,427,174
7	Horsley Bridge International Fund II, LP	19,273,247
8	GS Distressed Opportunities Fund III, LP	19,166,275
9	Odyssey Investment Partners Fund III, LP	18,740,153
10	Swander Pace Capital Partners III, LP	18,361,234

All monetary values are stated in US dollars.
A complete listing of holdings is available upon request.

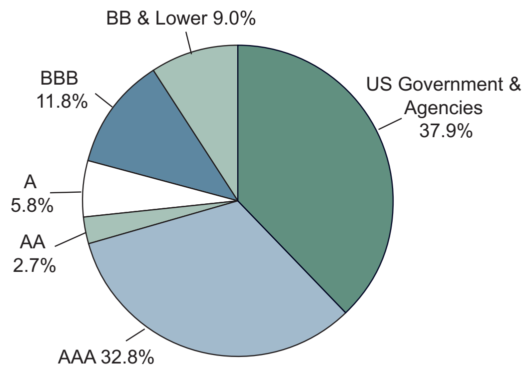
Global Fixed Income

SERS' fixed income portfolio is comprised principally of low-risk, high-quality debt securities. The portfolio is managed by a diverse group of top-tier active bond managers employing proven investment strategies to help SERS meet its goals and objectives.

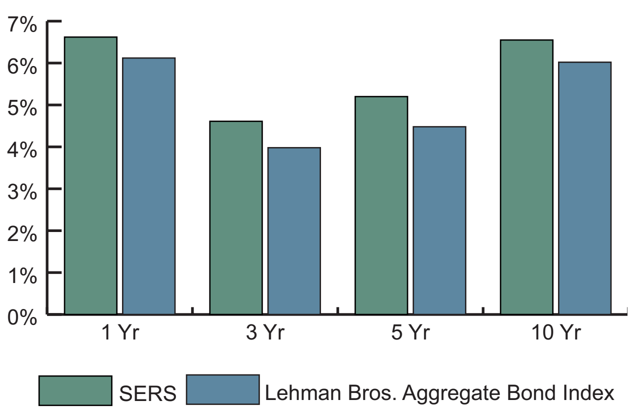
For the fiscal year ended June 30, 2007, SERS' fixed income portfolio outperformed the benchmark Lehman Brothers Aggregate Bond Index by 50 basis points, returning 6.62% against the index return of 6.12%. SERS' fixed income managers strategically underweighted government bonds (treasuries and agencies) and mortgage-backed securities, and slightly overweighted corporate bonds and commercial mortgages. The portfolio maintained an average Moody quality rating of AA2.

The Federal Reserve kept the federal funds rate steady at 5.25% during their eight meetings this fiscal year. The yield curve remained fairly constant during the year with the spread between three-month and 30-year treasuries at 30 basis points for year-end. SERS' investment managers collectively kept duration stable from the prior fiscal year at 3.76 years. High yield and emerging market debt provided an additional 5.3% to 5.5% return over the Lehman Aggregate, but these extended sectors began a retreat in June 2007 as subprime news spread.

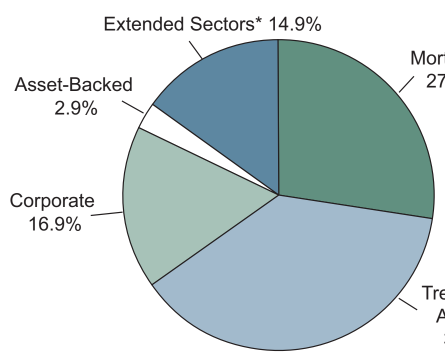
QUALITY DISTRIBUTION



GLOBAL FIXED INCOME RETURNS



SECTOR DISTRIBUTION



*High yield (rated BB and lower) corporate issues are included in Extended Sectors.

LARGEST INDIVIDUAL GLOBAL FIXED INCOME HOLDINGS AS OF JUNE 30, 2007

	Description	Rating	Shares/ Par Value	Market Price	Fair Value
1	Western Asset Mgmt. Mortgage Backed Securities Portfolio	AAA	43,966,445	$11.03	$ 484,861,958
2	Wellington Trust Co. Core Bond Plus/MBS Pool	AAA	9,229,001	11.73	108,256,178
3	US Treasury Notes 4.5% 04/30/2009	AAA	62,038,000	99.35	61,634,753
4	US Treasury Notes 4.5% 04/30/2012	AAA	49,228,000	99.17	48,327,128
5	US Treasury Notes 4.5% 05/15/2017	AAA	49,746,000	95.91	47,711,389
6	Western Asset Mgmt. Opportunistic International Investment Grade Portfolio	AAA	2,351,856	20.00	47,048,884
7	Western Asset Mgmt. Opportunistic US Dollar High Yield Portfolio	B+	1,882,617	16.42	30,908,798
8	FNMA TBA 6.0% 07/01/2037	AAA	30,773,826	98.90	30,437,223
9	US Treasury Notes 4.5% 05/15/2010	AAA	27,139,000	98.98	26,862,182
10	FNMA Pool #0888379 VRN 12/01/2036	AAA	26,878,437	99.32	26,696,738

All monetary values are stated in US dollars.
A complete listing of holdings is available upon request.

Global Real Estate

SERS invests in real estate to provide stable long-term rates of returns and to diversify its assets in order to reduce total fund volatility. SERS' global real estate portfolio consists primarily of investments in office buildings, shopping centers, apartment communities, and industrial facilities in the US and outside the US; the portfolio also includes shares of publicly traded real estate investment trusts (REITs).

SERS' target allocation to real estate is 10% of the total fund with a range of +/-5%. As of June 30, 2007, the real estate portfolio was $1.1 billion, or 9.8% of the total fund. Unfunded commitments to real estate funds totaled $407.6 million at fiscal year end. During the past fiscal year, SERS made commitments to seven real estate funds totaling approximately $279.0 million. The new commitments targeted value added and opportunistic strategies in the US, UK, and continental Europe.

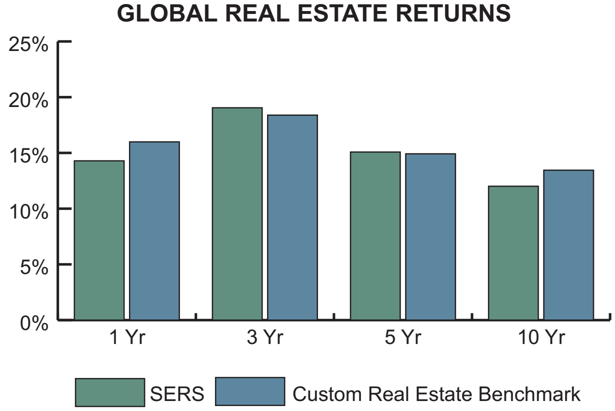
Globally, private market real estate remained an attractive investment alternative to other asset classes in fiscal year 2007, which kept investor demand high. Property fundamentals such as occupancy and rental rates remained strong across all sectors and regions. Construction levels increased slightly but remained in check due to higher constructions costs. Growth markets, especially coastal US and Asia, continued to attract the most attention and capital from investors during the period.

Despite strong property fundamentals, REITs experienced substantial volatility during the second half of the fiscal year due to economic and interest rate concerns. REIT indices hit all time highs in early February then suffered four months of declines. Public to private transactions continued during the fiscal year as more US REITs realized the underlying value of their real estate holdings by selling to private real estate managers. International REITs continue to grow in number and market capitalization across Europe and Asia.

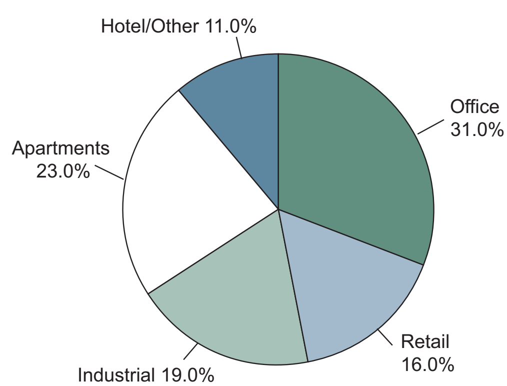
For fiscal year 2007, private real estate assets as measured by the NCREIF Property Index (one quarter in arrears) returned 16.60%. The hotel sector posted the highest return for the period at 23.16%. The four remaining sectors of the NCREIF Property Index, which include retail, office, industrial, and apartment, posted double-digit returns for fiscal year 2007. On the public side, REITs, as measured by the NAREIT Equity Index, returned 12.57% during the fiscal year.

During the fiscal year, SERS' real estate portfolio produced a total return of 14.29% versus the custom real estate benchmark return of 15.99%. For three-, five-, and ten-year periods, the real estate portfolio produced returns of 19.05%, 15.08%, and 12.01% respectively. All returns, except REITs, are reported one quarter in arrears.

GLOBAL REAL ESTATE RETURNS



PROPERTY TYPE DIVERSIFICATION

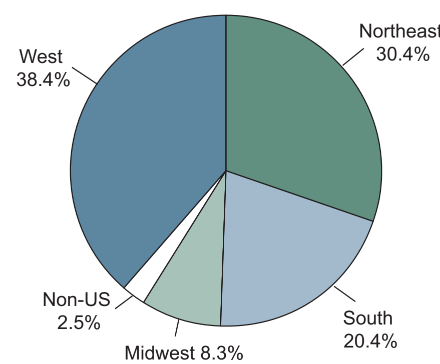


LARGEST INDIVIDUAL GLOBAL REAL ESTATE HOLDINGS AS OF JUNE 30, 2007

	Description	Fund Fair Value
1	J.P. Morgan Strategic Property Fund	$146,549,206
2	ING Clarion Lion Properties Fund	135,718,567
3	RREEF America II	125,204,446
4	UBS Realty Separate Account	117,208,629
5	Prudential RISA II	70,333,921
6	Prudential RISA	69,151,564
7	Blackrock Strategic Apartment Fund	64,879,017
8	ING Clarion Lion Industrial Trust	61,290,448
9	Invesco Realty	30,239,482
10	CB Richard Ellis Strategic Partners III	28,304,459

All monetary values are stated in US dollars.
A complete listing of holdings is available upon request.

REGIONAL DIVERSIFICATION



Investment Consultant & Investment Managers

Investment Consultant
Summit Strategies Group

Investment Managers – US Equity
Aronson + Johnson + Ortiz
Delaware Investments
DePrince, Race and Zollo
Duncan-Hurst Capital Management, Inc.
Enhanced Investment Technologies (INTECH)
Goldman Sachs & Co.
Jacobs Levy Equity Management
Lord, Abbett & Co.
PENN Capital Management
State Street Global Advisors
Western Asset Management Company

Investment Managers – Non-US Equity
Acadian International
AllianceBernstein
Arrowstreet Capital
AXA Rosenberg Investment Management
Dimensional Fund Advisors
GlobeFlex Capital, L.P.
Julius Baer Investment Management
LSV Asset Management
McKinley Capital Management, Inc.
Mondrian Investment Group, Inc.
Morgan Stanley Investment Management Limited
Pictet International Management Limited
Scottish Widows Investment Management
State Street Global Advisors
TT International Advisors, Inc.
Walter Scott & Partners, Limited

Investment Manager – Futures
Frank Russell Securities

Investment Managers – Foreign Currency
Goldman Sachs International
Pareto Investment Management Limited
State Street Global Advisors

Investment Managers – Private Equity
Alpha Capital Partners
Blue Chip Venture Company
Blue Point Capital Partners
Brantley Partners
CID Equity Partners
Cinven Limited
Coller Capital
Evergreen Pacific Partners
FdG Associates
FS Equity Partners
Goldman Sachs & Co.
Graham Partners, Inc.
Horsley Bridge Partners
J.P. Morgan Investment Management, Inc.
Kohlberg & Company
Leonard Green & Partners
Linsalata Capital Partners
Mason Wells Private Equity
Morgenthaler Venture Partners
Oydessy Investment Partners
Peppertree Partners
Performance Equity Management
Primus Venture Partners
Providence Equity Partners Inc.
Quantum Energy Partners
Silver Lake Partners
Swander Pace Capital Partners
Thomas H. Lee Partners
Transportation Resource Partners

Distribution Manager – T. Rowe Price

Investment Managers – Fixed Income
Dodge & Cox, Inc.
Goldman Sachs & Co.
Johnson Investment Counsel, Inc.
Wellington Management Company
Western Asset Management Company

Investment Managers – Real Estate
AEW Capital Management
Beacon Capital Partners
BlackRock Realty
The Carlyle Group
CB Richard Ellis Investors
Colony Capital
Fillmore Capital Partners
ING Clarion Real Estate
INVESCO Realty Advisors
J.P. Morgan Investment Management, Inc.
K.G. Redding & Associates
Koll Bren Schreiber Realty Advisors
Madison Marquette
Prudential Real Estate Investors
Rockspring Property Investment Managers
RREEF Real Estate Investment Managers
UBS Realty Investors
Urdang Securities Management

Master Custodians
Huntington National Bank
State Street Corporation

Master Recordkeeper
Mellon Global Security Services

Investment Analytics
Mellon Analytical Solutions

Summary Schedule of Brokers' Fees for US Equity Transactions for the year ended June 30, 2007

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share
Investment Technology Group, Inc.	$ 254,718	34,491,823	$ 0.007
Merrill Lynch, Pierce, Fenner & Smith, Inc.	183,902	7,975,727	0.023
Instinet Clearing Services, Inc.	180,316	10,718,021	0.017
Liquidnet, Inc.	141,725	7,139,253	0.020
Bear Stearns and Co., Inc.	123,934	2,985,268	0.042
Lehman Brothers, Inc.	116,424	7,798,759	0.015
Credit Suisse Securities, LLC	101,274	13,171,341	0.008
Jefferies and Co., Inc.	97,430	2,661,021	0.037
Goldman, Sachs and Co.	94,226	6,811,682	0.014
Morgan Stanley and Co., Inc.	93,226	6,303,164	0.015
Cantor Fitzgerald and Co., Inc.	77,848	2,804,313	0.028
UBS Securities, LLC	75,620	2,613,030	0.029
Banc of America Securities, Inc.	64,361	1,853,861	0.035
Prudential Equity Group	56,970	1,413,111	0.040
CitiGroup Global Markets, Inc.	55,775	2,385,958	0.023
Deutsche Bank Securities, LLC	46,255	3,143,441	0.015
B-Trade Services, LLC	42,461	2,206,497	0.019
Weeden and Co.	41,012	2,044,410	0.020
Jones and Associates, Inc.	38,783	1,216,355	0.032
Bank of New York	38,696	2,161,283	0.018
BNY ConvergEx Group, LLC	33,061	875,045	0.038
Raymond, James and Associates, Inc.	32,091	755,890	0.042
Fidelity Capital Markets	29,161	1,640,545	0.018
Wachovia Securities, LLC	27,654	753,342	0.037
J.P. Morgan Securities, Inc.	23,901	739,726	0.032
Stifel Nicolaus Co.	23,738	515,689	0.046
Citation Group	20,214	416,955	0.048
La Branche Financial	19,352	905,400	0.021
RBC Dain Rauscher	17,696	439,062	0.040
Friedman Billings & Ramsey	16,886	376,280	0.045
Rosenblatt Securities, Inc.	16,448	822,400	0.020
CIBC World Markets Corp.	16,313	1,178,769	0.014
Knight Capital Group, Inc.	15,598	644,710	0.024
Guzman and Co.	15,551	770,600	0.020
National Financial Services, LLC	14,719	751,504	0.020
A.G. Edwards	14,468	304,470	0.048
Green Street Advisors, Inc.	13,593	265,745	0.051
Keefe, Bruyette and Woods, Inc.	12,640	294,643	0.043
JonesTrading Institutional Services, LLC	12,139	432,376	0.028
Sanford C. Bernstein and Co., LLC	11,386	339,675	0.034
Merriman Curhan Ford and Co.	11,190	347,211	0.032
Avian Securities, Inc.	11,134	556,700	0.020
Needham and Co.	11,128	337,000	0.033
Brokers with less than $11,000 (140)	357,250	12,355,353	0.029
Total US	$ 2,702,267	148,717,408	$ 0.018

Summary Schedule of Brokers' Fees for Non-US Equity Transactions for the year ended June 30, 2007

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share
State Street Bank and Trust Co.	$ 376,097	82,680,752	$ 0.005
Merrill Lynch, Pierce, Fenner & Smith, Inc.	267,864	14,606,839	0.018
Credit Suisse Securities, LLC	180,892	230,623,509	0.001
CitiGroup Global Markets, Inc.	166,734	87,796,178	0.002
Pershing Securities Ltd.	158,755	5,344,839	0.030
UBS Securities, LLC	138,535	12,373,671	0.011
Societe Generale Securities, LLC	136,367	17,422,001	0.008
Goldman, Sachs and Co.	133,511	43,613,055	0.003
Bear Stearns and Co., Inc.	125,352	20,100,095	0.006
J.P. Morgan Securities, Inc.	116,968	16,271,848	0.007
Credit Lyonnais Securities, Inc.	114,951	96,277,413	0.001
Morgan Stanley and Co., Inc.	97,210	13,239,352	0.007
Deutsche Bank Securities, Inc.	87,491	7,825,855	0.011
Nomura Securities International, Inc.	74,200	16,138,023	0.005
MacQuarie Securities Ltd.	57,557	5,813,107	0.010
Investment Technology Group, Inc.	42,206	7,069,318	0.006
Lehman Brothers, Inc.	39,532	2,516,437	0.016
ABN Amro Securities, Inc.	30,620	9,540,535	0.003
Daiwa Securities Co., Ltd.	30,051	1,205,262	0.025
KBC Financial Products Ltd.	29,313	1,542,679	0.019
Credit Agricole Securities, Inc.	21,818	353,054	0.062
Brockhouse and Cooper, Inc.	20,093	1,006,119	0.020
ING Bank NV	19,465	14,719,208	0.001
Agora Corde Titul e Val Mob	18,251	109,022,549	0.000
Cazenove and Co., Ltd.	15,784	716,549	0.022
Landsbanki Kepler	15,267	323,468	0.047
Exane SA	14,694	384,448	0.038
GMP Securities, Ltd.	14,184	599,450	0.024
Kleinwort Benson Securities Ltd.	13,578	640,519	0.021
HSBC Securities, Inc.	12,617	860,695	0.015
Cantor Fitzgerald and Co., Inc.	12,473	711,060	0.018
G Trade Services Ltd.	12,341	3,181,542	0.004
Jefferies and Co., Inc.	12,240	740,597	0.017
Instinet Clearing Services, Inc.	11,561	651,876	0.018
ABG Sundal Collier Norge Ltd.	9,213	407,408	0.023
Sanford C. Bernstein and Co., LLC	9,035	221,896	0.041
Samsung Securities Co., Ltd.	8,853	167,411	0.053
Probursa Casa de Bolsa SA	8,836	2,038,866	0.004
Mizuho Securities Co., Ltd.	8,407	377,322	0.022
BNP Paribas SA	8,302	1,310,456	0.006
Salomon Brothers, Inc.	7,074	232,864	0.030
Euroclearbank S.A	6,604	593,063	0.011
National Securities Corp.	6,596	5,772,615	0.001
Brokers less than $6,590 (93)	139,943	207,782,499	0.001
Total non-US	$ 2,831,435	1,044,816,302	$ 0.003

INVESTMENT SECTION

Investment Notes

Investment Summary

Portfolio Type	Fair Value	% of Total Fair Value
US Equity	$ 3,552,290,564	30.4%
Non-US Equity	3,710,190,644	31.8
Private Equity	418,464,248	3.6
Fixed Income	2,733,936,294	23.4
Real Estate	1,143,402,945	9.8
Short-Term	119,065,560	1.0
Net Portfolio Value	$11,677,350,255	100.0%

Reconciliation to Statement of Plan Net Assets	
Net Portfolio Value	$11,677,350,255
Accrued Income and Expenses	486,076
Accounts receivable, securities sold	(224,617,807)
Accounts payable, securities purchased	321,785,639
Fair market value	88,999,625
Cash and cash equivalents	(385,083,795)
Investments per Statement of Plan Net Assets	$11,478,919,993

Investment Results

FOOTNOTES TO INVESTMENT RESULTS SCHEDULE ON PAGE 47:

(1) The US equity composite includes cash equitization as of November 1998. Prior to October 1994, the US equity benchmark was the S&P 500 Index.

(2) From inception to 7/97 - 100% MSCI EAFE (50% hedged); 8/97 to 6/99 - 96.7% MSCI EAFE (50% hedged) and 3.3% MSCI EMF; 7/99 to 12/99 - 93.3% MSCI EAFE (50% hedged) and 6.7% MSCI EMF; 1/00 to current - 100% MSCI ACWF ex-US (developed markets 50% hedged).

(3) Private equity returns are reported one quarter in arrears beginning with quarter ended June 30, 2002, and do not reflect the adjustment to fair market value. To implement quarter in arrears reporting, the returns for private equity were recorded as zero for the quarter ended June 30, 2002.

(4) From inception to December 1999, custom private equity benchmark consists of S&P 500 Index plus 500 basis points annualized. From January 2000 through the current period, the custom private equity benchmark consists of S&P 500 Index plus 300 basis points annualized. The custom benchmark is reported one quarter in arrears from June 30, 2002 through the current period. The methodology change results in a 0% return for the quarter ended June 30, 2002.

(5) The Real Estate composite returns are reported one quarter in arrears beginning with the quarter ended June 30, 2002, and do not reflect the adjustment to fair market value. To implement quarter in arrears reporting, the returns for private real estate assets were recorded as zero for the quarter ended June 30, 2002. Public Real Estate returns are reported in the current quarter.

(6) From inception to June 2002, benchmark consisted of 100% NCREIF Property Index. Starting in July 2002, the benchmark consists of 80% NCREIF Property Index (one quarter in arrears) and 20% NAREIT Index.

(7) For fiscal year 2001, the Short-Term return was impacted by cash flows from different asset classes in addition to overnight investments.

(8) The composite includes net of fee Global Real Estate and Global Private Equity history prior to July 1, 1999. Real Estate and Private Equity classes are reported one quarter in arrears beginning with the quarter ended June 30, 2002. The total fund is impacted beginning June 30, 2002 with Real Estate and Private Equity March 31, 2002 market values and also with flows for the quarter ended June 30, 2002.

(9) On 5/31/07, the SERS benchmark was changed to 29% Russell 3000, 29% MSCI AC World Free ex-US Index (50% developed markets hedged), 24% Lehman Brothers Aggregate Index, 10% SERS Real Estate Custom Benchmark, 7% S&P 500 Index + 300 bps, and 1% Citigroup 30 Day T-Bill Index. Prior to May 31, 2007, the SERS Policy Benchmark consisted of 46% Russell 3000 Index, 16% MSCI AC World Free ex-US Index (50% developed markets hedged), 23% Lehman Brothers Aggregate Index, 10% SERS Real Estate Custom Benchmark, 3% S&P 500 Index + 300 bps, 2% Citigroup 30 Day T-Bill Index. For the quarter ended June 30, 2002, Private Equity Benchmark (one quarter in arrears) reflects a 0% return.

Statement of Investment Policy

Purpose

The purpose of this Statement of Investment Policy (Statement) is to define the Retirement Board's investment philosophy and objectives for the School Employees Retirement System (SERS). This Statement sets forth policies and describes the organization and division of responsibilities to prudently implement the Board's philosophy and objectives in accordance with Chapter 3309 of the Ohio Revised Code. It also establishes the framework and specific objectives to monitor investment performance and proxy voting, and to promote effective communication between the Board, the Investment Staff, and Investment Managers.

The contents of this Statement are subject to change at any time by the Board. The Statement will be reviewed and revised periodically to assure that it continues to reflect the philosophies, expectations and objectives of the Board.

Background

SERS was established to provide retirement and disability benefits for all non-certificate holding persons employed by Ohio's school districts. This purpose is funded by the member and employer contributions and returns realized from investment of those contributions.

A nine-member board governs the System with responsibility for the investment function as set forth in the Ohio Revised Code. In addition to the investment function, the Ohio Revised Code also sets forth the fiduciary responsibility of the Board and of other fiduciaries in discharging their duties with respect to the fund. This Statement incorporates and is subject to all restrictions, guidelines and obligations set forth by the Ohio Revised Code.

The System invests over the long term. SERS' time horizon is assumed to be 30 years.

I. INVESTMENT OBJECTIVE, RISK MANAGEMENT AND IMPLEMENTATION APPROACH

A. Investment Objective

The Board realizes that its primary objective is to assure that SERS meets its responsibilities first to provide statutorily mandated retirement benefits and then to provide other permissive benefits as authorized by the Board. In defining investment objectives the Board seeks to enhance the investment returns of the fund in order to permit higher benefits while minimizing the costs to administer the fund and manage the investments. Thus, the fund should earn over the long-term a total fund return that equals or exceeds the actuarial discount rate approved by the Board when setting SERS' funding policy. The Board believes the investment policies summarized in this Statement will achieve this objective at an acceptable level of risk. The Board evaluates risk in terms of the probability of not earning the actuarial discount rate over a 30-year time horizon.

B. Risk Management

The Board believes that over the long term there is a positive correlation between the level of investment risk taken and rates of investment return realized. The Board further believes that the assumption of a moderate level of risk associated with investments is reasonable and justified in order to enhance potential long term investment results. The Board shall always act to assure that the level of investment risk in the portfolio shall be prudent and shall not jeopardize the primary objective to first provide statutorily mandated retirement benefits and then to provide other permissive benefits as authorized by the Board.

Diversification by asset class, by investment approach and by individual investments within each asset class will be employed to reduce overall portfolio risk and volatility.

C. Implementation Approach

In order to monitor and control the activities within the investment function, the Board has reserved certain responsibilities for itself. It has also delegated certain responsibilities to the Executive Director, to the Investment Staff, to Investment Managers, to consultants or other entities providing investment services to SERS. These responsibilities are described in this Statement.

In fulfilling its fiduciary duties, the Board utilizes a competent and qualified Investment Staff. Investment Staff is assigned, among other duties, oversight of professional external Investment Managers. The Board authorizes the Investment Staff to direct funds in accordance with this Statement. Investment Managers are selected for their expertise to manage certain portions of SERS' portfolio.

The Board requires regular reporting on the fund's investments in order to assure proper compliance with the Board's policies.

II. INVESTMENT ORGANIZATION AND RESPONSIBILITIES

A. Responsibilities of the Board

The Board recognizes its responsibility to ensure that the assets of SERS are managed effectively and prudently, in full compliance with all applicable laws and Board policies, guidelines and objectives; and for the exclusive benefit of participants and beneficiaries. The Board believes it can best manage those responsibilities by delegating certain specific duties to others, as described below. In addition, the Board may designate certain Board members to act as a Subcommittee from time to time, and may delegate certain decision making or fact finding responsibilities to that subcommittee.

Specific responsibilities of the Retirement Board or its Subcommittee are as follows:

1. Establish controls and systems to ensure that fiduciaries comply with all applicable laws.
2. Establish asset allocations, investment policies, guidelines and objectives for the assets of SERS and communicate them to the Investment Staff and Investment Managers.
3. Appoint and discharge those with responsibility for managing SERS' assets, including Investment Managers, Investment Consultants, Executive Director and any others involved.
4. Approve the list of qualified Investment Managers who shall be known as Approved Investment Managers.
5. Monitor and review the investment performance of SERS to determine achievement of objectives and compliance with this Statement and applicable laws.
6. Establish a proxy policy; and review proxy governance issues with Investment Staff at least annually.
7. Request, receive and review reports from the Investment Staff, Investment Consultant or when applicable from other investment entities.
8. Review and approve the Annual Investment Plan including the policy with the goal to increase utilization of Ohio-qualified investment managers and agents. In addition the Board must approve any intra-year changes to the Annual Investment Plan.

B. Responsibilities of the Staff

The Staff shall administer the assets of SERS in accordance with all: applicable federal and state law and regulations, including but not limited to, applicable ethics requirements; the policies, guidelines and objectives adopted by the Board; and applicable professional codes and/or regulations.

The Executive Director has the following responsibilities:

1. Ensure necessary reports on SERS' investment results are presented on a timely basis as required under this Statement, or as requested by the Board.
2. Retain any consultants or advisors deemed necessary or desirable for assistance in the investment of SERS' assets, and for meeting the Executive Director or Investment Staff's responsibilities. These consultants would be in addition to any consultants hired by the Board.
3. Recommend the appointment or discharge of Investment Managers.
4. Oversee the investment function.

The Director of Investments has the following responsibilities:

1. Prepare and recommend an Annual Investment Plan for the investment of SERS' assets with recognition of the target asset mix ratios and the permissible ranges for asset allocation established by the Board.
2. Implement the Annual Investment Plan, exercising the judgments allowed by the Board as to the asset allocation ranges for that year.
3. Report to the Board any intra-year changes in the Annual Investment Plan; in the asset allocation among managers;

or proposed changes in the policy, guidelines or objectives which the Investment Staff deems desirable or which are recommended by an Investment Manager, Consultants or other entities providing investment services to SERS.

4. Research new investment strategies and recommend strategies with appropriate risk and return characteristics to the Executive Director and the Board.
5. Inform Investment Managers, Consultants or other entities providing investment services to SERS the requirements of applicable law and the policies, guidelines and objectives adopted by the Board including the proxy policy; and monitor their compliance.
6. Approve the Investment Staff's recommendation to increase or decrease the amount of assets managed by individual Investment Managers.
7. Recommend the appointment or discharge of Investment Managers to the Executive Director and the Board.
8. Supervise the Investment Staff.
9. Monitor and evaluate the effectiveness of securities transactions executed on behalf of the Board and report annually to the Board the performance of agents that execute securities transactions on behalf of the Board.

The Investment Staff has the following responsibilities:

1. Promptly vote or instruct SERS' Approved Investment Managers to vote all proxies and related actions in a manner consistent with this Statement; and maintain detailed records of all proxy voting and related actions for the Director of Investments.
2. Report, at least quarterly, the status of the portfolio and its performance for various time periods to the Director of Investments.
3. Consult with Approved Investment Managers periodically to discuss account progress and other material information.
4. Evaluate each Approved Investment Manager's ability to continue managing assets for SERS.
5. Recommend to the Director of Investments that assets be added to or withdrawn from existing Investment Managers.
6. Recommend the appointment or discharge of Investment Managers to the Director of Investments.
7. Invest assets in the short-term portfolio as authorized by the Board.
8. Research new investment strategies and recommend strategies with appropriate risk and return characteristics to the Director of Investments.
9. Prepare an annual report for the Director of Investments on the performance of agents that execute securities transactions on behalf of the Board.

C. Responsibilities of the Approved Investment Managers

Each Approved Investment Manager and any Investment Staff member internally managing assets, is responsible for the specified investment management accountability unit which it manages.

Each Approved Investment Manager and internal Staff member shall:

1. Manage the assets and the allocation of those assets within its control in compliance with all: applicable federal and state law and regulations including but not limited to, applicable ethics requirements; the policies, guidelines and objectives adopted by the Board; all contractual obligations; and applicable professional codes and/or regulations.
2. Inform the Executive Director, Director of Investments and Investment Staff of any substantial changes in investment strategy; portfolio structure; value of assets; and of any organizational changes, including that of ownership, affiliation, organizational structure, financial condition, or changes in professional personnel staffing in the investment management organization.
3. Prepare reports for the Director of Investments and Investment Staff on a semi-annual basis, prior to any scheduled meetings, or as may be requested.
4. Recommend to the Director of Investments any changes in policy, guidelines or objectives which the Investment Manager believes to be desirable.

5. Select such agents for the execution of transactions, at such prices, and at such commission rates as in the good faith judgment of the Investment Manager will be in the best interest of the System's assets, taking into consideration in the selection of such agents not only the available prices and rates of brokerage commissions, but also other relevant factors to the transaction.

D. Responsibilities of the Investment Consultant to the Board

The Investment Consultant shall:

1. Provide independent and unbiased research, information and advice to the Board and SERS Staff.
2. Assist in the development and amendment of this Statement.
3. Assist in the development of strategic asset allocation targets.
4. Assist in the development of performance measurement standards.
5. Monitor and evaluate Investment Manager performance on an ongoing basis.
6. Collaborate with Investment Staff in the due diligence of potential new Investment Managers and existing Investment Managers, as requested.
7. Assist in the development of criteria and procedures to be utilized for the selection of Investment Managers.
8. Provide research, information and advice on investment topics and strategies considered relevant by the Investment Consultant, or when requested by Investment Staff.
9. Provide any other advice or services that the Board, Executive Director or Director of Investments determines from time to time are necessary, useful or appropriate to fulfill the objectives of this Statement.
10. Provide services in accordance with all applicable federal and state law and regulations including, but not limited to, applicable ethics requirements; and with all applicable professional codes and/or regulations.

III. INVESTMENT GUIDELINES

The following non-inclusive methods provide implementation guidelines for the Investment Staff. The Board may periodically approve other guidelines for Staff.

A. Asset Allocation Guidelines

It is the Board's responsibility to determine the allocation of assets among distinct capital markets. The procedure for determining the allocation will consider the relevant characteristics of the liabilities and potential assets of SERS. Typically the Board will conduct an asset and liability study every three to five years unless substantial changes occur which require that a new study be done sooner.

The liability considerations shall include, but not be limited to, current and expected future values of the benefits, contributions and total assets. These factors are important for identifying the investment horizon of SERS and its cash flow requirements.

Based on an asset and liability study conducted by SERS' Investment Consultant which analyzed the expected returns of various asset classes, projected liabilities of SERS and the risks associated with various asset mix strategies, the Board has established the following asset allocation for SERS:

ASSET CLASS	TARGET	RANGE*
Equity	**65%**	**60%–70%**
Domestic	29%	24%–34%
International	29%	24%–34%
Global Private Equity	7%	0%–10%
Fixed Income	**35%**	**30%–40%**
Global Bonds	24%	19%–29%
Global Real Estate	10%	5%–15%
Cash Equivalents	1%	0%– 2%

* Hedge fund and portable alpha strategies using hedge funds will be included in their respective asset classes and will not exceed a maximum of 10% at Fund level.

B. Derivatives Guidelines

A derivative is an instrument that derives its value from an underlying asset or security. Examples are futures contracts, forward contracts, and options. SERS uses derivative instruments for the purpose of meeting the Fund's investment objectives.

Derivatives are used for the following purposes:

- Rebalancing
- Managing portfolio characteristics within an asset class
- Hedging currency exposure
- Managing other risk exposure not covered above

Use of derivatives for speculative purposes is prohibited.

Derivative positions established by Investment Staff will be reported at each Board meeting.

The Board permits the use of derivatives such as futures, options, forwards, swaps and similar securities for use by Investment Staff and SERS' Investment Managers as long as the securities are not used for speculative purposes.

C. Rebalancing Guidelines

Asset allocation represents a long term strategy and is one of the most important investment decisions made by the Board.

It is the responsibility of the Investment Staff to ensure that this major decision is efficiently and consistently implemented. Over time, market events will cause the actual allocation to vary from the target allocation. Rebalancing is the action of bringing the actual allocation back toward the target allocation and within its permissible range.

The Asset Allocation Guidelines provide permissible ranges for each asset class. When the actual allocation falls outside these ranges, Investment Staff will take actions to bring the actual allocations toward the target allocation. Investment Staff may take actions to bring the actual allocations toward the target allocation prior to the actual allocation falling outside their ranges. Cost and timeliness are two of the factors that may be considered in implementing a rebalancing program. On a temporary basis, up to three months, derivative instruments may be used as a low-cost and efficient method for rebalancing.

D. Currency Hedging Guidelines

Currency hedging is utilized in the non-US equity portfolio to reduce the affect of foreign currency valuation changes versus the US dollar on the investment returns of the non-US portfolio.

Currency hedging can be utilized either through passive management, active management or a combination of both.

E. Transition Management Guidelines

A Transition Manager may be used to facilitate the movement of assets or cash among managers. A Transition Manager has expertise in moving a large amount or number of assets quickly with the least amount of cost and market impact.

Transition Managers may be used when cash is being added to or withdrawn from an existing Investment Manager. The Transition Manager may also be used when an Investment Manager is first hired or when they are dismissed. Investment Staff will determine when it is appropriate to retain a Transition Manager.

The Board's current Investment Consultant cannot be used as a Transition Manager unless specifically approved by the Board.

F. Proxy Voting Guidelines

The Board believes that proxy voting rights have economic value and it is a fiduciary responsibility to assure that the voting of common stock proxies are in the best interest of the members and retirees. Annually the Board shall approve the "Proxy Policy Guidelines and Procedures." Investment Staff, Investment Managers, and third-party proxy voting agents will use the "Proxy Policy Guidelines and Procedures" as a guide in voting proxies.

Common stock proxies may be executed by SERS' Proxy Review Committee, third party proxy voting agents, or Investment Managers. The Director of Investments will inform the Board of significant proxy issues as they arise. Staff reviews proxy voting annually with the Board.

G. Securities Lending Guidelines

Lending securities to qualified borrowers enables SERS to realize incremental income on assets currently in the portfolio. This represents an opportunity to increase the return on the fund with very little additional risk. The Board has authorized Staff to hire one or more security lending agents as necessary to lend SERS' assets.

H. Passive Management Guidelines

To minimize costs and risk, the Board has approved the use of certain levels of passive management for portions of the US and non-US equity portfolios. Passive management employs the use of low cost index funds to match the characteristics and performance of an asset class or subclass. Multiple passively managed funds may be used to maintain the diversification and characteristics desired in SERS' portfolio.

Enhanced index funds are a low cost, low risk strategy that can add some extra return over the benchmark. Enhanced index products can be used as a passive management strategy if approved by the Board.

I. Approved Investment Manager Guidelines

The Board approves Investment Managers to which assets may be assigned by the Investment Staff, but any Investment Manager with a similar style approved by the Board as a backup manager can be selected by the Investment Staff to manage assets for SERS.

Each Investment Manager will be required by contract to adhere to specific investment guidelines as well as all applicable laws. Investment guidelines will be identified in detail in each executed Investment Management Agreement.

It is a goal of the Board to increase the utilization of Ohio-qualified Investment Managers when an Ohio-qualified Investment Manager offers quality, services and safety comparable to other Investment Managers available to the Board, and the use of such Investment Manager is consistent with the Board's fiduciary duties. A list of Ohio-qualified Investment Managers will be maintained by requesting information from Investment Managers doing business or seeking to do business with SERS. Notices of searches for Investment Managers, including search criteria, will be posted on SERS' website.

J. Approved Agents Guidelines

Agents, or broker/dealers who may provide execution of securities transactions for SERS will be evaluated on the basis of financial soundness, underwriting capabilities, research services, execution costs, and any other capabilities necessary in the execution of such transactions.

For those accounts of SERS' assets which are managed externally, Investment Managers may use such agents as they select for execution of such transactions, at such prices, and at such commission rates as in the good faith judgment of the Investment Manager will be in the best interest of SERS' assets, taking into consideration in the selection of such agents not only the available prices and rates of brokerage commissions, but also other relevant factors to the transaction.

It is a goal of the Retirement Board to increase its utilization of Ohio-qualified agents for the execution of domestic equity and domestic fixed income trades when an Ohio-qualified agent offers quality, services, and safety comparable to other agents available to the Retirement Board or its Investment Managers, and the use of such agent is consistent with the Retirement Board's fiduciary duties. A list of Ohio-qualified agents will be maintained by requesting information from agents doing business or seeking to do business with SERS.

K. Security Litigation Guidelines

As a large institutional holder of equity ownership in public companies, SERS may be deemed to be a member of a class of shareholders involved in litigation against companies, their directors, and officers. Such litigation against a company typically arises from alleged violations of federal and state securities laws relating to disclosure obligations or breaches of fiduciary or other duties. SERS follows an established litigation process to determine the course of action that best represents the interests of SERS' participants and beneficiaries.

IV. PERFORMANCE MONITORING AND CONTROL

Investment Staff monitors performance data provided by SERS' Finance Department on a monthly basis.

A. Performance Measurement Standard

Performance evaluation for the portfolio shall be the total return, on an accrual accounting basis, including realized and unrealized capital gains and losses, and income. Valuations are to be made at least on a quarterly basis and period returns are to be geometrically linked. Cash and cash equivalents shall be included in the portfolio's return. Performance shall be calculated on a gross-of-fee basis. The Board may also review performance on a net-of-fee basis.

B. Performance Benchmark for the Total Fund

The investment objective of the total fund, as stated in Section I.A. above, is to "earn over the long term (30 years) a total fund return that equals or exceeds the actuarial discount rate". Performance of the total fund relative to benchmarks will be examined more frequently, on a one quarter, one year, three year and five year basis, with emphasis on the three and five year periods.

The performance benchmark for the total fund shall be determined as a weighted average of the performance benchmarks for each asset class. The Board shall use the asset allocation target weights for the purpose of calculating the performance benchmark for the total fund.

C. Performance Benchmarks for Each Asset Class

A standardized measurement has been chosen upon which to judge the long-term performance of each asset class. For performance measurement purposes, long term refers to three and five year rolling periods. Performance of each class should meet or exceed the standard measure.

The current long-term performance measures for each asset class shall be as follows:

ASSET CLASS	MEASURE
US Equity	Russell 3000 Index
Non-US Equity	Morgan Stanley Capital International – All Country World Free ex-US Index – 50% hedged for developed countries
Private Equity*	Standard & Poor 500 Composite Index plus 3% per annum
Fixed Income	Lehman Brothers Aggregate Bond Index
Real Estate*	Custom Benchmark **
Cash Equivalents	30-day US Treasury Bills return

* Returns for private real estate and private equity are reported one quarter in arrears.

** Beginning July 1, 2002, SERS' real estate benchmark is a blended benchmark of 20% NAREIT Equity Index and 80% NCREIF Property Index (one quarter in arrears). Prior to July 1, 2002, SERS' real estate benchmark was the NCREIF Property Index (one quarter in arrears).

D. Performance Benchmark for Each Investment Manager

Investment Managers have specific performance benchmarks against which their performance shall be measured. In addition to exceeding the performance benchmark, the Investment Manager's performance shall also be measured relative to its peer group. As with the performance for the total fund and for each asset class, the performance of each Investment Manager is measured over annual and rolling three-year and five-year periods.

V. REVIEW AND EVALUATION

The Board shall review and evaluate periodic reports on the investment results of SERS' assets. In these reviews, it is intended that greater emphasis shall be given to longer-term results (three to five years) than to shorter-term results. The following is the intended frequency for review and evaluation, although the Board, as deemed necessary, may alter the frequency:

1. Monthly – Investment Report which will include the total fund market value, asset allocation of the fund, the performance of the total fund and each asset class, and each Investment Manager's compliance with Board Policy and Guidelines. This report will be given by Investment Staff.
2. Quarterly – Summary Investment Reports including highlights and commentary of investment performance, asset composition for each asset class and each investment management accountability unit. These reports shall identify any results requiring the attention of the Board. This report will be given by the Board's Investment Consultant.
3. Quarterly and Annual – Investment Manager updates – At least quarterly Investment Staff will discuss the portfolio with each of SERS' Investment Managers. On a periodic schedule, usually once every 12 to 18 months, each Investment Manager will meet with Staff in Columbus; and then Staff will meet with each Investment Manager in its office six to nine months later to monitor each Investment Manager's organization, personnel and performance. Periodically, usually once a year, Investment Staff will prepare a written evaluation of each Investment Manager for the Board.

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

Actuarial Section

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November 15, 2007

Board of Trustees
School Employees Retirement System of Ohio
300 East Broad Street
Columbus, OH 43215

Dear Board Members:

The basic financial objective of the School Employees Retirement System of Ohio (SERS) is to establish and receive contributions which when expressed in terms of percents of active member payroll will remain approximately level from generation to generation of Ohio citizens, and which when combined with present assets and future investment return will be sufficient to meet the present and future financial obligations of SERS.

In order to measure progress toward this fundamental objective, SERS has an actuarial valuation performed each year. The valuation (i) measures present financial position, and (ii) establishes contribution rates that provide for the current cost and level percent of payroll amortization of the unfunded actuarial accrued liability over a reasonable period. The valuation performed as of June 30, 2007 indicates that a contribution rate of 9.82% of payroll for 123,013 school employees meets the basic financial objective.

The statutory employer contribution is 14% of pay. A SERS policy decision now provides the following allocations of that contribution:

- to basic benefits, the post-retirement death benefit and the Medicare Part-B supplement, the portion which will pay normal cost and 29 year amortization of unfunded actuarial accrued liabilities; and
- to health care benefits, the remainder of employer contributions.

The actuarial valuation of the basic benefits, the post-retirement death benefit and the Medicare Part-B supplement is based upon financial and participant data which is prepared by Retirement System staff, assumptions regarding future rates of investment return and inflation, and rates of retirement, turnover, death, and disability among SERS members and their beneficiaries. We review the data for internal and year-to-year consistency as well as general reasonableness prior to its use in the actuarial valuations. It is also summarized and tabulated for the purpose of analyzing trends. The assumptions were adopted by the Board of Trustees and were based upon actual experience of SERS during the 2001-2005 fiscal years. Assets are valued according to a method that fully recognizes expected investment return and averages unanticipated market return over a four-year period. The assumptions and methods utilized in this valuation, in our

One Pennsylvania Plaza • New York, NY 10119-4798
212.330.1000 • 212.695.4185 (fax)

Board of Trustees
School Employees Retirement System of Ohio
November 15, 2007
Page 2

opinion, meet the parameters established by Governmental Accounting Standards Board Statement No. 25.

The financial condition of health care benefits is different and is being significantly affected by the provisions of Act 290 of 1988 and Act 270 of 2001. Act 290 established a health care surcharge, a program to determine a minimum annual pay for use in calculating employer contribution dollars. Act 270 placed limits on the amount of health care surcharge that can be assessed to each employer and in total.

On the basis of projections of health care fund activity and the surcharge limit established by Act 270, the allocated contributions are insufficient in the long-term to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. Such reserve is based on the projected claims and premium contributions for next fiscal year, as is described in the Clarification to Statement of Funding Policy issued by the Board in January 2005. As of June 30, 2007, the value of the health care fund was equal to about 235% of next year's projected net health care costs. Since total claims are projected to exceed total contributions in future years, it is expected that future reserve amounts will be lower than the current level and eventually less than the 150% target.

The current benefit structure is outlined in the Plan Summary. There were no changes made since last year that impacted valuation results.

We provided information used in the schedules of Actuarial Accrued Liabilities, Active Member Valuation Data, Retirees and Beneficiaries Added to and Removed From Rolls, Analysis of Financial Experience, and the Short-Term Solvency Test for basic benefits that are found in the Actuarial Section, and the Schedule of Funding Progress in the Financial Section. For fiscal years prior to June 30, 2002, the information was provided by the previous actuary.

Based upon the results of the valuation of the basic benefits, the post-retirement death benefit and Medicare Part-B supplement, it is our opinion that the School Employees Retirement System of Ohio continues in sound condition in accordance with actuarial principles of level percent of payroll financing.

Sincerely,

Philip Bonanno, ASA, MAAA, EA, FCA
Director, Consulting Actuary

Janet H. Cranna, FSA, MAAA, EA, FCA
Principal, Consulting Actuary

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Actuarial Cost Method and Assumptions

The following methods and assumptions used for the actuarial valuation were adopted by the Retirement Board after consulting with the actuary. The actuarial assumptions used in the valuation were revised as set forth in Buck Consultants' Experience Investigation for the Five-Year Period Ending June 30, 2005 dated May 11, 2006 and were adopted for use in the valuation as of June 30, 2006. All historical information and data shown in this report with a valuation date prior to June 30, 2002 were obtained from the previous actuary's valuation report.

Basic Retirement Benefits Employer contribution rates for basic benefits are determined using the entry age normal actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability. The maximum statutory rate is 14%.

The present employer contribution rate of 14% is allocated between basic benefits and health care on the basis of SERS' policy decision. For the year ended June 30, 2007, the policy required the determination of a rate for basic benefits which will amortize the unfunded actuarial accrued liabilities over a 30-year period, with the remainder of the employer contribution rate allocated to providing health care benefits. The rate determined for the funding of basic retirement benefits for the year ended June 30, 2007 is 10.68%.

Health Care Benefits Initially, in 1974, the contribution rate for health care benefits was established at 0.75%, included in a total employer contribution rate of 12.5%. Health care contribution rates have since been increased at various times, and the total employer contribution rate has been increased to the statutory 14% maximum. Effective with the 1995 fiscal year, the Retirement Board replaced the level cost financing of health care with pay-as-you-go financing. The portion of the employer contribution rate allocated to health care for the year ended June 30, 2007 is 3.32%.

In 1988, House Bill 290 provided for an employer contribution surcharge as an additional source of funding for health care. The surcharge is equal to 14% of the difference between the minimum pay and the member's pay, pro-rated for partial service credit. For the fiscal year 2007, the minimum pay has been established as $35,800. Senate Bill 270, effective April 2001, caps the employer surcharge at 2.0% of each employer's payroll and 1.5% statewide.

Actuarial Assumptions for Pension Plans Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. When these differences between assumed and actual experience have been observed to be sizable and persistent, a change is made to the actuarial assumptions.

Actuarial value of assets as of June 30, 2007 is based on a four-year average of adjusted market value returns. The difference between the actual returns at market value for the year and expected returns is determined. Twenty-five percent (25%) of that difference is added to the expected value along with corresponding amounts from each of the prior three years.

The following significant assumptions were used in the actuarial valuation as of June 30, 2007.

1. A rate of return on the investments of 8.0% compounded annually (net after all System expenses) is assumed. The real rate of return is the portion of total investment return which is more than the inflation rate. Considering inflation recognition of 3.5%, the 8.0% investment return rate translates to an assumed real rate of return of 4.5%.
2. As a result of cost-of-living adjustments, benefits will increase 3% per year after retirement.

3. Salary increases of 4.0%, attributable to wage inflation, are projected and compounded annually. Additional projected salary increases ranging from .5% to 20.75% per year are attributable to seniority and merit. Pay increase assumptions for individual active members are shown for service durations in the following table:

Years of Service	Merit & Seniority	Salary Inflation	Total
0	20.75%	4.00%	24.75%
1	13.25	4.00	17.25
2	10.75	4.00	14.75
3	8.75	4.00	12.75
4	7.75	4.00	11.75
5	5.75	4.00	9.75
6	4.75	4.00	8.75
7	3.75	4.00	7.75
8	2.75	4.00	6.75
9	1.75	4.00	5.75
10-14	0.75	4.00	4.75
15+	0.50	4.00	4.50

4. Eligibility for service retirement was assumed to be: age 50 with 30 or more years of service, age 55 with 25 or more years of service, or age 60 with 5 or more years of service. Representative values of the assumed annual rates of service retirement are as follows:

Age	Male	Female
50	40%	33%
55	25	25
60	10	20
65	25	25
70	20	20
75	100	100

5. Rates of separation from active service are for reasons other than retirement, disability, or death. Representative values of the assumed annual rates of withdrawal are as follows:

Years of Service	Rate of General Termination
0	55.00%
1	20.00
2	15.00
3	10.00
4	7.50
5	6.50
10	5.00
15	3.75
20	3.50

6. Representative values of the assumed annual rates of disability are as follows.

Age	Male	Female
30	.1120%	.0075%
35	.3710	.0075
40	.4050	.1570
45	.5060	.1870
50	.8250	.3940
55	.8250	.6080

7. Mortality rates for retirees and survivors are based on the 1994 Group Annuity Mortality Table with male ages set back one year and female ages set back one year. Mortality for active members is 60% of the retiree table for males and 50% for females. Mortality for disabled members is developed from experience.

   Representative values of the assumed annual rates of retiree mortality are as follows:

Service Retired Members, Beneficiaries, and Survivors
1994 Group Annuity Mortality Table

Age	Male	Female
20	.0484%	.0280%
30	.0779	.0331
40	.0999	.0652
50	.2326	.1310
60	.7090	.3863
70	2.1729	1.2709
80	5.5861	3.5362

Disability Retired Members

Age	Male	Female
40	2.304%	2.090%
50	2.404	2.222
60	3.906	2.366
70	4.861	2.601
80	7.812	5.547

Marriage Assumption: 80% married with the husband three years older than his wife.

Actuarial Accrued Liabilities

Accrued liabilities are the present value of plan promises to pay benefits in the future, based upon service already rendered. A liability has been established (accrued) because the service has been performed, but the resulting monthly cash benefit may not be payable until years in the future. Accrued liabilities are the result of complex mathematical calculations performed by a group of specialists, the plan's actuaries. The results of the computed actuarial accrued liabilities, using the entry age normal actuarial cost method, are disclosed in the following schedule.

ACTUARIAL ACCRUED LIABILITIES AS OF JUNE 30, 2007

Present value of:	Basic Benefits	Medicare B	Death Benefit	Total
Future benefits to present retirees and survivors	$ 6,203,085,775	$188,024,120	$22,053,710	$ 6,413,163,605
Benefits and refunds to present inactive members	455,500,365	8,692,863	1,244,930	465,438,158
Allowances to present active members				
Service	5,914,205,896	89,121,532	5,058,296	6,008,385,724
Disability	322,695,363	3,774,215	422,613	326,892,191
Survivor benefits	89,487,480	9,247,697	-	98,735,177
Withdrawal	(9,921,216)	241,998	287,408	(9,391,810)
Total Active AAL	6,316,467,523	102,385,442	5,768,317	6,424,621,282
Total AAL	$12,975,053,663	$299,102,425	$29,066,957	$13,303,223,045

Active Member Valuation Data

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll *(millions)*	Average Annual Salary	% Increase in Average Salary
2007	123,013	$2,603.3	$21,163	2.2%
2006	123,266	2,553.3	20,714	3.8
2005	122,855	2,452.5	19,963	2.7
2004	123,139	2,394.1	19,442	3.3
2003	122,315	2,302.3	18,823	4.0
2002	120,254	2,175.7	18,093	6.0

Retirees and Beneficiaries Added to and Removed from Rolls

	Added to Rolls		Removed from Rolls		Rolls at end of year		Percent increase	Average
Year	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	in Annual Allowances	Annual Allowances
2007	3,596	$44,864,781	2,588	$4,249,533	63,529	$607,386,140	7.2%	$9,561
2006	3,750	40,115,408	2,662	1,276,484	62,521	566,770,892	7.4	9,065
2005	3,683	38,670,969	2,819	2,357,850	61,433	527,931,968	7.4	8,594
2004	3,013	32,500,992	2,443	2,094,156	60,569	491,618,849	6.6	8,117
2003	3,414	31,177,197	2,764	2,182,240	59,999	461,212,013	6.7	7,687
2002	3,977	31,076,560	3,423	3,366,365	59,349	432,217,056	6.9	7,283

Analysis of Financial Experience

Gains & Losses in Accrued Liabilities Resulting from Differences Between Assumed Experience & Actual Experience in the Pension, Medicare B, and Death Benefit Funds

	Gain/(Loss) for Year in Millions					
Type of Risk Area	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**
Age & Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	$13.4	$ 37.9	$ (82.6)	$ (45.2)	$ (29.7)	$ 41.5
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	0.9	1.2	2.1	0.0	(0.3)	0.2
Death-In-Service Benefits If claims costs are less than assumed, there is a gain. If more claims, a loss.	(0.3)	0.2	(0.7)	0.5	(0.3)	1.6
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	121.0	76.4	101.6	83.6	28.0	(151.3)
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	504.3	44.7	(397.4)	(763.8)	(781.4)	(533.6)
Withdrawal If more liabilities are released by other separations from active membership than assumed, there is a gain. If smaller releases, a loss.	(73.2)	(52.9)	52.7	56.6	38.8	(9.8)
New Members Additional unfunded accrued liability will produce a loss.	(37.2)	(36.7)	(42.7)	(48.6)	(37.1)	(38.6)
Death after Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	(10.2)	15.8	12.4	23.3	30.0	44.1
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	(1.1)	(145.4)	(81.7)	(0.4)	(24.7)	35.5
Non-Recurring Items Adjustments for plan amendments, assumption changes, or method changes.	0.0	156.5	0.0	0.0	31.7	0.0
Total Gain/(Loss) During Year	$517.6	$ 97.7	$(436.3)	$(694.0)	$(745.0)	$(610.4)

Short-Term Solvency Test

The SERS financing objective is to pay for the pension benefits through contributions that remain approximately level from year to year as a percent of member payroll.

If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due – the ultimate test of financial soundness. Testing for level contribution rates is the long-term test.

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (cash and investments) are compared with:

1. Active member contributions on deposit;
2. The liabilities for future benefits to present retired lives;
3. The liabilities for service already rendered by active members.

In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. The larger the funded portion of liability 3, the stronger the condition of the system.

BASIC PENSION BENEFITS *(in millions)*

June 30	(1) Member Contributions	(2) Retired Lives	(3) Present Members (Employer Portion)	(4) Valuation Assets	(1)	(2)	(3)
2007	$2,180	6,413	4,710	$10,640	100	100	44
2006	2,064	6,006	4,557	9,542	100	100	32
2005	1,943	5,551	4,467	8,893	100	100	31
2004	1,785	5,173	4,293	8,667	100	100	40
2003	1,643	4,881	4,110	8,772	100	100	55
2002	1,525	4,599	3,862	8,879	100	100	71

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

Statistical Section

Statistical Section

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

The schedules and graphs beginning on page 75 show financial trend information about the growth of SERS' assets for the past 10 years. These schedules provide detailed information about the trends of key sources of additions and deductions to the System's assets, which assist in providing a context framing how SERS' financial position has changed over time. The financial trend schedules presented are:

- Net Assets by Fund
- Changes in Net Assets
- Benefit and Refund Deductions from Net Assets by Type

The schedules beginning on page 82 show demographic and economic information. This information is designed to assist in understanding the environment in which SERS operates. The demographic and economic information and the operating information presented include:

- Employer and Employee Contribution Rates
- Demographics of Retired and Active Members
- Retired Members by Type of Benefit
- Principal Participating Employers
- Average Benefit Payments

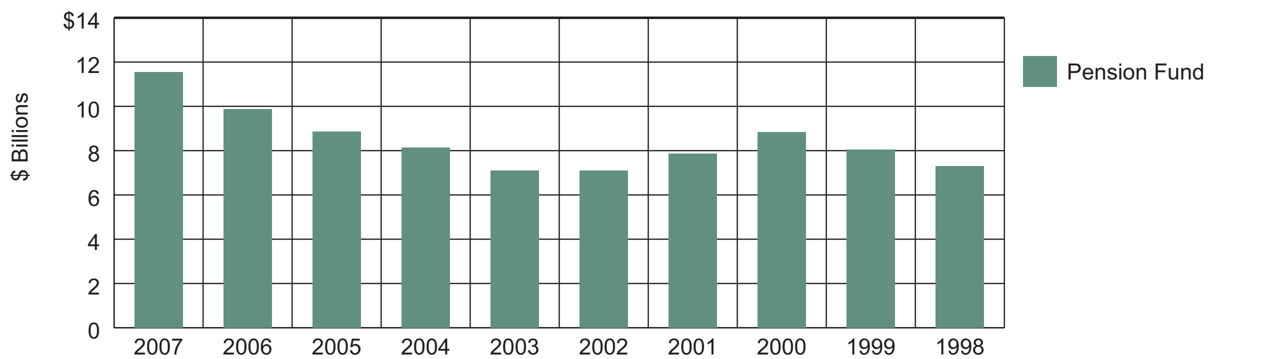
Net Assets by Fund

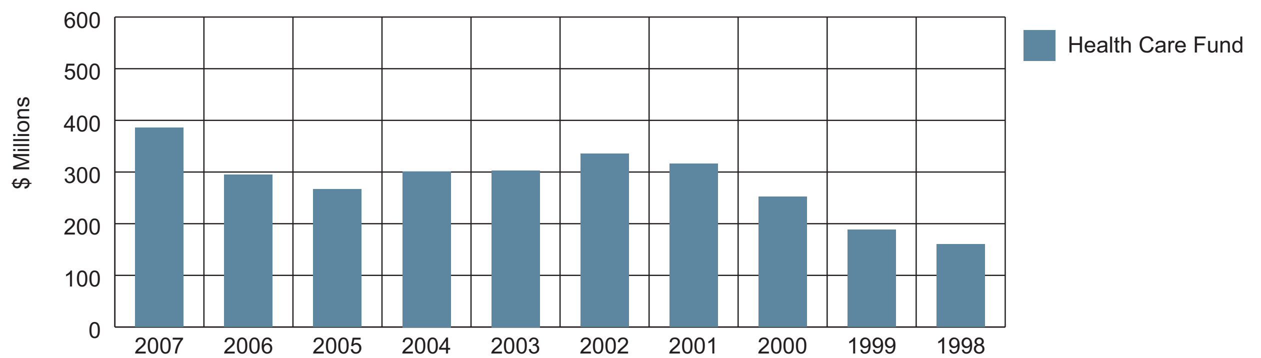
Last ten years

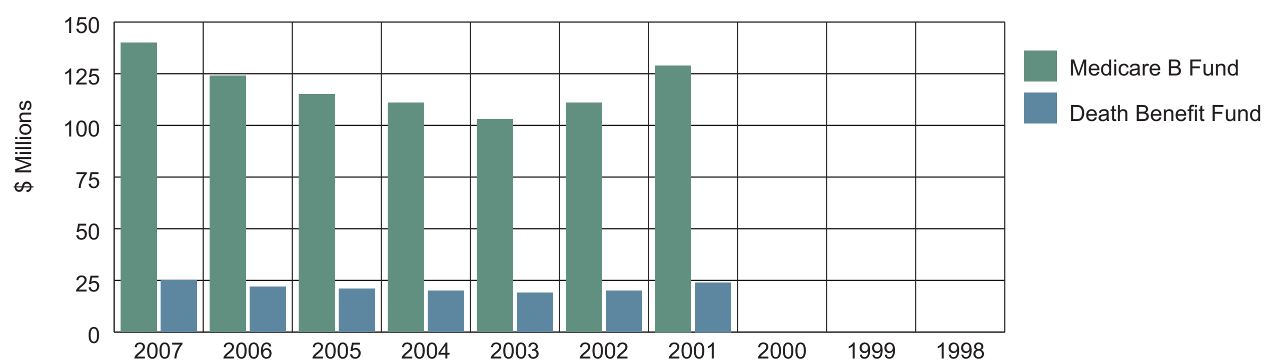
	Pension Fund	Medicare B Fund	Death Benefit Fund	QEBA Fund	Health Care Fund	Total Net Assets
2007	$11,546,062,014	$139,902,535	$25,270,739	$4,899	$ 386,355,370	$12,097,595,557
2006	9,833,948,677	124,178,222	22,076,462	7,429	295,561,933	10,275,772,723
2005	8,866,129,871	114,696,809	20,758,872	36,868	267,482,155	9,269,104,575
2004	8,133,054,479	111,221,576	20,306,868	11,052**	300,860,704	8,565,454,679
2003	7,096,479,273	103,481,031	18,897,237		303,556,610	7,522,414,151
2002	7,091,939,175	111,154,470	20,340,023		335,233,043	7,558,666,711
2001	7,861,021,652	128,691,592	23,610,466		315,713,869	8,329,037,579
2000	8,841,805,985*				252,308,305	9,094,114,290
1999	8,040,823,067*				187,969,874	8,228,792,941
1998	7,297,257,724*				160,308,371	7,457,566,095

*Includes Pension, Medicare B, and Death Benefit Funds

** The Qualified Excess Benefit Arrangement was established January 2003; funding commenced November 2003.







Changes in Net Assets

Last ten years

PENSION FUND*	2007	2006	2005	2004
ADDITIONS				
Employer Contributions	$ 232,846,344	$ 234,875,166	$ 255,633,456	$ 213,736,648
Employee Contributions	276,759,362	272,615,865	262,265,550	258,131,243
Other Income	–	610,054	–	–
Total Investment Income, Net	1,863,226,769	1,080,786,996	793,539,701	1,098,850,856
TOTAL ADDITIONS	2,372,832,475	1,588,888,081	1,311,438,707	1,570,718,747
DEDUCTIONS				
Pension Benefits	606,753,367	569,027,766	533,714,925	492,405,489
Refunds and Lump Sum Payments	33,638,741	31,037,063	27,112,818	22,090,604
Net Transfers to other Ohio Systems	2,873,755	3,587,709	155,635	2,244,495
Administrative Expenses	17,453,275	17,416,737	17,379,937	17,402,953
TOTAL DEDUCTIONS	660,719,138	621,069,275	578,363,315	534,143,541
Net increase (decrease)	1,712,113,337	967,818,806	733,075,392	1,036,575,206
Net assets held in trust:				
Balance, Beginning of Year	9,833,948,677	8,866,129,871	8,133,054,479	7,096,479,273
Balance, End of Year	**$11,546,062,014**	**$9,833,948,677**	**$8,866,129,871**	**$8,133,054,479**

HEALTH CARE FUND	2007	2006	2005	2004
ADDITIONS				
Employer Contributions	$ 170,948,274	$ 157,404,134	$ 126,355,575	$ 159,550,942
Other Income	91,823,048	70,152,335	40,595,447	27,947,708
Total Investment Income, Net	49,307,490	30,524,217	19,976,256	34,640,957
TOTAL ADDITIONS	312,078,812	258,080,686	186,927,278	222,139,607
DEDUCTIONS				
Health Care Expenses	219,438,662	228,570,748	218,816,560	223,443,805
Administrative Expenses	1,846,713	1,430,160	1,489,267	1,391,708
TOTAL DEDUCTIONS	221,285,375	230,000,908	220,305,827	224,835,513
Net increase (decrease)	90,793,437	28,079,778	(33,378,549)	(2,695,906)
Net assets held in trust:				
Balance, Beginning of Year	295,561,933	267,482,155	300,860,704	303,556,610
Balance, End of Year	**$ 386,355,370**	**$ 295,561,933**	**$ 267,482,155**	**$ 300,860,704**

* Fiscal year 2000 Ending Balance does not equal Fiscal Year 2001 Beginning Balance due to splitting out the Medicare B and Death Benefit Funds.
** Fiscal Years 1998 through 2000 Medicare B and Death Benefit Funds were included in the Pension Fund.

2003	2002	2001	2000**	1999**	1998**
$ 182,919,583	$ 102,321,473	$ 90,091,402	$ 116,055,089	$ 143,217,951	$ 152,608,486
225,014,540	210,098,081	192,563,026	179,646,558	166,864,847	155,059,879
–	–	–	256,219	303,714	357,227
91,598,224	(619,870,709)	(605,415,851)	931,723,006	851,060,298	1,136,564,549
499,532,347	(307,451,155)	(322,761,423)	1,227,680,872	1,161,446,810	1,444,590,141
456,834,182	425,754,214	397,234,511	387,764,962	380,874,308	335,805,092
19,575,616	19,212,728	21,817,451	22,332,580	22,177,533	18,467,794
917,730	(365,587)	1,538,082	1,185,804	577,367	2,154,459
17,664,721	17,029,967	14,975,992	15,414,608	14,252,259	11,924,239
494,992,249	461,631,322	435,566,036	426,697,954	417,881,467	368,351,584
4,540,098	(769,082,477)	(758,327,459)	800,982,918	743,565,343	1,076,238,557
7,091,939,175	7,861,021,652	8,619,349,111*	8,040,823,067	7,297,257,724	6,221,019,167
$7,096,479,273	**$7,091,939,175**	**$7,861,021,652**	**$8,841,805,985***	**$8,040,823,067**	**$7,297,257,724**

2003	2002	2001	2000	1999	1998
$ 171,313,952	$ 218,967,729	$ 236,898,701	$ 187,074,371	$ 140,009,450	$ 113,799,774
15,579,621	13,496,715	10,693,490	9,652,065	12,706,475	14,316,383
3,189,950	(15,550,768)	(11,328,226)	18,262,540	14,272,044	12,152,850
190,083,523	216,913,676	236,263,965	214,988,976	166,987,969	140,269,007
220,510,358	196,443,492	172,133,424	150,348,405	139,087,459	126,216,958
1,249,598	951,010	724,977	302,140	239,007	127,501
221,759,956	197,394,502	172,858,401	150,650,545	139,326,466	126,344,459
(31,676,433)	19,519,174	63,405,564	64,338,431	27,661,503	13,924,548
335,233,043	315,713,869	252,308,305	187,969,874	160,308,371	146,383,823
$ 303,556,610	**$ 335,233,043**	**$ 315,713,869**	**$ 252,308,305**	**$ 187,969,874**	**$ 160,308,371**

Changes in Net Assets (continued)

Last ten years

MEDICARE B FUND*	2007	2006	2005	2004
ADDITIONS				
Employer Contributions	$ 18,450,617	$ 20,535,685	$ 17,735,032	$ 17,390,201
Other Income	–	62,510	–	–
Total Investment Income, Net	22,332,826	13,538,975	10,290,424	14,996,522
TOTAL ADDITIONS	40,783,443	34,137,170	28,025,456	32,386,723
DEDUCTIONS				
Pension Benefits	25,055,794	24,652,637	24,547,223	24,307,188
Administrative Expenses	3,336	3,120	3,000	338,990
TOTAL DEDUCTIONS	25,059,130	24,655,757	24,550,223	24,646,178
Net increase (decrease)	15,724,313	9,481,413	3,475,233	7,740,545
Net assets held in trust:				
Balance, Beginning of Year	124,178,222	114,696,809	111,221,576	103,481,031
Balance, End of Year	**$139,902,535**	**$124,178,222**	**$114,696,809**	**$111,221,576**

DEATH BENEFIT FUND*	2007	2006	2005	2004
ADDITIONS				
Employer Contributions	$ 1,070,630	$ 1,054,246	$ 759,058	$ 744,272
Other Income	–	6,889	–	–
Total Investment Income, Net	4,265,549	2,571,377	1,964,827	2,912,708
TOTAL ADDITIONS	5,336,179	3,632,512	2,723,885	3,656,980
DEDUCTIONS				
Pension Benefits	2,083,437	2,259,722	2,217,881	2,200,147
Administrative Expenses	58,465	55,200	54,000	47,202
TOTAL DEDUCTIONS	2,141,902	2,314,922	2,271,881	2,247,349
Net increase (decrease)	3,194,277	1,317,590	452,004	1,409,631
Net assets held in trust:				
Balance, Beginning of Year	22,076,462	20,758,872	20,306,868	18,897,237
Balance, End of Year	**$25,270,739**	**$22,076,462**	**$20,758,872**	**$20,306,868**

* Fiscal Years 1998 through 2000 Medicare B and Death Benefit Funds were included in the Pension fund.

QEBA FUND**	2007	2006	2005	2004
ADDITIONS				
Employer Contributions	$ 82,745	$ 41,850	$ 36,026	$ 18,600
Other Income	–	–	–	–
Total Investment Income, Net	32	9	2	
TOTAL ADDITIONS	82,777	41,859	36,028	18,600
DEDUCTIONS				
Pension Benefits	85,106	71,298	9,572	6,259
Administrative Expenses	201	–	640	1,289
TOTAL DEDUCTIONS	85,307	71,298	10,212	7,548
Net increase (decrease)	(2,530)	(29,439)	25,816	11,052
Net assets held in trust:				
Balance, Beginning of Year	7,429	36,868	11,052	–
Balance, End of Year	**$ 4,899**	**$ 7,429**	**$ 36,868**	**$ 11,052**

** The Qualified Excess Benefit Arrangement was established January 2003; funding commenced November 2003.

2003	2002	2001	2000	1999	1998
$ 15,609,515	$ 16,178,916	$ 3,667,340			
–	–	–			
872,761	(9,764,147)	(13,761,654)			
16,482,276	6,414,769	(10,094,314)			
23,826,601	23,596,306	56,480,052			
329,114	355,585	266,749			
24,155,715	23,951,891	56,746,801			
(7,673,439)	(17,537,122)	(66,841,115)			
111,154,470	128,691,592	195,532,707			
$103,481,031	**$111,154,470**	**$128,691,592**			

2003	2002	2001	2000	1999	1998
$ 471,868	$ 456,274	$ 649,974			
–	–	–			
158,596	(1,771,920)	(1,913,983)			
630,464	(1,315,646)	(1,264,009)			
2,027,422	1,905,283	2,013,003			
45,828	49,514	36,689			
2,073,250	1,954,797	2,049,692			
(1,442,786)	(3,270,443)	(3,313,701)			
20,340,023	23,610,466	26,924,167			
$18,897,237	**$20,340,023**	**$23,610,466**			

2003	2002	2001	2000	1999	1998

STATISTICAL SECTION

Benefit and Refund Deductions from Net Assets by Type

Last ten fiscal years

PENSION BENEFITS	2007	2006	2005	2004
Service Retirement	$514,824,466	$481,929,589	$450,815,396	$413,743,800
Disability Retirement	66,278,496	62,669,473	59,656,369	56,956,255
Survivor Benefits	25,650,405	24,428,704	23,243,160	21,705,434
Total Pension Benefits	$606,753,367	$569,027,766	$533,714,925	$492,405,489
Refunds				
Separation	$ 33,316,422	$ 29,065,065	$ 26,667,001	$ 21,496,787
Beneficiaries	322,319	1,971,998	445,817	593,817
Total Refunds	$ 33,638,741	$ 31,037,063	$ 27,112,818	$ 22,090,60

MEDICARE B REIMBURSEMENT*	2007	2006	2005	2004
Service Retirement	$ 22,350,668	$ 22,007,666	$ 21,896,392	$ 21,742,514
Disability Retirement	1,317,953	1,278,217	1,245,341	1,216,754
Survivor Benefits	1,387,173	1,366,754	1,405,490	1,347,920
Total Medicare B Reimbursement	$ 25,055,794	$ 24,652,637	$ 24,547,223	$ 24,307,188

DEATH BENEFITS	2007	2006	2005	2004
Service	$ 1,880,256	$ 2,062,198	$ 2,018,318	$ 1,992,963
Disability	203,181	197,524	199,563	207,184
Total Death Benefits	$ 2,083,437	$ 2,259,722	$ 2,217,881	$ 2,200,147

HEALTH CARE EXPENSES	2007	2006	2005	2004
Medical	$128,160,112	$131,562,641	$113,102,587	$125,213,303
Prescription	89,957,159	95,589,547	105,195,298	97,155,916
Other	1,321,391	1,418,560	518,675	1,074,586
Total Health Care Expenses	$219,438,662	$228,570,748	$218,816,560	$223,443,805

* Prior to fiscal year 2001 Medicare B reimbursement expenses were included with the Pension Fund on the Changes in Plan Net Assets.

** Legislation provided for a retroactive Medicare B reimbursement.

2003	2002	2001	2000	1999	1998
$382,324,194	$355,422,159	$330,712,415	$321,397,961	$317,125,829	$278,195,664
53,859,560	51,081,315	48,349,429	46,244,407	44,116,363	40,874,401
20,650,428	19,250,740	18,172,667	18,315,432	18,127,793	15,735,855
$456,834,182	$425,754,214	$397,234,511	$385,957,800	$379,369,985	$334,805,920
$ 19,269,813	$ 18,483,724	$ 18,850,323			
305,803	729,004	2,967,128			
$ 19,575,616	$ 19,212,728	$ 21,817,451	$ 22,332,580	$ 22,177,533	$ 18,467,794

2003	2002	2001**	2000	1999	1998
$ 21,342,363	$ 21,135,767	$ 50,969,689			
1,163,920	1,155,196	2,554,641			
1,320,318	1,305,343	2,955,722			
$ 23,826,601	$ 23,596,306	$ 56,480,052			

2003	2002	2001	2000	1999	1998
$ 1,813,287	$ 1,693,283	$ 1,794,722	$ 1,640,679	$ 1,377,213	$ 917,214
214,135	212,000	218,281	166,483	127,110	81,958
$ 2,027,422	$ 1,905,283	$ 2,013,003	$ 1,807,162	$ 1,504,323	$ 999,172

2003	2002	2001	2000	1999	1998
$119,676,586	$107,055,941	$ 94,577,874	$ 85,170,510	$ 81,961,127	$ 76,652,066
99,511,288	87,642,652	76,695,342	64,810,387	56,770,351	49,200,564
1,322,484	1,744,899	860,208	367,508	355,981	364,328
$220,510,358	$196,443,492	$172,133,424	$150,348,405	$139,087,459	$126,216,958

Employer and Employee Contribution Rates

Last ten fiscal years

Fiscal Year	Employee Rate	Employer Rate: Pension	Medicare B	Death Benefit	Health Care	Total
2007	10%	9.96%	0.68%	0.04%	3.32%	14%
2006	10	9.76	0.78	0.04	3.42	14
2005	10	9.84	0.70	0.03	3.43	14
2004	10	8.36	0.70	0.03	4.91	14
2003	9	7.46	0.69	0.02	5.83	14
2002	9	5.83	0.71	0.02	7.44	14
2001	9	3.47	0.71	0.02	9.80	14
2000	9	5.55			8.45	14
1999	9	7.70			6.30	14
1998	9	9.02			4.98	14

Note: The employee contribution rate was increased for all employees on July 1, 2003.
Note: Fiscal year 2000 and prior Medicare B and Death Benefit was included in Pension split of Employer contribution rate.

Demographics of Retired and Active Members

Last ten fiscal years

Service Retirement

Year Ended June 30	Service Credit	Monthly Amount	Age	Salary
2007	22.090	$1,109.13	62.59	$ 27,827
2006	22.302	1,041.03	62.96	26,007
2005	22.568	1,041.85	62.57	26,040
2004	22.452	957.36	62.44	24,132
2003	22.189	915.76	62.20	22,965
2002	22.414	892.11	62.28	22,065
2001	22.128	851.00	62.31	21,125
2000	21.957	761.47	63.51	20,230
1999	21.505	716.38	63.68	19,419
1998	21.473	671.89	63.61	18,496

Disability Retirement

Year Ended June 30	Service Credit	Monthly Amount	Age	Salary
2007	16.000	$1,239.00	53.00	$ 27,097
2006	16.000	1,252.00	53.00	27,093
2005	20.417	1,177.93	53.27	25,960
2004	20.780	1,090.08	52.45	24,096
2003	21.439	1,126.90	52.72	24,557
2002	21.210	1,047.52	52.24	22,637
2001	20.124	1,123.46	52.35	21,668
2000	16.058	1,004.00	55.85	21,807
1999	16.014	897.75	56.28	20,252
1998	15.709	906.25	56.33	20,568

Demographics of Retired and Active Members

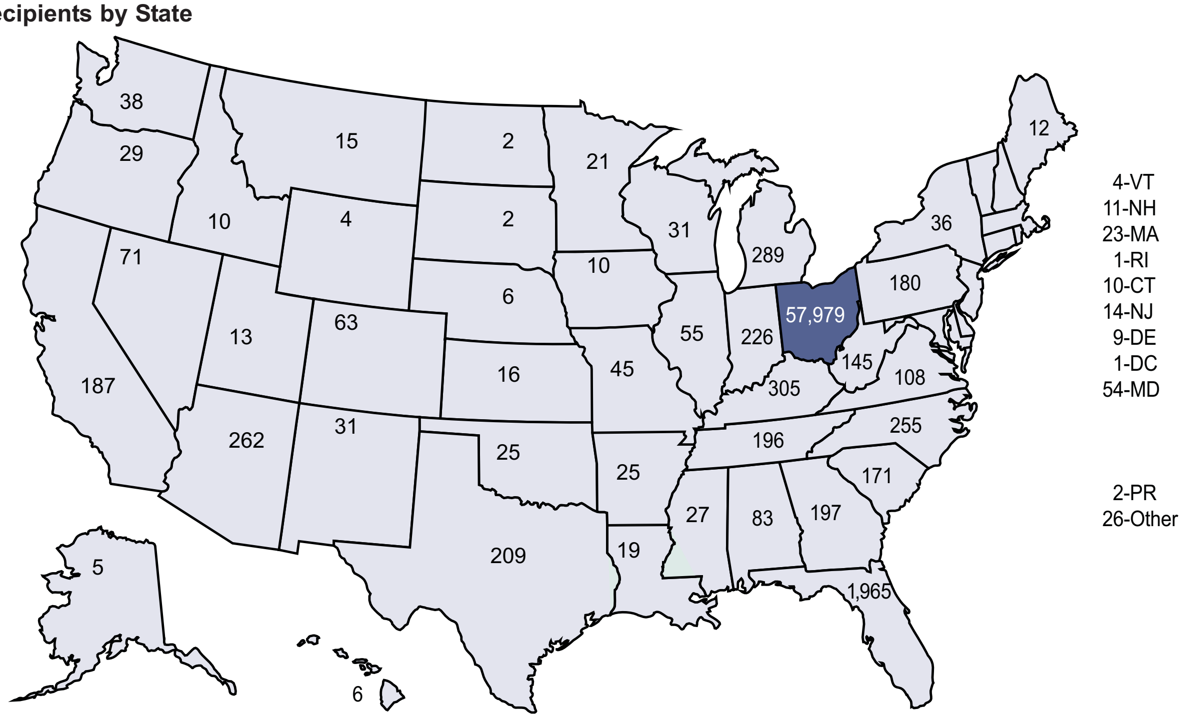
Active Members

	Active Members			Percentage of Distribution		
Ages	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
Under 20	387	319	706	0.3%	0.3%	0.6%
20 to 29	4,787	5,527	10,314	3.9	4.5	8.4
30 to 39	5,371	12,541	17,912	4.4	10.2	14.6
40 to 49	9,507	31,169	40,676	7.7	25.3	33.0
50 to 54	5,429	15,944	21,373	4.4	13.0	17.4
55 to 59	4,267	12,327	16,594	3.5	10.0	13.5
60 to 64	2,876	6,655	9,531	2.3	5.5	7.8
65 to 69	1,379	2,499	3,878	1.1	2.0	3.1
70 and over	747	1,282	2,029	0.6	1.0	1.6
	34,750	88,263	123,013	28.2%	71.8%	100.0%

Retired Members

	Retirees & Beneficiaries			Percentage of Distribution		
Ages	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
Under 55	965	1,208	2,173	1.5%	1.9%	3.4%
55 to 59	998	1,615	2,613	1.6	2.5	4.1
60 to 64	1,701	5,291	6,992	2.7	8.3	11.0
65 to 69	2,707	8,332	11,039	4.3	13.1	17.4
70 to 74	2,966	8,587	11,553	4.7	13.5	18.2
75 to 79	2,827	8,198	11,025	4.4	12.9	17.3
80 to 84	2,225	7,143	9,368	3.5	11.2	14.7
85 to 89	1,282	4,707	5,989	2.0	7.5	9.5
90 to 94	383	1,886	2,269	0.6	3.0	3.6
95 to 99	68	397	465	0.1	0.6	0.7
100 and over	7	36	43	0.0	0.1	0.1
	16,129	47,400	63,529	25.4%	74.6%	100.0%

Benefit Recipients by State



Retired Members by Type of Benefit

Amount of Monthly Benefit	Total	Service	Disability	Survivor
$ 1 - 250	20,793	18,011	840	1,942
251 - 500	14,278	11,994	1,085	1,199
501 - 750	9,642	8,075	979	588
751 - 1,000	6,222	5,226	767	229
1,001 - 1,500	6,866	5,760	934	172
1,501 - 2,000	2,998	2,536	404	58
over 2,000	2,730	2,398	285	47
	63,529	54,000	5,294	4,235
Average Monthly Benefit		$ 795	$1,042	$ 511
Average Age		75.0	63.9	70.7

Principal Participating Employers

Current fiscal year and seven fiscal years ago

Participating Schools Name	Fiscal Year 2007 Covered Employee Members	Fiscal Year 2007 Rank	Fiscal Year 2007 Percentage of Total System	Fiscal Year 2000 Covered Employee Members	Fiscal Year 2000 Rank	Fiscal Year 2000 Percentage of Total System
Columbus City Schools	3,796	1	3.09%	3,845	2	3.39%
Cleveland Municipal School District	3,019	2	2.45	4,378	1	3.85
Cincinnati City Schools	2,846	3	2.31	2,869	3	2.52
University Of Akron	1,933	4	1.57	1,257	7	1.10
Toledo City Schools	1,650	5	1.34	2,041	4	1.79
Akron City Schools	1,638	6	1.33	1,615	6	1.42
Dayton City Schools	1,532	7	1.25	1,670	5	1.47
Southwestern City Schools	1,200	8	0.98	1,029	8	0.90
Lakota Local Schools	1,036	9	0.84			
Parma City Schools	1,016	10	0.83	932	10	0.82
Canton City Schools				949	9	0.83
All other	103,347		84.01	93,226		81.91
Total	123,013		100.00%	113,811		100.00%

In fiscal year 2007 "All other" consisted of:

	Covered Employee Members	Number of School Districts
Local School Districts	36,851	373
City School Districts	43,363	184
Educational Service Centers	7,449	60
Exempted Village Districts	5,454	49
Higher Education	3,279	14
Vocational/Technical Schools	3,081	49
Community Schools	3,621	235
Other	249	8

Average Benefit Payments

Last ten fiscal years

Retirement Effective Dates	Years of Credited Service: 5-9	10-14	15-19	20-24	25-29	30 +
Period 7/1/06 to 6/30/07						
Average Monthly Benefit	$ 202	$ 415	$ 632	$ 938	$ 1,232	$ 2,082
Average Final Average Salary	1,382	1,751	1,959	2,260	2,449	3,121
Number of Retirees	344	312	364	417	578	722
Period 7/1/05 to 6/30/06						
Average Monthly Benefit	$ 188	$ 368	$ 629	$ 849	$ 1,138	$ 1,947
Average Final Average Salary	1,328	1,569	1,895	2,070	2,267	2,905
Number of Retirees	288	318	328	403	403	675
Period 7/1/04 to 6/30/05						
Average Monthly Benefit	$ 179	$ 363	$ 600	$ 847	$ 1,081	$ 1,949
Average Final Average Salary	1,254	1,585	1,860	2,058	2,201	3,033
Number of Retirees	253	281	352	382	700	674
Period 7/1/03 to 6/30/04						
Average Monthly Benefit	$ 168	$ 370	$ 572	$ 809	$ 1,011	$ 1,731
Average Final Average Salary	1,192	1,611	1,777	1,941	2,037	2,612
Number of Retirees	207	284	336	318	606	613
Period 7/1/02 to 6/30/03						
Average Monthly Benefit	$ 148	$ 317	$ 552	$ 755	$ 983	$ 1,780
Average Final Average Salary	1,015	1,373	1,686	1,811	1,988	2,663
Number of Retirees	204	285	328	346	618	533
Period 7/1/01 to 6/30/02						
Average Monthly Benefit	$ 156	$ 333	$ 560	$ 752	$ 958	$ 1,653
Average Final Average Salary	1,057	1,368	1,690	1,747	1,895	2,426
Number of Retirees	162	313	355	351	666	548
Period 7/1/00 to 6/30/01						
Average Monthly Benefit	$ 306	$ 308	$ 522	$ 707	$ 887	$ 1,670
Average Final Average Salary	1,030	1,335	1,593	1,674	1,756	2,474
Number of Retirees	190	326	358	399	696	526
Period 7/1/99 to 6/30/00						
Average Monthly Benefit	$ 238	$ 287	$ 483	$ 677	$ 805	$ 1,496
Average Final Average Salary	995	1,270	1,562	1,690	1,685	2,322
Number of Retirees	192	356	403	389	780	518
Period 7/1/98 to 6/30/99						
Average Monthly Benefit	$ 214	$ 286	$ 472	$ 631	$ 797	$ 1,470
Average Final Average Salary	1,005	1,271	1,501	1,558	1,655	2,301
Number of Retirees	201	337	349	352	689	406
Period 7/1/97 to 6/30/98						
Average Monthly Benefit	$ 146	$ 281	$ 458	$ 615	$ 742	$ 1,411
Average Final Average Salary	922	1,257	1,448	1,521	1,534	2,219
Number of Retirees	184	373	346	371	696	391

Plan Summary

Purpose

The School Employees Retirement System of Ohio was established in 1937 by the state legislature to provide retirement and disability benefits for all non-certificated persons employed by the state's 982 school districts and community schools. This purpose is sustained by the member and employer contributions and the income realized from investment of those contributions.

Administration

The administration of SERS is supervised by a nine-member Board which works in conjunction with the System's Executive Director. Four of the nine Board members are elected by the general membership (those who contribute to SERS) and two are elected by retirees. Three members are appointed by the legislature, state treasurer, and governor.

The Executive Director is appointed by the Board. This person oversees the administrative operation of the System and is aided by seven directors. Their areas of responsibility are finance, legal and legislation, investments, member services, health care, administrative services, and information technology.

Employer Participation

The school employers served by SERS include public schools within the state's cities, villages, and counties, as well as local districts, vocational and technical schools, community schools, and The University of Akron.

Employers contribute to SERS at the rate of 14.0% of payroll. Some employers pay the System directly on a monthly, quarterly, or annual basis, while others make payments through participation in the Ohio Department of Education's School Foundation Fund.

In addition to forwarding appropriate contribution amounts to SERS, it is the responsibility of the employers to supply SERS with new membership records, members' contribution information, and any data needed at the time of a member's application for benefits or refund of deposits on termination of employment.

Employee Participation

Membership in SERS is divided into several groups based on the activity of a member's SERS account. Member groups are:

A. Active Members – These are persons currently employed by a school employer. Membership is required for most employees working in a position that does not require certification by the Ohio Department of Education. These persons include clerical workers, maintenance personnel, bus drivers, food service workers, playground supervisors, data processing personnel, etc. Two exceptions to the membership requirements are: (1) persons with student status within a school district may choose to become members of SERS; and (2) temporary employees for emergency purposes. Active members have an amount equal to 10.0% of their earnings deducted from their gross salaries for each payroll period. These amounts are then forwarded to SERS by the payroll officer and applied to the member's account at SERS.

B. Inactive Members – These are persons who have contributions on deposit with SERS, but are not currently employed by a school district in the state of Ohio.

C. Retired/Disabled Members – These are persons who have either (1) met the age and service requirements for retirement from service; or (2) become eligible to receive benefits as a result of an injury or illness that prevents the member from performing regularly assigned duties.

D. Member's Survivors – When a member dies before retirement, the qualified beneficiaries become eligible for monthly benefits from SERS.

Refund of Contributions

A member is entitled to a full refund of contributions with SERS upon termination of school employment. Only the money the member has contributed is refundable.

In accordance with the Ohio Revised Code, there is a 90-day waiting period after the member's last day of service before the refund can be paid. A refund cancels any claim to benefits offered by SERS.

The refunded amount, plus interest, may be redeposited if, at some later date, the member returns to school service or to any other public service with the state of Ohio. This purchase may be made after the member has been credited with 1.5 years of contributing service.

Service Retirement

Members may retire from school employment if they have attained one of three combinations of age or service:

1. Five years of service and age 60; or
2. Twenty-five years of service and age 55; or
3. Thirty years of service at any age.

A member's age is defined to be the actual age a person has reached on the day of retirement. Any change of the date of birth on our records must be substantiated by submitting proof of date of birth to the System.

Service Credit

Service credit is the actual number of years or fraction thereof a person worked within a school district or districts in Ohio schools, plus any other free or purchased service the System recognizes.

Free service is service for which no contributions are required. This includes military service performed while on leave from the school district; and service granted for a period (three years or less) spent off the district's payroll while drawing state worker's compensation for a school job-related accident.

Purchased service is service for which payment plus interest is required. The interest rate is 7.5%. Service must be purchased before the date of retirement if it is to be considered in calculating the member's benefits. Payment may be made in a lump sum, in multiples of one month or more, or by tax deferred payroll deduction. The types of service that can be purchased are:

Military - A member may purchase up to five years of credit in SERS for active service in the armed forces of the U.S. There is no restriction placed on time elapsed between school employment and the time spent in the military. A member may purchase additional service credit if the military service includes prisoner of war time. Purchased credit may not be greater than the member's actual Ohio contributing credit.

Federal, Other State, or School Service – The member may purchase credit for service rendered in a school or government position outside the State of Ohio. The service cannot be greater than the member's contributing service nor can it exceed five years.

Refunded Service – Service lost due to the payment of a refund may be restored after the member has returned to work and accrued 1.5 years of service covered by SERS, State Teachers Retirement System (STRS), Ohio Public Employees Retirement System (OPERS), Ohio Police & Fire Pension Fund (OP&F), or State Highway Patrol Retirement System (SHPRS). An interest charge is payable in addition to the restored funds.

Compulsory Service – This is service for which the member should have made contributions while working, but did not, for whatever reason.

Optional Service – This is service during a period when the member was given a choice of contributing. The member must pay back contributions and may be responsible for the employer's share.

Leave of Absence – A member returning to work after a period of authorized leave may purchase service credit for the period involved. An employer contribution is required for this service to be granted, but the employer is under no obligation to make payment.

A member who has contributions not only at SERS, but also at STRS or OPERS is eligible to receive transferred credit from either or both of those systems. Any service which is not concurrent with (served at the same time as) SERS service will be included in determination of retirement benefits.

Early Retirement Incentive (ERI)

Employers may purchase up to five years of service credit for their eligible employees under an early retirement incentive plan authorized by 1983 legislation.

Adoption of a plan is optional and only employers may purchase up to five years of such credit.

Benefit Calculation

The final average salary is the average of the member's highest three years of earnings while in the school service.

The benefit amount is calculated in this way:

The final average salary amount is multiplied by 2.2% to determine the value of a year of service credit. The formula is 2.5% for credit over 30 years. This value cannot be less than $86. If it is, $86 is used. The value is then multiplied by the number of years of service credit. This calculation yields the annual retirement benefit amount for a person who is 65 at retirement time.

For "early retirement" (the member is under age 65 or has less than 30 years of service) there is a corresponding percentage of decrease in the benefit amount to allow for an extended period of retirement. Reduction factors are required by Ohio state law.

Retirement Options

Should the retiring member wish to provide a benefit amount for a beneficiary upon the retiree's death, this may be done by the selection of one of the optional retirement plans provided for this purpose. Optional plans may be altered by the retired member should the beneficiary die before the retiree or in the event of a divorce, with consent of the ex-spouse or a court order.

Disability Retirement

A member prevented from performing regular duties on the job after incurring an injury or illness may apply for monthly disability benefits. To qualify, the member must have at least 5 years of service credit. In addition to the age and service requirements, the member must:

- Have developed the disabling illness or injury after last becoming a member of SERS;
- Have been recommended for approval by a SERS-sponsored medical review board;
- Have applied for benefits within 2 years of the last day of service with the school district;
- Not have withdrawn contributions or retired on service retirement.

There are two disability plans with differing benefits. All new members are under the new plan. Benefits range from 30% of final average salary to 75%. Benefits are for life under the old plan, subject to re-examination, and may be converted to service retirement under the new plan.

Death Benefits

The designated beneficiary of any SERS retiree will receive a $1,000 lump sum payment upon the retiree's death. If there is no beneficiary, payment is made to the person responsible for the burial expenses or to the retiree's estate.

Survivor Benefits

Qualified dependents of a deceased member may apply for monthly survivor benefits. Such benefits are payable if the member had at least 18 months of Ohio service credit, three of which were served in the 2.5 years prior to the member's death, or if the member was receiving a disability benefit.

If the member was eligible for service retirement but had not yet applied for benefits, the surviving spouse or other single dependent beneficiary of any age can draw a monthly lifetime benefit known as the joint survivor option.

Health Care and Other Benefits

Eligible benefit recipients currently receive medical insurance from SERS. SERS reserves the right to change or discontinue any health plan or program. Coverage for a spouse and/or dependent children can be provided by means of a monthly deduction from the benefit. Coverage is offered by the selection of the Aetna or Medical Mutual plans, AultCare, or HMOs available in certain counties.

If the benefit recipient participates in Medicare B, SERS reimburses the recipient $45.50 per month.

A prescription drug program is available to benefit recipients of SERS and their dependents who are covered under one of the health plans. Participants may either choose to obtain prescription drugs from a participating local pharmacy and pay 20% of the cost or they may elect to receive the drugs by mail from a licensed mail order pharmacy for a minimal fee per medication.

Members retiring after June 1, 1986 must have 10 or more years of qualified service credit to qualify for the health care benefits.

All benefit recipients enrolled in one of the health plans pay a monthly premium. The premium ranges from 15% to 100% of the cost, depending upon qualified years of service credit.

Cost of Living Increases

After 12 months on the benefit rolls, and each year thereafter, SERS retirees are entitled to an automatic cost of living increase of 3%. In addition, the legislature has granted several permanent ad hoc increases to SERS retirees, the last such increase being in 1988.

Reemployed Retirees' Annuity

Ohio public system retirees who work in a SERS covered position are entitled to an annuity at age 65. The annuity is based on a money purchase formula and may be paid in monthly payments if the monthly amount is $25 or more. If the monthly amount is less than $25, the annuity will be paid in a lump sum. A refund of contributions only is available for those who stop working under age 65.

School Employees Retirement System of Ohio
300 East Broad Street, Suite 100
Columbus, Ohio 43215-3746
www.ohsers.org