

**California State Teachers'  
Retirement System**  
(A Component Unit of the State of California)

**Independent Auditor's Report,  
Financial Statements, Required Supplementary  
Information, and Other Supplemental Information**

**For the Fiscal Year Ended June 30, 2008**

**California State Teachers' Retirement System  
(A Component Unit of the State of California)  
For the Fiscal Year Ended June 30, 2008**

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To the Teachers' Retirement Board of the  
California State Teachers' Retirement System  
Sacramento, California

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of fiduciary net assets of the California State Teachers' Retirement System (the System), a component unit of the State of California, as of June 30, 2008, and the related statement of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2007 financial statements on which our report dated October 1, 2007, expressed an unqualified opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the California State Teachers' Retirement System as of June 30, 2008, and the changes in fiduciary net assets for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

As described in Note 2, effective July 1, 2007, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No.27*.

As described in Note 3, based on the most recent actuarial valuation as of June 30, 2007, the System's independent actuaries determined that, at June 30, 2007, the value of the Defined Benefit Program's actuarial accrued obligation exceeded the actuarial value of its assets by \$18.7 billion.

Subsequent to June 30, 2008, the global financial markets have experienced significant volatility. As a result, as of September 30, 2008, the fair value of the System's investments has declined as described in Note 8.

In accordance with *Government Auditing Standards*, we have issued our report dated October 17, 2008, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7, the Schedule of Funding Progress on page 33 and the Schedule of Contributions from Employers and Other Contributing Entities on pages 34 through 36 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to 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.

*Maclean Meiri & O'Connell LLP*

Certified Public Accountants

Sacramento, California  
October 17, 2008

# California State Teachers' Retirement System Management's Discussion and Analysis (Unaudited) June 30, 2008

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) of the California State Teachers' Retirement System's (System) financial performance provide an overview of the System's financial activities for the fiscal year ended June 30, 2008. We designed the MD&A to focus on the current year's activities, resulting changes, and currently known facts, and we encourage you to read it in conjunction with the System's financial statements and notes to the financial statements.

The System is primarily responsible for administering retirement, disability, survivor and health benefits, as well as a supplemental retirement savings plan for California public school teachers and certain other employees of the State's public school system. The System is comprised of a total of six fiduciary funds:

1. Teachers' Retirement Fund (TRF)
2. Pension2 Program (IRC 403(b) Plan)
3. Teachers' Health Benefits Fund (THBF)
4. Teachers' Replacement Benefits Program Fund (TRBPF)
5. Teachers' Deferred Compensation Fund (TDCF)
6. Teachers' Retirement Program Development Fund (TRPDF)

## FINANCIAL HIGHLIGHTS

- Net assets decreased by \$10.9 billion or 6% to \$161.7 billion.
- Net investment loss totaled \$9.7 billion, a decrease of \$39.5 billion or 132%.
- As of June 30, 2007, the System's Defined Benefit Program was estimated to be funded at 89%, compared to an estimated funding level of 87% as of June 30, 2006.
- Total contributions increased by \$893.5 million or 16% to \$6.7 billion.
- Benefit payments increased by \$656.2 million or 9% to \$7.9 billion.
- Refund of members' contributions decreased by \$4.4 million or 4% to \$101.8 million.
- The TDCF was recently established and has net assets of \$138 thousand.

## OVERVIEW OF FINANCIAL STATEMENTS

MD&A is an introduction to the System's basic financial statements. The System's financial statements include the following components: (1) fund financial statements, (2) notes to the basic financial statements, (3) required supplementary information, and (4) other supplemental information.

**Fund financial statements.** The statement of fiduciary net assets presents information on all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, the increase or decrease in net assets serves as a useful indicator of the health of the System's financial position. The statement of changes in fiduciary net assets shows how the System's net assets changed during the fiscal year.

# California State Teachers' Retirement System Management's Discussion and Analysis (Unaudited) June 30, 2008

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**Notes to the financial statements.** The financial statement notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. Below we describe the information available in the notes to the financial statements.

- Note 1 provides a general description of the System, as well as a concise description of each of the funds administered by the System.
- Note 2 provides a summary of significant accounting policies, including the basis of accounting for the System, management's use of estimates, cash and investment accounting policies, and other significant accounting policies.
- Note 3 provides a summary of the System's funded status and funding progress for the State Teachers' Retirement Plan and Medicare Premium Payment Program in accordance with GASB Statement No. 43 and 50.
- Note 4 describes investments, including disclosures required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which includes information about the System's investment risk related to credit, (including custodial credit and concentrations of credit risk), interest rate, and foreign currency risks.
- Note 5 generally describes potential contingencies of the System.
- Note 6 provides a summary of significant commitments incurred by the System.
- Note 7 provides a summary of new accounting and financial reporting pronouncements.
- Note 8 provides a summary of subsequent events that occur after June 30, 2008.

**Required supplementary information.** The required supplementary information consists of two schedules and related notes on the defined benefit pension and other postemployment benefit plans' funding progress and history of contributions from employers and other contributing entities. These schedules provide historical information that assists in understanding the funded status of the System over time.

**Other supplemental information.** Other supplemental information includes detailed information on administrative expenses, investment expenses, and consultant and professional services expenses.

## FINANCIAL ANALYSIS

**Teachers' Retirement Fund (TRF).** The TRF is an employee benefit trust fund created to administer the State Teachers' Retirement Plan (STRP). The STRP is a defined benefit pension plan which provides for retirement, disability, and survivor benefits. The STRP is comprised of three programs: Defined Benefit (DB) Program, Defined Benefit Supplement (DBS) Program, and the Cash Balance (CB) Benefit Program.

## California State Teachers' Retirement System Management's Discussion and Analysis (Unaudited) June 30, 2008

The STRP net assets decreased 6% during the fiscal year, from \$172.4 billion in fiscal year 2006-07 to \$161.5 billion as of June 30, 2008. Investments, excluding securities lending collateral, decreased by \$9.8 billion or 6% to \$162.8 billion as of June 30, 2008. At June 30, 2008, the STRP held \$31.7 billion in debt securities, a decrease of \$3.7 billion or 11% from fiscal year 2006-07. At June 30, 2008, the STRP also held \$92.3 billion in U.S. and international equity securities, a decrease of \$13.5 billion or 13% from fiscal year 2006-07. Remaining holdings in short-term, alternative, and real estate investments totaled \$38.9 billion at June 30, 2008, an increase of \$7.5 billion or 24% from fiscal year 2006-07. Prior fiscal year asset allocation changes increased our weightings to alternative investments and real estate by 4% and decreased our weightings to public debt, U.S. equity and international securities by 4%. Additionally, real estate and alternative investments, which lag other markets, provided positive returns whereas equity and debt markets continued their decline as investors sought protection from the effects of the mortgage crisis. Net depreciation on investments of \$14.5 billion in fiscal year 2007-2008 compared to a net appreciation of \$25.3 billion in fiscal year 2006-07, totaled a decrease of \$39.8 billion. The decrease of \$39.8 billion can be attributed to the financial and credit crisis, initiated by the subprime mortgage meltdown approximately one year ago. In fiscal year 2007-08, the Real Estate Leverage Program obligations were paid off in the amount of \$492 million. The System entered into reverse repurchase agreements totaling \$1.5 billion for the fiscal year ended June 30, 2008.

### NET ASSETS

(Dollars in Thousands)

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>	<u>Percent Change</u>
Investments <sup>1</sup>	\$189,912,781	\$204,676,971	(7)%
Cash and Cash Equivalents	257,976	423,322	(39)%
Receivables	5,070,507	4,197,635	21%
Other	1,326	1,151	15%
<b>TOTAL ASSETS</b>	<b>195,242,590</b>	<b>209,299,079</b>	<b>(7)%</b>
<u>LIABILITIES</u>			
Benefits in Process of Payment	719,028	55,026	1207%
Investment Settlement	4,306,929	4,183,326	3%
Real Estate Leverage Program Obligation	0	491,850	(100)%
Obligation Under Reverse Repurchase	1,500,000	0	100%
Other Liabilities	141,804	124,345	(14)%
Securities Lending Obligation	27,076,636	32,066,614	(16)%
<b>TOTAL LIABILITIES</b>	<b>33,744,397</b>	<b>36,921,161</b>	<b>(9)%</b>
<b>TOTAL NET ASSETS</b>	<b>\$161,498,193</b>	<b>\$172,377,918</b>	<b>(6)%</b>

<sup>1</sup> Includes securities lending collateral.

The System funds STRP benefits from employer, member and State contributions, and investment earnings. Member contributions overall increased in fiscal year 2007-08 by \$176.9 million or 8% from fiscal year 2006-07. Employer contributions increased by \$167.5 million or 7%. The State contributions increased in fiscal year 2007-08 by \$545.2 million or 50% from fiscal year 2006-07, which is attributable to the receipt of a \$500 million legal settlement from the State. The STRP experienced a net investment loss of \$9.4 billion in fiscal year 2007-08 compared with a gain of \$29.8 billion in fiscal year 2006-07. The primary contributor to the loss in fiscal year 2007-08 was U.S. and international equity securities, which represented nearly 60% of STRP assets.

**California State Teachers' Retirement System  
Management's Discussion and Analysis (Unaudited)  
June 30, 2008**

**CHANGES IN NET ASSETS**

(Dollars in Thousands)

	<u>2008</u>	<u>2007</u>	<u>Percent Change</u>
<b>ADDITIONS</b>			
Member/Participant	\$2,511,810	\$2,334,954	8%
Employer	2,453,268	2,285,728	7%
State	1,629,635	1,084,387	50%
Investment/Other Income (Loss)	(9,442,002)	29,840,439	(132)%
<b>TOTAL ADDITIONS</b>	<b>(2,847,289)</b>	<b>35,545,508</b>	<b>(108)%</b>
<b>DEDUCTIONS</b>			
Benefit Payments	7,821,540	7,167,918	9%
Refund of Contributions	101,778	106,153	(4)%
Administrative Expenses	109,363	105,895	3%
<b>TOTAL DEDUCTIONS</b>	<b>8,032,681</b>	<b>7,379,966</b>	<b>9%</b>
<b>TRANSFERS</b>	<b>245</b>	<b>0</b>	<b>100%</b>
<b>NET ASSET INCREASE (DECREASE)</b>	<b>(10,879,725)</b>	<b>28,165,542</b>	<b>(139)%</b>
<b>BEGINNING NET ASSETS</b>	<b>172,377,918</b>	<b>144,212,376</b>	<b>20%</b>
<b>ENDING NET ASSETS</b>	<b>\$161,498,193</b>	<b>\$172,377,918</b>	<b>(6)%</b>

Deductions, which include benefit payments, refund of contributions and administrative expenses, totaled \$8 billion for the year. Growth in the number of new retirees increased benefit payments to \$7.8 billion, an increase of \$653.6 million or 9% over the prior year. Refund of contributions in fiscal year 2007-08 decreased \$4.4 million or 4% to \$101.8 million.

The most recent actuarial valuation for the fiscal year ended June 30, 2007, indicates that the DB Program is underfunded, with 89% of the funds needed to pay the actuarial cost of the benefits accrued as of June 30, 2007. This is an increase from the 87% estimated funding status as of June 30, 2006. The amount by which the DB Program actuarial obligation exceeded actuarial assets was \$18.7 billion as of June 30, 2007. The most recent actuarial valuation indicates that the DB Program's expected future revenue will be insufficient to finance its obligations including amortization of the unfunded status over the next 30 years.

After June 30, 2008, STRP investments continued to decline due to extreme market volatility around the globe. The investment portfolio is not immune to some of the specific issuer financial events. However, our strength comes from being well diversified. STRP continues to work as designed – by weathering the storm, maintaining long-term investment strategies, and pursuing opportunities to purchase undervalued investments.

**Pension2 Program (Pension2).** The Pension2 (formerly known as the Voluntary Investment Program), offers Internal Revenue Code (IRC), Section 403(b) and 457 plans which are tax-deferred defined contribution plans. TIAA-CREF has been retained to provide administration and trustee services over the Pension2. Through the Pension2, members have the opportunity to supplement their pension benefits. Pension2 is currently comprised of IRC 403(b) plan activities and as of June 30, 2008 investments increased by \$3.9 million or 2% and net assets increased by \$3.6 million or 2%.

## **California State Teachers' Retirement System Management's Discussion and Analysis (Unaudited) June 30, 2008**

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**Teachers' Health Benefits Fund (THBF).** The THBF is a trust fund created to administer health benefit programs for members of the Defined Benefit Program. The Medicare Premium Payment Program (MPP Program), the only program within the fund, pays Medicare Part A premiums and surcharges and Part B surcharges for members meeting certain eligibility criteria.

The System funds the MPP Program from current employer contributions, which increased by \$982 thousand or 3% to \$33.2 million during fiscal year 2007-08. The THBF paid benefits of \$32.7 million in fiscal year 2007-08 compared with \$31.3 million the prior year. The System invests the assets of the THBF in the State of California's Surplus Money Investment Fund and earned \$205 thousand in interest income for the fiscal year ended June 30, 2008.

The most recent actuarial valuation for the fiscal year ended June 30, 2006, indicates that the MPP Program is underfunded, with less than 1% of the funds needed to pay the actuarial cost of the benefits accrued as of June 30, 2006. The amount by which the MPP Program actuarial obligation exceeded actuarial assets was \$794 million as of June 30, 2006. The most recent actuarial valuation indicates that the current assets are insufficient to fund the MPP Program's actuarial obligation over the remaining 29 years.

**Teachers' Replacement Benefits Program Fund (TRBPF).** The TRBPF is a replacement pension benefit plan established to pay the portion of annual benefits that exceeds the annual limitations under Section 415 of the Internal Revenue Code of 1986 (26 U.S.C. Section 415). Current employer contributions fund this benefit program on an as needed basis. The TRBPF received contributions of \$1.7 million to pay benefits during fiscal year 2007-08 compared with \$514 thousand from the prior year, resulting in an increase of \$1.2 million due to a 136% growth in participants.

**Teachers' Deferred Compensation Fund (TDCF).** The TDCF is a trust fund established to track ancillary activities associated with various deferred compensation plans and programs offered by the System to enhance the tax-deferred financial options for the members and their beneficiaries. The TDCF received revenues, fees and interest of \$630 thousand for the fiscal year ended June 30, 2008.

**Teachers' Retirement Program Development Fund (TRPDF).** The TRPDF is a trust fund established to pay any costs related to the development of programs authorized by statute to enhance the financial security of member or beneficiaries for the System. The TRPDF was funded with \$245 thousand of employer contributions during the fiscal year ended June 30, 2008 for the continued development of 403bComply, which will provide total 403(b) administration and compliance services to school districts that contract with the System for such services. Pursuant to Chapter 232, Statutes 2007 (AB 757) any assets in the TRPDF as of January 1, 2008 were transferred to the TDCF for the ongoing administration of the 403bComply.

### **REQUESTS FOR INFORMATION**

This Financial Report is designed to provide a general overview of the System's finances. For questions concerning any information in this report or for additional information contact the California State Teachers' Retirement System, P.O. Box 15275, Sacramento, CA 95851-0275.

**California State Teachers' Retirement System**  
**Statement of Fiduciary Net Assets**  
**As of June 30, 2008 (with Comparative Totals as of June 30, 2007)**  
**(Dollars in Thousands)**

	Teachers' Retirement Fund	Pension 2 IRC 403(b) Plan	Teachers' Health Benefits Fund	Teachers' Replacement Benefits Program Fund
<b>Assets</b>				
Investments, at fair value:				
Short term	\$ 1,881,611	\$ 3,884	\$ 2,381	\$ -
Debt securities	31,657,373	-	-	-
Equities:				
Domestic	58,466,504	-	-	-
International	33,841,198	-	-	-
Mutual funds	-	133,853	-	-
Guaranteed annuity contracts	-	34,878	-	-
Alternative investments	16,577,341	-	-	-
Real estate investments	20,412,118	-	-	-
Securities lending collateral	27,076,636	-	-	-
Total investments	189,912,781	172,615	2,381	-
Cash and cash equivalents	257,976	-	1	-
Receivables:				
Investments sold	1,521,607	-	-	-
Foreign currency contracts	2,192,835	-	-	-
Interest and dividends	484,568	-	40	-
Member, employer and other	871,497	900	1,812	-
Total receivables	5,070,507	900	1,852	-
Other assets	1,326	-	-	-
Total assets	195,242,590	173,515	4,234	-
<b>Liabilities</b>				
Investments purchase payable	2,106,962	-	-	-
Foreign currency contracts payable	2,199,967	-	-	-
Benefits in process of payment	719,028	-	-	-
Real estate leverage program obligation	-	-	-	-
Obligation under reverse repurchase agreement	1,500,000	-	-	-
Other liabilities	141,804	-	50	-
Securities lending obligation	27,076,636	-	-	-
Total liabilities	33,744,397	-	50	-
<b>Net assets held in trust for pension and other postemployment benefits (schedules of funding progress are presented in Schedule I)</b>				
	\$161,498,193	\$ 173,515	\$ 4,184	\$ -

The accompanying notes are an integral part of these financial statements.

**California State Teachers' Retirement System**  
**Statement of Fiduciary Net Assets (Continued)**  
**As of June 30, 2008 (with Comparative Totals as of June 30, 2007)**  
**(Dollars in Thousands)**

	Teachers' Deferred Compensation Fund		Teachers' Retirement Program Development Fund		Comparative Totals	
					2008	2007
<b>Assets</b>						
Investments, at fair value:						
Short term	\$	650	\$	-	\$ 1,888,526	\$ 1,753,505
Debt securities		-		-	31,657,373	35,395,073
Equities:						
Domestic		-		-	58,466,504	68,306,223
International		-		-	33,841,198	37,507,109
Mutual funds		-		-	133,853	142,027
Guaranteed annuity contracts		-		-	34,878	-
Alternative investments		-		-	16,577,341	12,634,835
Real estate investments		-		-	20,412,118	17,042,478
Securities lending collateral		-		-	27,076,636	32,066,614
Total investments		650		-	190,088,427	204,847,864
Cash and cash equivalents		-		-	257,977	423,524
Receivables:						
Investments sold		-		-	1,521,607	1,073,288
Foreign currency contracts		-		-	2,192,835	2,060,407
Interest and dividends		6		-	484,614	529,288
Member, employer and other		-		-	874,209	537,421
Total receivables		6		-	5,073,265	4,200,404
Other assets		-		-	1,326	1,151
Total assets		656		-	195,420,995	209,472,943
<b>Liabilities</b>						
Investments purchase payable		-		-	2,106,962	2,121,719
Foreign currency contracts payable		-		-	2,199,967	2,061,607
Benefits in process of payment		1		-	719,029	55,026
Real estate leverage program obligation		-		-	-	491,850
Obligation under reverse repurchase agreement		-		-	1,500,000	-
Other liabilities		517		-	142,371	124,574
Securities lending obligation		-		-	27,076,636	32,066,614
Total liabilities		518		-	33,744,965	36,921,390
<b>Net assets held in trust for pension and other postemployment benefits (schedules of funding progress are presented in Schedule I)</b>	\$	138	\$	-	\$161,676,030	\$172,551,553

The accompanying notes are an integral part of these financial statements.

**California State Teachers' Retirement System**  
**Statement of Changes in Fiduciary Net Assets**  
**For the Fiscal Year Ended June 30, 2008**  
**(with Comparative Totals for the Fiscal Year Ended June 30, 2007)**  
**(Dollars in Thousands)**

	Teachers' Retirement Fund	Pension 2 IRC 403(b) Plan	Teachers' Health Benefits Fund	Teachers' Replacement Benefits Program Fund
<b>Additions</b>				
Contributions:				
Member contributions	\$ 2,511,810	\$ 24,925	\$ -	\$ -
Employer contributions	2,453,268	-	33,239	1,706
State of California	1,629,635	-	-	-
Total contributions	6,594,713	24,925	33,239	1,706
Investment Income/(Loss):				
Net appreciation/(depreciation) (realized & unrealized) in fair value of investments	(14,523,848)	(19,263)	-	-
Interest, dividends and other	4,882,026	6,694	205	-
Securities lending income	1,357,862	-	-	-
Less investment expenses:				
Cost of lending securities	(1,142,936)	-	-	-
Cost of reverse repurchase agreements	(20,154)	-	-	-
Other investment expenses	(208,068)	-	-	-
Net investment income/(loss)	(9,655,118)	(12,569)	205	-
Other income	213,116	17	-	-
Total additions	(2,847,289)	12,373	33,444	1,706
<b>Deductions</b>				
Retirement, disability, death and survivor benefits	7,591,680	-	32,689	1,701
Distributions and withdrawals	-	8,206	-	-
Purchasing power benefits	229,860	-	-	-
Refunds of member contributions	101,778	-	-	-
Administrative expenses	109,363	526	334	5
Total deductions	8,032,681	8,732	33,023	1,706-
Transfers in	245	-	-	-
Transfers out	-	-	-	-
Total transfers	245	-	-	-
<b>Net increase/(decrease)</b>	(10,879,725)	3,641	421	-
<b>Net assets/(deficit) held in trust for pension and other postemployment benefits</b>				
Beginning of the year	172,377,918	169,874	3,763	-
End of the year	\$161,498,193	\$ 173,515	\$ 4,184	\$ -

The accompanying notes are an integral part of these financial statements.

**California State Teachers' Retirement System**  
**Statement of Changes in Fiduciary Net Assets (Continued)**  
**For the Fiscal Year Ended June 30, 2008**  
**(with Comparative Totals for the Fiscal Year Ended June 30, 2007)**  
**(Dollars in Thousands)**

	Teachers' Deferred Compensation Fund		Teachers' Retirement Program Development Fund		Comparative Totals	
			2008	2007	2008	2007
<b>Additions</b>						
Contributions:						
Member contributions	\$ -	\$ -	\$ 2,536,735	\$ 2,358,292	\$ 2,536,735	\$ 2,358,292
Employer contributions	-	245	2,488,458	2,318,699	2,488,458	2,318,699
State of California	-	-	1,629,635	1,084,387	1,629,635	1,084,387
Total contributions	-	245	6,654,828	5,761,378	6,654,828	5,761,378
Investment Income/(Loss):						
Net appreciation/(depreciation) (realized & unrealized) in fair value of investments	-	-	(14,543,111)	25,249,467	(14,543,111)	25,249,467
Interest, dividends and other	26	3	4,888,954	4,680,060	4,888,954	4,680,060
Securities lending income	-	-	1,357,862	1,573,052	1,357,862	1,573,052
Less investment expenses:						
Cost of lending securities	-	-	(1,142,936)	(1,493,236)	(1,142,936)	(1,493,236)
Cost of reverse repurchase agreements	-	-	(20,154)	-	(20,154)	-
Other investment expenses	-	-	(208,068)	(146,426)	(208,068)	(146,426)
Net investment income/(loss)	26	3	(9,667,453)	29,862,917	(9,667,453)	29,862,917
Other income	604	-	213,737	571	604	571
Total additions	630	248	(2,798,888)	35,624,866	(2,798,888)	35,624,866
<b>Deductions</b>						
Retirement, disability, death and survivor benefits	-	-	7,626,070	6,969,358	7,626,070	6,969,358
Distributions and withdrawals	-	-	8,206	8,451	8,206	8,451
Purchasing power benefits	-	-	229,860	230,337	229,860	230,337
Refunds of member contributions	-	-	101,778	106,153	101,778	106,153
Administrative expenses	404	89	110,721	107,076	404	107,076
Total deductions	404	89	8,076,635	7,421,375	8,076,635	7,421,375
Transfers in	157	-	402	-	157	-
Transfers out	(245)	(157)	(402)	-	(245)	-
Total transfers	(88)	(157)	-	-	(88)	-
<b>Net increase/(decrease)</b>	138	2	(10,875,523)	28,203,491	(10,875,523)	28,203,491
<b>Net assets/(deficit) held in trust for pension and other postemployment benefits</b>						
Beginning of the year	-	(2)	172,551,553	144,348,062	-	(2)
End of the year	\$ 138	\$ -	\$ 161,676,030	\$ 172,551,553	\$ 138	\$ -

The accompanying notes are an integral part of these financial statements.

# California State Teachers' Retirement System

## Notes to the Basic Financial Statements

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### 1. Description of the System and Contribution Information

The California State Teachers' Retirement System (System) is the administrator of cost-sharing multiple-employer pension plans, a tax-deferred defined contribution plan, the Medicare Premium Payment Program, the Replacement Benefits Program, the Deferred Compensation Fund and the Retirement Program Development Fund as described below. The State Education Code known as the Teachers' Retirement Law (Section 22000 et. seq.), as amended and enacted by the State of California (State) Legislature established these plans and programs and the System as the administrator. The System is a component unit of the State. These financial statements include only the accounts of the System. The State includes the System's basic financial statements as a fiduciary fund in its financial statements. The System provides pension benefits to California full-time and part-time public school teachers from preschool through grade fourteen and certain other employees of the public school system.

#### Teachers' Retirement Fund (TRF)

The TRF is used to account for the State Teachers' Retirement Plan (STRP) which is comprised of three programs: the Defined Benefit Program (DB Program), the Defined Benefit Supplement Program (DBS Program) and the Cash Balance Benefit Program (CB Benefit Program). STRP holds these assets for the exclusive purpose of providing benefits to members and beneficiaries of the DB Program, the DBS Program and the CB Benefit Program. Also, the System uses these assets to defray reasonable expenses of administering the STRP and the System.

#### STRP Defined Benefit Program (DB Program)

The DB Program is a defined benefit pension plan. At June 30, 2008, there were 1,700 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). The State is also a contributor to the DB Program. Membership is mandatory for all employees meeting certain statutory requirements, and optional for all other employees performing creditable service. At June 30, 2007, membership consisted of:

Active members	
Vested	299,057
Nonvested	156,636
Inactive members	141,450
Retirees and benefit recipients	215,641
Total members, retirees and beneficiaries	<u>812,784</u>

Information as of June 30, 2008 will not be available prior to December 2008.

## California State Teachers' Retirement System

### Notes to the Basic Financial Statements (Continued)

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The DB Program provides defined retirement benefits based on members' final compensation, age, and years of credited service. In addition, the retirement program provides benefits to members upon disability, and to survivors/beneficiaries upon the death of eligible members. Benefit provisions include:

- After five years of credited service, members become 100% vested in retirement benefits earned to date. Members are eligible for normal retirement at age 60. The normal retirement benefit is equal to 2% of final compensation for each year of credited service. Early retirement options are available at age 55 or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4% at age 63 or older. Members who have 30 years or more of credited service shall receive an additional increase of 0.2% in the age factor. In no event shall the total benefit factor exceed 2.4%.
- The System calculates retirement benefits based on a one-year final compensation for members who retire on or after January 1, 2001, with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elects to pay the additional benefit cost. One-year final compensation means a member's highest average annual compensation earnable calculated by taking the creditable compensation that a member could earn in a school year while employed, if he or she were employed on a full-time basis, and if that person worked full time in that position during any period of 12 consecutive months. For all other members, final compensation is defined as the highest average annual compensation earned during any three consecutive years of credited service.
- Members who retire on or after January 1, 2001, and accumulate at least 30 years of credited service by January 1, 2011, will receive a longevity bonus.
- After five years of credited service, a member (prior to age 60 if under Coverage A, no age limit if under Coverage B, as defined in Education Code Sections 24001 and 24101, respectively) is eligible for disability benefits of up to 50% of final compensation plus 10% of final compensation for each eligible child, up to a maximum addition of 40%. The member must have a disability that will exceed a period of twelve or more months to qualify for a benefit.
- A family benefit is available if an active member died and had at least one year of credited service.
- Members' accumulated contributions are refundable with interest upon separation from the System. The Board determines the credited interest rate each fiscal year. For the year ended June 30, 2008, the rate of interest credited to members' accounts is 5.25%.
- There is an automatic postretirement cost of living increase of 2% per year on a simple (rather than compound) basis.

## California State Teachers' Retirement System

### Notes to the Basic Financial Statements (Continued)

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Purchasing power protection is provided to members of the DB Program through the Purchasing Power Protection Program. Annual distributions (in quarterly payments) to retired and disabled members and beneficiaries restore purchasing power to a minimum of 80% of the initial monthly allowance. The annual contribution needed to meet the obligation of the Purchasing Power Protection Program on an actuarial basis has not been determined. Funding for the Purchasing Power Protection Program is from School Lands Revenue and the Supplemental Benefit Maintenance Account (SBMA). Public Resources Code Section 6217.5 appropriates School Lands Revenue. The State is required to contribute 2.5% of prior fiscal year teacher payroll to fund the SBMA. In addition, the proceeds from the sale of the Elk Hills Naval Petroleum Reserve are appropriated in annual installments by the federal government to be deposited to the SBMA.

In fiscal year ended June 30, 2004, special legislation reduced the State's contribution to the Supplemental Benefit Maintenance Account by \$500 million. Subsequently, the System took legal action to compel the State to contribute the remaining \$500 million. On August 30, 2007, the Third District Court of Appeal in Sacramento issued a decision requiring the State to pay the System \$500 million plus interest for the withheld contribution from fiscal year 2003-04. On September 6, 2007, the State paid the System \$500 million, which was comprised of \$111.2 million in interest and \$388.8 for contributions. Discussion is ongoing in regards to the payment of interest and the remaining withheld contributions.

In fiscal year 2007-08, the State statutory SBMA contribution is \$621.5 million.

#### ***Contributions***

Required member and employer contribution rates are set by the Teachers' Retirement Law. Required contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method. The System also uses the level percentage of payroll method to calculate the amortization of any unfunded liability.

A summary of statutory contribution rates and other sources of contributions to the DB Program is as follows:

- |           |   |
|-----------|---|
| Members   | - 6% of applicable member earnings through December 31, 2010, increasing to 8% thereafter.  |
| Employers | - 8.25% of applicable member earnings.  |
| State     | - Beginning July 1, 1999, under Education Code Section 22955, the General Fund transferred annually to the DB Program an amount equal to 3.102% of total creditable earnings of the immediately preceding calendar year to fund certain benefit enhancements effective January 1, 1999. The enactment of Chapter 1021, Statutes of 2000 (AB 2700) provided for a reduction in such funding from the General Fund to a factor of 2.5385% beginning July 1, 2000. The funding was further reduced to 1.9750% beginning July 1, 2001, and effective through June 30, 2003. Beginning July 1, 2003, the rate increased to 2.017% of the member's creditable earnings from the fiscal year ending in the prior calendar year. State contribution totaled \$501.4 million in fiscal year 2007/2008. |

## California State Teachers' Retirement System

### Notes to the Basic Financial Statements (Continued)

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Beginning October 1, 1998, a statutory contribution rate of 0.524%, adjustable annually in 0.25% increments up to a maximum of 1.505%, of the creditable earnings of the immediately preceding calendar year was established under Education Code Section 22955. This contribution is reduced to zero if there is no unfunded actuarial obligation and no normal cost deficit for benefit plans in place as of July 1, 1990. Based on the most recent actuarial valuation, as of June 30, 2007, there is no normal cost deficit or unfunded obligation for benefits in place as of July 1, 1990. As a result, the General Fund is not required to contribute quarterly payments starting October 1, 2008.

#### **STRP Defined Benefit Supplement Program (DBS Program)**

The DBS Program, established pursuant to Chapter 74, Statutes of 2000 (AB 1509), is a defined benefit pension plan that operates within the STRP. All persons who were active members of the DB Program on or after January 1, 2001, are also members of the DBS Program.

Interest is credited to the nominal DBS Program accounts at the minimum guaranteed annual rate established by the Teacher's Retirement Board (Board) prior to each plan year, which was 5.25% for the fiscal year ended June 30, 2008. The Board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the minimum guaranteed annual rate and meet criteria set out in Board policy. On June 5, 2008, the Board granted additional earnings of 4.41% of active and inactive members' June 30, 2007 nominal accounts and additional annuity credits of 4.41% of retired members' nominal accounts as of their retirement date. The dollar value of these credits was \$195.2 million based on the June 30, 2007 DBS Program actuarial valuation.

#### ***Contributions***

Beginning January 1, 2001, and continuing through December 31, 2010, 2% of applicable member earnings for service less than or equal to one year of creditable service per fiscal year are credited to the members' nominal DBS Program accounts. In addition, beginning July 1, 2002, for service in excess of one year of service credit within one fiscal year, the member contributions of 8% and employer contributions of 8% are credited to the members' nominal DBS Program account. Also, contributions for the compensation as a result of retirement incentives or limited term enhancements are credited to the members account.

#### **STRP Cash Balance Benefit Program (CB Benefit Program)**

The CB Benefit Program, established under Chapter 592, Statutes of 1995 and subsequently merged into the STRP by Chapter 1048, Statutes of 1998 (SB 2085), is a defined benefit pension plan. The CB Benefit Program is designed for employees of California's public schools who are hired to perform creditable service for less than 50% of the full-time equivalent for the position. Participation in the CB Benefit Program is optional to school districts, community college districts, county offices of education, and regional occupational programs. A school district, community college district, county office of education, or regional occupational program may elect to offer the CB Benefit Program. Under such election, the program will automatically cover each eligible employee, unless the employee elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire or the election period determined by the employer.

## California State Teachers' Retirement System

### Notes to the Basic Financial Statements (Continued)

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Interest is credited to the nominal CB Benefit Program accounts at the minimum guaranteed annual rate established by the Board prior to each plan year, which was 5.25% for the year ended June 30, 2008. The Board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the minimum guaranteed annual rate and meet criteria set out in Board policy. On June 5, 2008, the Board granted additional earnings credit of 4.69% of active and inactive members' June 30, 2007 nominal accounts and additional annuity credits of 4.69% of retired members' June 30, 2007 nominal accounts. The dollar value of these credits was \$3.6 million based on the June 30, 2007 CB Benefit Program actuarial valuation.

#### ***Contributions***

A summary of statutory contribution rates for the CB Benefit Program is as follows:

Participants - 4% of applicable participant earnings

Employers - 4% of applicable participant earnings

Employers may enter into a collective bargaining agreement to pay different rates if certain minimum conditions are met. At June 30, 2008, there were 33 contributing school districts and 28,857 contributing participants.

**Pension2 Program (Pension2).** Pursuant to Assembly Bill 3064 and 3075, the Pension2 was established to include two tax-deferred defined contribution plans under the Internal Revenue Code (IRC) Sections 403(b) and 457, respectively. The IRC 403(b) plan previously operated under the name of the Voluntary Investment Program. For the year ended June 30, 2008, the IRC 457 plan did not have any activity. CitiStreet L.L.C. acted as the plan administrator for the Voluntary Investment Program from July 2002 through October 2007. In November 2007, the Voluntary Investment Program was renamed to Pension2 and the System engaged TIAA-CREF as the new plan administrator of Pension2. TIAA-CREF is responsible for administrative services, including custody and record keeping services.

As of June 30, 2008, the IRC 403(b) plan had approximately, 4,196 plan participants and approximately 597 participating employers (school districts). Pension2 is open to any school or state employee who is eligible to participate. Contributions to the plan are voluntary and require no minimum limitations; however, the IRC imposes an annual maximum amount that can be contributed to the plan. Employer contributions are precluded.

The Pension2 investments are comprised of a selection of mutual funds with underlying investments that include stocks, bonds and real estate investments which are participant directed. The Pension2 benefits are the accumulation of contributions and investment earnings credited to the member's account.

#### **Teachers' Health Benefits Fund (THBF)**

The THBF was established pursuant to Chapter 1032, Statutes of 2000 (SB 1435) to provide the Medicare Premium Payment Program (MPP Program), a cost-sharing multiple-employer other postemployment benefit plan, to retired members of the DB Program. At June 30, 2008, there were 6,290 retirees participating in the MPP Program. The number of active members and terminated vested members who will participate in the program after they retire is unknown because eligibility cannot be determined.

## **California State Teachers' Retirement System**

### **Notes to the Basic Financial Statements (Continued)**

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The MPP Program was established to pay Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for DB Program members who are retired or will retire prior to July 1, 2001 and who meet certain other eligibility criteria. Subsequently the MPP Program has been extended several times. The Board most recently extended the MPP Program on April 5, 2007 to members who retired or will retire prior to July 1, 2012. Extending the MPP Program to members who retired or will retire before July 1, 2012 will result in an increase in the costs for the MPP Program of between \$85 million and \$150.6 million. The increase in cost is an estimate and the extension of benefits will be included as part of the actuarial accrued liability in the next actuarial valuation.

As a convenience, the System also deducts Medicare Part B premiums from the members' allowance and forwards the premiums to the Centers for Medicare and Medicaid Services, the federal agency that administers Medicare.

#### ***Contributions***

The MPP Program is funded on a pay as you go basis from that portion of the monthly DB Program statutory employer contributions that exceeds the amount needed to finance the liabilities of the DB Program based on the June 30, 2000 actuarial valuation of the DB Program. Contributions that would otherwise be credited to the TRF each month are redirected to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total costs do not exceed the amount initially identified as the cost of the program.

#### **Teachers' Replacement Benefits Program Fund (TRBPF)**

IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The TRBPF was established pursuant to Chapter 465, Statutes of 1999 (AB 819) and initially funded during the year ended June 30, 2001, to provide benefits to the members of the System whose retirement benefit exceeds IRC limits.

The TRBPF is funded as needed. Monthly employer contributions are received by the TRBPF and paid to members in amounts "equivalent to" the benefits not paid as a result of IRC Section 415(b), subject to withholding for any applicable income or employment taxes. During fiscal year 2007-08, there were 85 retirees participating in the TRBPF.

#### **Teachers' Deferred Compensation Fund (TDCF)**

The TDCF was established pursuant to Chapter 655, Statutes of 2006 (SB 1466) and used to track ancillary activities associated with various deferred compensation plans and programs offered by the System to enhance the tax-deferred financial options for the members and their beneficiaries.

The TDCF is funded by the premiums and fee revenues received by the System from deferred compensation plans and a vendor registration program. On January 1, 2008, any assets and all activities were transferred from the TRPDF to the TDCF.

#### **Teachers' Retirement Program Development Fund (TRPDF)**

The TRPDF was established pursuant to Chapter 780, Statutes of 2006 (AB 2462) to pay any costs related to the development of programs authorized by statute that enhance the financial security of members or beneficiaries for the System.

## **California State Teachers' Retirement System**

### **Notes to the Basic Financial Statements (Continued)**

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The TRPDF is a trust fund established to pay any costs related to the development of programs authorized by statute that enhance the financial security of member or beneficiaries for the System. The TRPDF was funded with \$245,000 of employer contributions during the fiscal year ended June 30, 2008 for the continued development of 403bComply, which will provide total 403(b) administration and compliance services to school districts that contract with the System for such services. Pursuant to Chapter 232, Statutes 2007 (AB 757) any assets in the TRPDF as of January 1, 2008 were transferred in to the TDCF for the ongoing administration of the 403bComply.

## **2. Summary of Significant Accounting Policies**

### **Basis of Accounting**

The System maintains its accounting records using the accrual basis of accounting. It recognizes member contributions in the period in which the contributions are due. Further, the System recognizes employer and State contributions when due and the employer or State has made a formal commitment to provide the contributions. Also, it recognizes benefits when due and payable in accordance with the System's retirement and benefits programs.

### **Use of Estimates in the Preparation of Financial Statements**

The preparation of the System's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain financial statement amounts and disclosures. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

Cash and cash equivalents include cash on deposit and highly liquid financial instruments with original maturities of 90 days or less. Significant cash equivalents held by the System include repurchase agreements, foreign currency, and deposits with the State Treasury.

### **Investments**

The majority of the securities held in the investment portfolio at June 30, 2008 are in the custody of or controlled by State Street Bank, the System's master custodian. State statutes and Board policies allow investments consisting of government, corporate and international bonds, domestic and international equities, mutual funds, limited partnership holdings, real estate, mortgages, and other investments.

Investments are reported at fair value. The fair values of investments are generally based on published market prices and quotations from major investment firms. Mortgages are valued based on future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Short-term investments are reported at cost or amortized cost, which approximates fair value. Fair value for commingled funds (other than those funds traded on a national or international exchange) is derived from the market value of the underlying securities in the pool, as provided to the custodian, by the applicable fund managers. Real estate equity investment fair values are based on either recent estimates provided by the System's contract real estate advisors or independent appraisers. Alternative investments represent interests in private equity partnerships in which the System enters under a limited partnership agreement. For alternative investments and other investments where no readily ascertainable market value exists, management, in consultation with the general partner and investment advisors, has determined the fair values for the individual investments based on partnership's June 30, 2008 financial statements or the most recent financial information adjusted for cash flow activities through June 30, 2008.

## **California State Teachers' Retirement System**

### **Notes to the Basic Financial Statements (Continued)**

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The System presents, in the statement of changes in fiduciary net assets, the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains and losses and the unrealized appreciation and depreciation on those investments. Purchases and sales are recorded on the trade date. Real estate equity transactions are recorded on the settlement date. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

There are certain market risks, including interest, credit, foreign currency exchange and concentration risk, which may subject the System to economic changes occurring in certain industries, sectors, or geographies. See Note 4 for disclosures related to these risks.

#### **Investment Risk Management**

The STRP enters into forward foreign currency exchange contracts for hedging purposes to minimize the short-term impact of foreign currency fluctuations on the asset positions of its foreign investments. The STRP also enters into futures contracts to minimize exposure to unfavorable fluctuations in the domestic equity markets. The futures contracts are financial instruments that derive their value from underlying indices. These hedging contracts are reported at fair value based on published market prices and quotations from major investment firms. The STRP could be exposed to risk if the counter-parties to the contracts are unable to meet the terms of their contracts. The STRP seeks to minimize risk from counter-parties by establishing minimum credit quality standards and maximum credit limits.

#### **Administrative Expenses**

The cost of administering the System is financed through contributions and investment earnings.

#### **Income Taxes**

The STRP, THBF, TRBPF and TRPDF are organized as tax-exempt retirement or benefit plans under the IRC. Pension2, which includes an IRC 403(b) and 457 plan, is organized as a tax-deferred supplemental program under the IRC. The System's management believes that it has operated these funds and programs within the constraints imposed by federal tax law.

#### **Investment Expenses**

Expenses directly associated with investment management have been included as other investment expenses. Some indirect expenses have been allocated.

#### **Securities Lending Transactions**

The System reports securities lent, the cash collateral held as assets, and the related liabilities resulting from securities lending transactions on the statement of fiduciary net assets. The System also reports the income earned and costs of lending securities as investment income and expenses on the statement of changes in fiduciary net assets.

#### **Reverse Repurchase Agreement Transactions**

The System reports the liabilities resulting from the reverse repurchase agreements as obligations under reverse repurchase agreements and the underlying securities used as collateral are reported as investment on the statement of fiduciary net assets. Any interest cost associated with the reverse repurchase agreements is reported as investment expenses on the statement of changes in fiduciary net assets.

## California State Teachers' Retirement System

### Notes to the Basic Financial Statements (Continued)

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#### Interfund Transfers

The transfers in fiscal year 2007-08 were made in accordance with Education Code Sections 22307.5(e) and 24976(a)(6).

#### Reclassification

Certain reclassifications have been made to the comparative totals as of and for the year ended June 30, 2007 to conform to the presentation as of June 30, 2008.

#### Comparative Totals

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

#### New Accounting Pronouncements

During fiscal year 2007-08, the System implemented the requirements of GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No.27*. This new pronouncement is intended to improve the transparency and decision usefulness of reported information about pensions.

### 3. Funded status

#### TRF

The funded status of each program within the STRP as of June 30, 2007, the most recent actuarial valuation date, is as follows (dollars in millions):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
DB Program	\$148,427	\$167,129	\$18,702	89%	\$25,906	72%
CB Benefit Program	\$93	\$80	\$(13)	117%	\$145	(9)%
DBS Program	\$5,382	\$4,622	\$(760)	116%	\$25,906	(2.93)%

## California State Teachers' Retirement System

### Notes to the Basic Financial Statements (Continued)

#### THBF

The funded status of the MPP Program, as of June 30, 2006, the most recent actuarial valuation date, is as follows (dollars in millions):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
MPP Program	\$3	\$797	\$794	0.3%	\$7,452	10.70%

#### Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to the financial statements present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Calculations are based on the benefits provided under the terms of the plan in effect at the time of each valuation.

Actuarial calculations reflect a long-term perspective and the actuarial methods and assumptions used for valuing the STRP and the MPP Program include techniques that are consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

	DB Program	CB Benefit Program
Actuarial Cost Method	Entry age normal	Traditional unit credit
Amortization Method	Level percent of payroll	Level dollar basis
Amortization Approach	Open	Open
Remaining Amortization Period	30 years	30 years
Asset Valuation Method	Expected value with 33% adjustment to market Value	Fair market value of net assets
Actuarial Assumptions:		
Investment rate of return	8.00%	7.75%
Interest on accounts	6.00%	7.75%
Wage growth	4.25%	4.25%
Consumer price inflation	3.25%	3.25%
Post-retirement benefit increases	2.00% simple	Not applicable

## California State Teachers' Retirement System

### Notes to the Basic Financial Statements (Continued)

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	DBS Program	MPP Program
Actuarial Cost Method	Traditional unit credit	Entry Age Normal
Amortization Method	Level dollar basis	Level dollar basis
Amortization Approach	Open	Closed
Remaining Amortization Period	30 years	29 years
Asset Valuation Method	Fair market value of net assets	Fair market value of net assets
Actuarial Assumptions:		
Investment rate of return	7.75%	4.00%
Interest on accounts	7.75%	Not applicable
Wage growth	4.25%	4.25%
Consumer price inflation	3.25%	3.25%
Post-retirement benefit increases	Not applicable	Not applicable
Healthcare cost trend rate Part A premiums	Not applicable	5.00%
Healthcare cost trend rate Part B premiums	Not applicable	9.00% grading down to 6.00% in 2011

#### 4. Deposits and Investments

Deposits in the Pooled Money Investment Account (PMIA), administered by the State, represent various investments with average days to maturity of approximately 212 days, and are reported at amortized cost which approximates fair value. The State Treasury pools these monies with the monies of other State agencies for investing.

The investment in the Short-term Investment Fund, administered by State Street Bank, represents various investments with average days to maturity of approximately 28 days, and is reported at amortized cost which approximates fair value.

The repurchase agreement transactions as of June 30, 2008, have underlying collateral with fair values of approximately 102% of the cost of the repurchase agreement. The agreed-upon yields were 1.25% with maturity dates through July 1, 2008.

State statutes and Board policy permits the System to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase the exact securities in the future at the same price plus a contract rate of interest. The System had \$1.5 billion reverse repurchase agreements outstanding at June 30, 2008. The credit exposure at year end related to these agreements was \$9.5 million. Since the proceeds from reverse repurchase agreements are used for short term financings and not for reinvestment purposes, the maturities of the purchases made with the proceeds of reverse repurchase agreements are not matched to the maturities of the agreements.

## California State Teachers' Retirement System

### Notes to the Basic Financial Statements (Continued)

State statutes and board policies permit the System to make short-term, collateralized loans of its securities to broker-dealers and other entities in order to earn incremental income. The STRP has contracted with third party securities lending agents and its custodian to lend domestic and international equity and debt securities. The majority of security loans can be terminated on demand by either the STRP or the borrower. Collateral in the form of cash or other securities is required for 102% and 105% of the fair value of domestic and international securities loaned, respectively. Since the majority of these loans are terminable at will, their duration does not generally match the duration of the investments made with the cash collateral. At June 30, 2008, the weighted duration difference between the investments and these loans was 20 days. As of June 30, 2008, the System has no credit risk exposure to borrowers because the amounts the STRP owes the borrowers exceed the amounts the borrowers owe the STRP. The STRP is not permitted to pledge or sell collateral securities received unless the borrower defaults. The contracts with the security lending agents require them to indemnify the STRP if the borrowers fail to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrower fails to pay the STRP for income distributions by the securities' issuers while the securities are on loan. At June 30, 2008, the market value of securities on loan totaled \$28.6 billion.

#### Real Estate

Real estate investments are classified as investments in accordance with GASB Statement No. 25. Real estate deeds of trust are held in the name of Limited Liability Corporations and Partnerships. Certain real estate investments are leveraged whereby partnerships have been established to purchase properties through a combination of contributions from the System, other investors and through the acquisition of debt. The System engages several real estate advisors who are responsible for managing a portfolio's day to day activities, performance and reporting. At June 30, 2008, net estimated fair value of real estate equities totaled approximately \$20.4 billion. The System's share of outstanding debt is \$10.4 billion, excluding obligations of limited partnership interests in commingled funds. The debt payments are made by the real estate advisors.

The System's portion of real estate debt service requirements, excluding obligations of limited partnership interests in commingled funds as of June 30, 2008 are as follows:

#### Real Estate Debt Service Requirements

<i>(Dollars in Millions)</i>		Principal	Interest	Total
Year ended June 30,	2009	\$ 1,476	\$ 531	\$ 2,007
	2010	2,195	435	2,630
	2011	1,214	358	1,572
	2012	1,027	293	1,320
	2013	862	249	1,111
	2014 - 2018	3,033	659	3,692
	2019 - 2023	402	97	499
	2024 - 2028	75	69	144
	2029 - 2033	30	54	84
	2034 - 2038	73	47	120
	Total	\$ 10,387	\$ 2,792	\$ 13,179

## California State Teachers' Retirement System

### Notes to the Basic Financial Statements (Continued)

The real estate debts currently bear interest at variable rates ranging from LIBOR + 37.5 basis points (bps) to LIBOR + 550 bps as of June 30, 2008.

The following investment risk schedules disclose the System's investments subject to certain types of risk, pursuant to GASB Statement No. 40. Each schedule discloses investments of all funds, except for the interest rate risk for Pension2, managed by the System subject to each type of risk. Some securities are held in internally-managed investment pools shared by all funds.

#### Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This is measured by the assignment of ratings by nationally recognized statistical rating organizations.

The System's Investment Guidelines require that, at the time of purchase, at least 95% of the corporate securities comprising the credit portion of the internally managed fixed income portfolio be rated Baa3/BBB-/BBB- or better by two out of the three nationally recognized statistical rating organizations (NRSROs), such as Moody's Investors Service, Inc, Standard and Poor's Rating Service, or Fitch Ratings. The rating used to determine the quality of the individual securities will be the highest of the ratings supplied by two NRSROs. Furthermore, the total position of the outstanding debt of any one private mortgage-backed and asset-backed securities issuer shall be limited to ten-percent (10%) of the market value of the portfolio. Obligations of other issuers are held to a five-percent (5%) per issuer limit (at the time of purchase) of the market value of any individual portfolio. The Investment Guidelines also include an allocation to high yield and core plus assets which are managed externally and allow for the purchase of bonds rated below investment grade. Limitations regarding the amount of debt of any one issuer a manager may hold is negotiated on a manager by manager basis.

Below is a table which depicts the fixed income and short-term assets as well as the securities lending collateral by credit rating as of June 30, 2008:

#### Fixed Income & Short Term

(Dollars in Thousands)

Ratings	Securitized Obligations	Credit Obligations	International Government	Money Market Securities	PMIA	US Govt & Agency			Total
						Obligations	Mutual Fund	Annuity Contracts	
AAA	\$11,618,901	\$ 514,730	\$ 12,642	\$ -	\$ -	\$2,986,374	\$ -	\$ -	\$15,132,647
A-1+	-	-	-	310,390	-	-	-	-	310,390
AA	49,616	1,372,050	97,721	20,000	-	42,913	12,411	-	1,594,711
A	29,267	2,943,447	280,976	-	-	12,301	-	-	3,265,991
BBB	17,588	2,316,350	10,653	-	-	3,532	-	-	2,348,123
BB	19,085	676,982	6,414	-	-	-	-	-	702,481
B	59,573	1,405,084	2,664	-	-	-	-	-	1,467,321
CCC	3,558	493,636	-	-	-	-	-	-	497,194
CC	-	2,111	-	-	-	-	-	-	2,111
D	-	9,358	-	-	-	-	-	-	9,358
NR	951,262	419,494	27,350	746,185	278,863	80	3,109	34,878	2,461,221
NA	1,037,586	-	-	-	-	4,767,163	-	-	5,804,749
<b>Total</b>	<b>\$13,786,436</b>	<b>\$10,153,242</b>	<b>\$ 438,420</b>	<b>\$ 1,076,575</b>	<b>\$278,863</b>	<b>\$7,812,363</b>	<b>\$15,520</b>	<b>\$ 34,878</b>	<b>\$33,596,297</b>

The PMIA \$278.8 million is comprised of the following funds: TRF \$275.8 million, THBF \$2.4 million and TDCF \$650 thousand.

The above table includes \$15.5 million in Mutual Funds and \$34.9 million in Annuity Contracts which are reflected within the Pension2 Program on the Statement of Fiduciary Net Assets.

## California State Teachers' Retirement System

### Notes to the Basic Financial Statements (Continued)

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government, are not considered to have credit risk and do not require disclosure of credit quality. NR represents those securities that are not rated and NA represents those securities that are not applicable to the rating disclosure requirements. The System is permitted to purchase securities that are not rated; however, a thorough credit review must be completed along with an estimation of comparable credit quality.

#### Securities Lending Collateral

(Dollars in Thousands)

Ratings	Money Market Securities	Repurchase Agreements	Short Term Investment Fund	Corporate Bonds	Corporate Floating Rate Notes	Agency Callable Obligations	Asset Backed Securities	Total
AAA	\$ 3,465,814	\$ 537,000	\$ -	\$ 518,385	\$ 737,547	\$ 290,012	\$9,444,770	\$14,993,528
A-1	340,378	-	-	-	-	-	1,173	341,551
AA	2,038,270	-	-	-	3,608,960	-	80,315	5,727,545
A	1,102,285	-	-	232,299	2,779,236	-	143,356	4,257,176
BBB	-	-	-	-	690,684	-	22,865	713,549
BB	-	-	-	-	-	-	2,830	2,830
NR	72,004	349,456	499,472	-	99,904	-	51,779	1,072,615
<b>Total</b>	<b>\$ 7,018,751</b>	<b>\$ 886,456</b>	<b>\$ 499,472</b>	<b>\$ 750,684</b>	<b>\$ 7,916,331</b>	<b>\$ 290,012</b>	<b>\$9,747,088</b>	<b>\$27,108,794</b>

The above amount excludes cash and accruals in the total of negative \$32,158 (in thousands) which is included in the Securities Lending Collateral line item in the Statement of Fiduciary 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.

The Investment Guidelines allow the internally managed long-term investment grade portfolios the discretion to deviate within a range of +/- 20% (.80 to 1.20) of the average effective duration of the relevant Lehman Brothers benchmark. The permissible range of deviation for the average effective duration within the high yield and core plus portfolios is negotiated with each of the high yield and core plus managers and detailed within the Investment Guidelines.

Investments may contain terms that increase the sensitivity of their fair values to increasing and decreasing interest rates. Although the System has investments which have an inherent prepayment risk as well as caps, floors, and step-up features, these are mitigated through the diversification of asset classes, security selection, maturity, and credit quality. A change to the Lehman US Aggregate Index as of April 1, 2007 included Hybrid Adjustable Rate Mortgage (ARM) Backed Securities wrapped by Government Sponsored Entities (GSE). These Agency Hybrid ARMs may be fully amortizing or interest only for a period of time and then subsequently amortized. As of June 30, 2008, the System's internally managed interest only Agency Hybrid ARMS held equates to approximately 1% of the long term fixed income investments.

## California State Teachers' Retirement System

### Notes to the Basic Financial Statements (Continued)

Below is a table which depicts the duration of the portfolio vs. the benchmark in years on June 30, 2008:

#### Long Term Fixed Income Investments

##### Duration

(Dollars in Thousands)

Investment Type (by portfolio)	Portfolio Net Asset Value	Effective Duration	Benchmark Duration	Difference
<b>US Government and Agency Obligations</b>	\$ 6,671,318	4.53	4.53	0.00
<b>Credit Obligations</b>				
Corporate	6,313,843	5.92	5.96	-0.04
High Yield	2,415,903	3.66	4.40	-0.74
Debt Core Plus	4,178,269	5.21	4.67	0.54
<b>Securitized Obligations</b>				
Asset Backed Securities	89,670	4.16	3.17	0.99
Commercial Mortgage Backed Securities	1,692,192	4.57	4.61	-0.04
Mortgage Backed Securities	9,472,130	4.03	4.01	0.02
<b>Total Market Value with Weighted Avg Duration</b>	<b>\$ 30,833,325</b>	<b>4.63</b>	<b>4.65</b>	<b>-0.02</b>

The above amount excludes debt opportunistic investments with a Net Asset Value of \$365,535 (in thousands) as of June 30, 2008.

The above table represents the net asset value of the long term fixed income portfolios, which include cash and accruals that are not included in the investments line item of the statement of fiduciary net assets.

Below is a table depicting the segmented time distribution for the types of short term fixed income investments based upon the expected maturity, 1<sup>st</sup> call date and/or 1<sup>st</sup> reset date, as of June 30, 2008:

#### Short Term Fixed Income Investments

##### Segmented Time Distribution

(Dollars in Thousands)

Investment Type	0-30 days	31-90 days	91-120 days	121-180 days	181-365 days	365+ days	Totals
<b>Money Market Securities</b>	\$1,015,846	\$ 48,030	\$ -	\$ -	\$ -	\$ -	\$ 1,063,876
<b>PMIA</b>	278,863	-	-	-	-	-	278,863
<b>Credit Obligations</b>							
Corporate Bonds	-	-	-	-	2,340	-	2,340
Corporate Floating Rate Notes	112,584	245,687	17,000	-	-	-	375,271
<b>US Government and Agency Obligations</b>							
Bullets (Non-Callables)	19,995	84,927	14,539	50,424	25,075	44,951	239,911
Discounted Notes	99,907	74,671	-	24,695	-	-	199,273
Callable	37,000	126,997	13,997	34,029	11,998	-	224,021
Municipals	-	12,747	-	-	-	-	12,747
US Treasury	95,778	74,824	-	-	48,874	14,951	234,427
<b>Asset Backed Securities</b>	138,357	20,845	19,000	-	14,499	-	192,701
<b>Totals</b>	<b>\$1,798,330</b>	<b>\$ 688,728</b>	<b>\$ 64,536</b>	<b>\$109,148</b>	<b>\$102,786</b>	<b>\$ 59,902</b>	<b>\$ 2,823,430</b>
<b>Weightings</b>	<b>63.69%</b>	<b>24.39%</b>	<b>2.29%</b>	<b>3.87%</b>	<b>3.64%</b>	<b>2.12%</b>	<b>100.00%</b>

## California State Teachers' Retirement System

### Notes to the Basic Financial Statements (Continued)

The Investment Objective for the Short-Term Fixed Income Portfolio is to seek the preservation of capital and liquidity, and to generate the highest possible current income consistent with a prudent level of risk available from investing in a diversified portfolio of short-term fixed income securities. The Investment Guidelines state that the average maturity of the portfolio shall be managed such that it will not exceed 180 days. In addition to short-term securities, the short term fixed income portfolios also contain debt securities as classified in the investments section of the statement of fiduciary net assets.

Below is a table that depicts the weighted average maturity of investments classified for the Pension2 IRC 403(b) plan on the statement of net assets as of June 30, 2008:

**Pension2**  
**IRC 403(b) Plan Investments**  
**Weighted Average Maturity**  
*(Dollars in Thousands)*

Investment Type	Fair Value	Maturity
Money Market Securities	\$ 3,884	55 days
Vanguard Inflation Protected Securities Fund	3,109	9.5 years
Vanguard Short-Term Bond Index Fund	12,411	2.8 years
<b>Totals</b>	<b>\$ 19,404</b>	

The Pension2 IRC 403(b) TIAA Traditional Annuity's primary objective is the guarantee of principal and a specified interest rate. A guaranteed annuity backed by TIAA's claims-paying ability, TIAA Traditional guarantees the principal and a 3% minimum annual interest rate.

Securities Lending Cash Collateral assets are diversified among different asset classes with the maximum remaining effective maturity of any instrument being five years. The fund must remain liquid to meet collateral returns.

Below is a table depicting the segmented time distribution based upon the expected maturity, 1<sup>st</sup> call date and/or 1<sup>st</sup> reset date, as of June 30, 2008:

**Securities Lending Collateral**  
**Segmented Time Distribution**  
*(Dollars in Thousands)*

Investment Type	0-1 days	2-6 days	7-29 days	30-59 days	60-89 days	90+ days	Total
Money Market Securities	\$2,014,684	\$ 119,949	\$ 1,122,506	\$ 2,054,120	\$ 1,328,864	\$ 378,628	\$ 7,018,751
Repurchase Agreements	886,456	-	-	-	-	-	886,456
Short Term Investment Fund	499,472	-	-	-	-	-	499,472
Corporate Bonds	-	-	446,894	303,790	-	-	750,684
Corporate Floating Rate Notes	1,612,356	115,001	1,679,903	2,132,307	2,034,293	342,471	7,916,331
Agency Callable Obligations	-	-	48,000	39,997	68,000	134,015	290,012
Asset Backed Securities	291	13,363	7,012,066	1,023,442	1,494,302	203,624	9,747,088
<b>Total</b>	<b>\$5,013,259</b>	<b>\$ 248,313</b>	<b>\$10,309,369</b>	<b>\$5,553,656</b>	<b>\$4,925,459</b>	<b>\$1,058,738</b>	<b>\$ 27,108,794</b>
<b>Weightings</b>	<b>18.49%</b>	<b>0.92%</b>	<b>38.03%</b>	<b>20.49%</b>	<b>18.17%</b>	<b>3.90%</b>	<b>100.00%</b>

*The above amount excludes cash and accruals in the total of negative \$32,158 (in thousands) which is included from the Securities Lending Collateral line item in the Statement of Fiduciary Net Assets.*

## **California State Teachers' Retirement System**

### **Notes to the Basic Financial Statements (Continued)**

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#### **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2008, the System has no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded. The System's Investment Policy states that no more than 3% of the total fund shall be invested or exposed to any one security or corporation, with the exception of United States Treasury or Agency Obligations. IRC 403(b) plan investments have no single issuer that exceeds 5% of total investments.

#### **Custodial Credit Risk**

Custodial credit risk is the risk that in the event a financial institution or counterparty fails, the System would not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2008, all of the System's investments are held in the System's name and/or are not exposed to custodial credit risk. There are no general policies relating to the custodial credit risk. As of June 30, 2008, one hundred percent (100%) of the IRC 403(b) plan investments are held in the name of TIAA-CREF.

#### **Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System's foreign currencies and investments at June 30, 2008, as shown in the table on the next page, were distributed among the following:

## California State Teachers' Retirement System

### Notes to the Basic Financial Statements (Continued)

#### Foreign Currency Risk

(Dollars in Thousands)

(In U.S. Dollar Equivalents)

Currency Name	Cash	Equity	Debt	Pending Foreign Currency Exchanges	Total Exposure
Australian Dollar	\$ 9,539	\$ 1,586,827	\$ 11,905	\$ 38,854	\$ 1,647,125
Brazilian Real	5,335	584,455	30,929	(1,950)	618,769
Canadian Dollar	9,549	1,664,836	931	46,217	1,721,533
Chilean Peso	289	3,492	-	-	3,781
Colombian Peso	45	-	1,384	-	1,429
Czech Koruna	-	9,537	-	-	9,537
Danish Krone	68	221,468	-	(2,738)	218,798
Egyptian Pound	5,159	108,863	-	-	114,022
Euro Currency	44,910	11,930,908	170,773	(11,464)	12,135,127
Hong Kong Dollar	4,545	1,274,847	-	16,736	1,296,128
Hungarian Forint	-	25,628	-	18,288	43,916
Indian Rupee	100	223,328	-	-	223,428
Indonesian Rupiah	36	102,539	-	358	102,933
Israeli Shekel	2,942	105,043	1	1,317	109,303
Japanese Yen	37,448	4,755,527	-	97,005	4,889,980
Malaysian Ringgit	93	120,870	-	(2,453)	118,510
Mexican Peso	182	197,863	-	(233)	197,812
Moroccan Dirham	-	-	-	-	-
New Russian Ruble	-	-	-	27,068	27,068
New Taiwan Dollar	14,809	578,156	-	-	592,965
New Turkish Lira	146	174,022	-	1,866	176,034
New Zealand Dollar	435	32,666	-	(224)	32,877
Norwegian Krone	19,607	349,286	-	31,954	400,847
Pakistan Rupee	27	7,506	-	-	7,533
Peruvian Nouveau Sol	-	-	-	7,122	7,122
Philippine Peso	15	2,209	-	(25)	2,199
Polish Zloty	845	35,525	-	-	36,370
Pound Sterling	14,409	5,060,141	7,249	62,653	5,144,452
Singapore Dollar	1,976	396,848	-	-	398,824
South African Rand	3,039	434,274	-	5,107	442,420
South Korean Won	462	693,108	-	-	693,570
Swedish Krona	9,117	451,670	-	(84)	460,703
Swiss Franc	4,785	1,684,187	-	356	1,689,328
Thailand Baht	413	100,781	-	(5,349)	95,845
Uae Dirham	-	-	-	14,129	14,129
<b>Total</b>	<b>\$ 190,325</b>	<b>\$ 32,916,410</b>	<b>\$ 223,172</b>	<b>\$ 344,510</b>	<b>\$ 33,674,417</b>

This table represents securities purchased in a foreign currency. The investment figures are comprised of numerous portfolios within the international equity, debt securities, alternative, and real estate investment line items on the statement of fiduciary net assets.

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment. Foreign currency is held temporarily in foreign accounts until it is able to be repatriated or expended.

## California State Teachers' Retirement System

### Notes to the Basic Financial Statements (Continued)

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In accordance with the Investment Policy and Management Plan, the System has established a strategic allocation to non-dollar public and private equity assets (i.e. alternative investments and real estate). Considering this commitment to non-dollar assets and the impact currency fluctuations can have on the total return of dollar-based investors, the System has recognized the need to implement strategies designed to address the management of currency risk. The System believes that its Currency Management Program should emphasize the protection of the value of its non-dollar public and private equity assets against a strengthening U.S. dollar first, yet recognizes that there also exists opportunities for alpha generation (the ability to derive a return in excess of a market return) within the currency markets. The System's fixed income staff has management responsibilities for the Currency Management Program. The hedging range has been designed to allow for some degree of symmetry around the unhedged program benchmark in order to enable the Currency Management Program to both protect the translation value of the assets against a strengthening U.S. dollar and to enhance returns in a declining U.S. dollar environment. As a result, the hedging range is -25% to 50% of the total market value of the non-dollar public and private equity portfolios. As of June 30, 2008, the IRC 403(b) plan is not exposed to foreign currency risk.

#### 5. Contingencies

The System is involved in litigation relating to various matters. In the opinion of management, after consultation with legal counsel, the outcome of these matters is not expected to have a material adverse effect on the System's financial position.

#### 6. Commitments

In connection with the purchase of partnership interests under various investment portfolios, the STRP has remaining unfunded commitments of approximately \$29.5 billion at June 30, 2008. The following table depicts the unfunded commitments by asset class:

<u>Asset Class</u>	<u>Unfunded Commitments</u> <i>(Dollars in Thousands)</i>
Fixed Income	\$ 100,000
Corporate Governance	470,500
Alternative Investments	14,385,668
Real Estate	14,580,608
<b>Total</b>	<b>\$29,536,776</b>

The STRP has entered into agreements through its Credit Enhancement Program to guarantee payment of principal and interest on certain debt securities in the event of default. At June 30, 2008, the STRP had commitments of approximately \$2.7 billion expiring through January 2015. The STRP is paid a fee over the term of such agreements and earned approximately \$4.7 million for the year ended June 30, 2008.

## California State Teachers' Retirement System

### Notes to the Basic Financial Statements (Continued)

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#### 7. New Accounting Pronouncements

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, provides guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is non-financial in nature, and has an initial useful life extending beyond a single reporting period. The statement will require that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases) and that relevant authoritative guidance for capital assets should be applied to these intangible assets. This statement also established a specified-conditions approach to recognizing intangible assets that are internally generated. The requirements of this statement will be implemented in the financial statements for fiscal year 2009-10.

GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by governmental entities. The statement defines a derivative instrument as an agreement that transfers risk from one party to another and is typically used for risk management or investment purposes. The requirements of this statement will be implemented in the financial statements for fiscal year 2009-10.

#### 8. Subsequent Events

Subsequent to the June 30 fiscal year end, the financial markets experienced an unprecedented decline in value. The markets are so dynamic and fluid any judgment of the financial statements must be based on current information rather than fiscal year end. The reader is encouraged to check the CalSTRS web site for the latest information. To pick a point in time, as of September 30, the investment portfolio had declined \$15 billion in value to \$147 billion, excluding securities lending collateral. The most significant decline was experienced in the international equity portfolio which declined \$8.4 billion or 26%. STRP also experienced a decline in the U.S. equity portfolio of \$6.4 billion or 10%.

As the financial and credit crisis initiated by the subprime mortgage meltdown approached its one-year anniversary, the financial crisis of 2008 worsened. STRP had exposure to financial institutions that were either acquired by another institution, the U.S. Government or filed for bankruptcy. Assessment to determine permanent impairment is ongoing; however, the final value is not certain until the bankruptcy process has been completed. After June 30, the more noteworthy equity and debt holdings that declined in value were American International Group (AIG), Lehman Brothers, and Washington Mutual totaling approximately \$776 million.

The overall risk profile of the STRP investment portfolio has not changed since June 30, 2008. Since the global capital markets are highly dynamic and change in value daily, the value of the STRP investment portfolio changes everyday. As the globe experiences historic volatility due to the financial crisis, the STRP portfolio will change in value. The overriding investment philosophy followed at CalSTRS continues to center on long held principles of diversification and the search for long-term value. The broad diversification helps protect the investment portfolio and dampens the day to day vagaries of the global financial markets.

**Required Supplementary Information—Unaudited**

**California State Teachers' Retirement System**  
**Schedule of Funding Progress**  
*(Dollars in Millions)*

**Schedule I**

The information presented in Supplementary Schedules I and II was determined as part of the actuarial valuations at June 30, 2007 except where noted.

<b>Actuarial Valuation Date as of June 30</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded (Funding Excess) AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((b-a)/c)</b>
<b>Teachers' Retirement Fund</b>						
Defined Benefit Program						
2008	(2)	(2)	(2)	(2)	(2)	(2)
2007	\$148,427	\$167,129	\$18,702	89 %	\$25,906	72 %
2006	131,237	150,872	19,635	87 %	24,240	81 %
2005	121,882	142,193	20,311	86 %	23,257	87 %
2004 <sup>(3)</sup>	114,094	134,677	20,583	85 %	22,591	91 %
2003 <sup>(3)</sup>	108,667	128,104	19,437	85 %	22,649	86 %
Cash Balance Benefit Program						
2008	(1)	(1)	(1)	(1)	(1)	(1)
2007	\$93	\$80	\$(13)	117 %	\$145	(9) %
2006	69	63	(6)	109 %	122	(5) %
2005	54	52	(2)	104 %	107	(2) %
2004	42	42	0	100 %	96	0 %
2003	30	34	4	88 %	81	5 %
Defined Benefit Supplement Program						
2008	(1)	(1)	(1)	(1)	(1) (4)	(1)
2007	\$5,382	\$4,622	\$(760)	116 %	\$25,906	(2.93) %
2006	3,951	3,616	(335)	109 %	24,239	(1.38) %
2005	3,023	2,756	(267)	110 %	23,263	(1.15) %
2004	2,204	2,035	(169)	108 %	23,763	(0.71) %
2003	1,311	1,358	47	97 %	23,865	0.20 %
<b>Teachers' Health Benefits Fund</b>						
Medicare Premium Payment Program <sup>(5)</sup>						
2008	(1)	(1)	(1)	(1)	(1)	(1)
2007	(6)	(6)	(6)	(6)	(5)(6)	(6)
2006	\$3	\$797	\$794	0.3 %	\$7,452	10.70 %

- (1) Actuarial valuations as of June 30, 2008, are expected to be available by Summer of 2009.
- (2) Except for the year ended June 30, 2004 and June 30, 2006 actuarial valuations were not prepared in even numbered years. No estimation using actuarial methodology is made in years between valuations.
- (3) Actuarial accrued liability and covered payroll figures for 2003 and 2004 were revised on an estimated basis in 2006 to reflect data corrections.
- (4) Starting with the June 30, 2005 valuation, covered payroll excludes limited term incentive pay and extra service credit pay in order to present the payroll base most relevant to the funding of any unfunded actuarial accrued liabilities of the DBS Program. Covered payrolls for 2003 and 2004 include these additional pay items.
- (5) At the April 5, 2007 meeting of the Board, the MPP Program was extended to members who retire or will retire before July 2012. Extending the MPP Program to members who retire or will retire before July 1, 2012, will result in an increase in the costs for the MPP Program of between \$85 million and \$150.6 million. The increase in cost is an estimate and the extension of benefits will be included as part of the actuarial accrued liability in the next actuarial valuation.
- (6) An actuarial valuation for the Teachers' Health Benefit Fund is performed on a biennial basis.

**California State Teachers' Retirement System**  
**Schedule of Contributions from Employers**  
**And Other Contributing Entities**  
*(Dollars in Millions)*

**Schedule II**

<b>Year Ended June 30</b>	<b>Annual Required Contributions (a)</b>	<b>Contributed By Employers<sup>(1)</sup> (b)</b>	<b>Contributed By the State/Federal<sup>(2)(4)</sup> (c)</b>	<b>Total Contributed (b) + (c)</b>	<b>Percentage Contributed (b + c)/a</b>
<b>Teachers' Retirement Fund</b>					
Defined Benefit Program <sup>(3)(6)</sup>					
2008	\$ 4,362	\$ 2,363	\$ 501	\$ 2,864	66%
2007	3,980	2,168	481	2,649	67%
2006	3,821	2,092	348	2,440	64%
2005	3,709	2,002	595	2,597	70%
2004	3,410	1,916	451	2,367	69%
2003	2,545	1,890	431	2,321	91%
Cash Balance Benefit Program <sup>(3)</sup>					
2008	\$ 6.80	\$ 7.50	\$ 0	\$ 7.50	110%
2007	5.61	5.93	0	5.93	106%
2006	4.99	5.10	0	5.10	102%
2005	4.48	4.49	0	4.49	100%
2004	4.05	3.85	0	3.85	95%
2003	3.58	3.58	0	3.58	100%
Defined Benefit Supplement Program <sup>(3)</sup>					
2008	\$ 78	\$ 118	\$ 0	\$ 118	151%
2007	93	111	0	111	119%
2006	90	104	0	104	116%
2005	86	96	0	96	111%
2004	128	125	0	125	98%
2003	72	72	0	72	100%
Purchasing Power Protection Program <sup>(4)(5)</sup>					
2008	\$ 629	\$ 1	\$1,128	\$1,129	179%
2007	604	1	603	604	100%
2006	673	3	670	673	100%
2005	626	2	624	626	100%
2004	601	3	98	101	17%
<b>Teachers' Health Benefits Fund</b>					
Medicare Premium Payment Program <sup>(7)</sup>					
2008 <sup>(8)</sup>	\$48	\$33	\$0	\$33	69%
2007	48	32	0	32	67%
2006	47	30	0	30	64%

(1) For the DB Program, amounts include employer contributions under Education Code Sections 22135, 22714 (less amounts deposited in the SBMA), 22718, 22950 and 22951.

(2) The DB and Purchasing Power Protection Programs include State contributions under Education Code Section 22954 and 22955.

**California State Teachers' Retirement System**  
**Schedule of Contributions from Employers**  
**And Other Contributing Entities**  
***(Dollars in Millions)***

**Schedule II (Continued)**

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- (3) For the determination of the Annual Required Contribution, an open amortization period of 30 years is used for the Unfunded Actuarial Accrued Liability.
- (4) The amount included in the "Contributed by the State/Federal" column includes federal proceeds from School Lands Income and the sale of the Elk Hills Petroleum Reserve. Certain reclassifications of our previous presentations of the Purchasing Power Protection Program for fiscal year 2003-04 were made to be consistent with later years' presentations.
- (5) An ARC has not been determined for the Purchasing Power Protection Program. The figure shown is the contractual amount adjusted for proceeds from School Lands Income, the sale of Elk Hills Petroleum Reserve, and employer contributions for 2-year additions.
- (6) The ARC's for 2005 and 2004 were revised on an estimated basis to reflect data corrections.
- (7) Fiscal year ending June 30, 2006 was the first year that an ARC was determined for the MPP Program.
- (8) The ARC for 2008 was based on a roll-forward of figures from the June 30, 2006 valuation.

**California State Teachers' Retirement System**  
**Schedule of Contributions from Employers**  
**And Other Contributing Entities**  
*(Dollars in Millions)*

**Schedule II (Continued)**

Additional information as of the latest actuarial valuation follows:

	<b>DB Program</b>	<b>CB Benefit Program</b>
Actuarial Cost Method	Entry age normal	Traditional unit credit
Amortization Method	Level percent of payroll	Level dollar basis
Amortization Approach	Open	Open
Remaining Amortization Period	30 years	30 years
Asset Valuation Method	Expected value with 33% adjustment to market Value	Fair market value of net assets
Actuarial Assumptions:		
Investment rate of return	8.00%	7.75%
Interest on accounts	6.00%	7.75%
Wage growth	4.25%	4.25%
Consumer price inflation	3.25%	3.25%
Post-retirement benefit increases	2.00% simple	Not applicable
	<b>DBS Program</b>	<b>MPP Program</b>
Actuarial Cost Method	Traditional unit credit	Entry Age Normal
Amortization Method	Level dollar basis	Level dollar basis
Amortization Approach	Open	Closed
Remaining Amortization Period	30 years	29 years
Asset Valuation Method	Fair market value of net assets	Fair market value of net assets
Actuarial Assumptions:		
Investment rate of return	7.75%	4.00%
Interest on accounts	7.75%	Not applicable
Wage growth	4.25%	4.25%
Consumer price inflation	3.25%	3.25%
Post-retirement benefit increases	Not applicable	Not applicable
Healthcare cost trend rate Part A premiums	Not applicable	5.00%
Healthcare cost trend rate Part B premiums	Not applicable	9.00% grading down to 6.00% in 2011

## **Other Supplemental Information**

**California State Teachers' Retirement System**  
**Schedule of Administrative Expenses**  
*(Dollars in Thousands)*

**Schedule III**

	Teachers' Retirement Fund	Pension2 IRC 403(b) Plan	Teachers' Health Benefit Fund	Teachers' Replacement Benefit Program Fund	Teachers' Deferred Compensation Fund	Teachers' Retirement Program Development Fund	Totals
<b>Personnel services:</b>							
Salaries and wages	\$ 38,879	\$ -	\$ 155	\$ -	\$ 161	\$ 51	\$ 39,246
Staff benefits	12,879	-	55	-	57	17	13,008
Accrued vacation	1,065	-	3	-	26	-	1,094
Accrued personal leave	(60)	-	-	-	3	-	(57)
Accrued OPEB	6,465	-	15	-	-	-	6,480
Total personnel services	59,228	-	228	-	247	68	59,771
<b>Operating expenses and equipment:</b>							
General	2,263	-	87	5	45	-	2,400
Depreciation	517	-	-	-	-	-	517
Printing	1,405	-	-	-	-	-	1,405
Communications	827	-	-	-	1	-	828
Postage	1,258	-	-	-	-	-	1,258
Insurance	37	-	-	-	-	-	37
Travel	634	-	2	-	21	6	663
Training	912	-	-	-	12	-	924
Facilities operations	6,158	-	-	-	-	-	6,158
Consultants and professional services	23,374	471	-	-	60	-	23,905
Data Processing	5,353	-	-	-	-	-	5,353
Information technology	2,027	-	-	-	-	-	2,027
Indirect State central services	4,989	-	17	-	-	-	5,006
Equipment	367	-	-	-	-	-	367
Other	14	55	-	-	18	15	102
Total operating expenses and equipment	50,135	526	106	5	157	21	50,950
Total	\$ 109,363	\$ 526	\$ 334	\$ 5	\$ 404	\$ 89	\$ 110,721

**California State Teachers' Retirement System**  
**Schedule of Investment Expenses**  
*(Dollars in Thousands)*

**Schedule IV**

**External Equity Managers:**

**Domestic:**

Ariel Capital Management	\$	1,222
Barclays Global Investors		1,440
Batterymarch Financial Management, Inc.		1,262
Bivium Capital Partners, LLC		19
Blackrock Financial Management, Inc.		710
Brown Capital Management, Inc.		409
Chicago Equity Partners		892
Delaware Investment Advisors		375
Delphi Management, Inc.		3,080
Denver Investment Advisor, LLC		1,987
DSI International Management, Inc.		537
First Quadrant, LP		3,282
FIS Funds Management, Inc.		2,040
Frank Russell Trust Co.		1,956
Goldman Sachs Asset Management		1,195
Leading Edge Investment Advisors, LLC		51
Light Green Advisors		196
Mellon Capital Management Corp.		1,523
NCM Capital Management Group, Inc.		894
New Amsterdam Partners, LLC		269
Northern Trust Global Advisors, Inc.		1,653
Sasco Capital, Inc.		8,791
State Street Global Advisors		1,619
Sterling Capital Management, LLC		367
TCW Asset Management Co.		3,245
UBS Global Asset Management (Americas), Inc.		1,751
Total Domestic:		<u>40,765</u>

**International:**

Acuity Investment Management		258
Baillie Gifford Overseas Ltd.		6,591
Bank of Ireland		1,373
Barclays Global Investors		1,087
Batterymarch Financial Management, Inc.		2,528
Blackrock International Ltd.		2,301
Capital Guardian Trust Co.		4,394
Generation Investment Management US, LLP		230
Goldman Sachs Asset Management		2,786
Lazard Asset Management, LLC		11,387
Mondrian Investment Partners Ltd.		13,762
Morgan Stanley Investment Management		2,262
Nicholas Applegate Capital Management		3,004
Oechsle International Advisors, LLC		3,590
Pyramis Global Advisors Trust Co.		3,899
Schroder Management Investment North America, Inc.		1,667
State Street Global Advisors		1,301
T. Rowe Price International, Inc.		14,679
Templeton Asset Management, Ltd.		11,033
UBS Global Asset Management (Americas), Inc.		3,186
Total International:		<u>91,318</u>
Total External Equity Managers:		<u>132,083</u>

**California State Teachers' Retirement System**  
**Schedule of Investment Expenses**  
*(Dollars in Thousands)*

**Schedule IV (Continued)**

**External Fixed Income Managers:**

Aberdeen Asset Management	\$	1,711
Blackrock Financial Management, Inc.		2,652
EH Williams Capital Management, LLC		733
Goldman Sachs Asset Management		2,045
Julius Baer Investment Management, LLC		2,457
LM Capital Group, LLC		610
Post Advisory Group, LLC		1,847
Pyramis Global Advisors Trust Co.		1,447
Seix Investment Advisors		29
Shenkman Capital Management, Inc.		157
Western Asset Management Co.		2,065
Total External Fixed Income Managers:		<u>15,753</u>

**Real Estate Managers/Advisors:**

Blackrock Realty Advisors		3,250
CB Richard Ellis Investors, LLC		11,039
Heitman Capital Management, LLC		2,527
ING Clarion Partners		885
Lowe Enterprises Investment Mgmt, LLC		344
Principal Global Investors		4,422
Thomas Properties		649
Total Real Estate Managers/Advisors:		<u>23,116</u>

**Research and Rating Services:**

BCA Publications		31
Capital IQ		34
CEM Benchmarking, Inc.		20
Credit Sights		18
Dow Jones & Co., Inc.		16
Factiva, Inc.		22
Fitch Information, Inc.		72
Gimme Credit		13
Institutional Investor Journal		21
Intex Solutions, Inc.		288
Market Access		18
Moodys Investors Service		215
Oxford Analytica, Ltd.		83
Property & Portfolio Research, Inc.		150
Realpoint		42
Reuters America, LLC		108
Standard & Poor's		365
Strategic Economic Decisions, Inc.		15
The Yield Book		77
Thomson Financial, LLC		128
Thomson Tradeweb, LLC		29
Trans-Lux		82
Trepp, LLC		35
Zephyr Associates, Inc.		18
Total Research and Rating Services:		<u>1,900</u>

**Risk Management Systems:**

Barra, Inc.		138
Blackrock Financial Management, Inc.		3,289
Bloomberg, LP		571
Total Risk Management Systems:		<u>3,998</u>

**California State Teachers' Retirement System**  
**Schedule of Investment Expenses**  
*(Dollars in Thousands)*

**Schedule IV (Continued)**

**Advisers and Consultants:**

Altius Associates	\$	465
Altura Capital		25
Angeles Investment Advisors		63
Bard Consulting		687
Bonuccelli & Associates, Inc.		1,087
Callan Associates		50
Cambridge Associates		3,539
Capital Hotel Management, LLC		31
Courtland Partners, Ltd.		114
Ennis Knupp & Associates		235
KPMG, LLP		770
McKinsey & Co., Inc. United States		86
Org Portfolio Management		32
PCA Real Estate Advisors		645
Pension Consulting Alliance		822
Terra Search Partner, LLC		90
Valuation Research Corporation		77
Westwood Consulting Group		32
Total Advisers and Consultants:		<u>8,850</u>

**Attorneys, Master Custodian and Insurers:**

Aon Risk Services		680
Cox Castle Nicholson		113
Groom Law Group		156
Sheppard Mullin Richter & Hampton		118
State Street Bank (Master Custodian)		5,574
Total Attorneys, Master Custodian and Insurers:		<u>6,641</u>

**Corporate Governance:**

Administrative Costs		2,756
Altman Group, Inc.		18
Asset4 AG		213
Audit Integrity		46
Broadridge ICS		31
Council of Institutional Investors		30
Egan-Jones Proxy Services		30
Elkins Meshery, LLC		40
Factset		296
Glass Lewis & Co., LLC		164
Governance Metics International		50
Institutional Shareholder Services		63
KLD		13
Korn / Ferry International		191
Morgan, Lewis & Bockius, LLP		325
Morgan Stanley Capital International, Inc.		32
Proxy Governance, Inc.		25
Riskmetrics Group		269
Russell Investment Group		30
The Conference Board		23
The Corporate Library		24
Total Corporate Governance:		<u>4,669</u>

**Other Expenses:**

Administrative Costs	\$	10,656
Bayard Advertising Agency, Inc.		16
Miscellaneous		386
Total Other Expenses:		<u>11,058</u>
Total	\$	<u>208,068</u>

**California State Teachers' Retirement System**  
**Schedule of Consultant and Professional Services Expenses**  
**(Dollars in Thousands)**

**Schedule V**

**Teachers' Retirement Fund**

<b>Individual or Firm</b>	<b>Commission/Fee</b>	<b>Nature of Services</b>
<b>Consulting and professional services:</b>		
Activestategy, Inc.	\$ 41	Consulting Services
Agreeya Solutions	141	Consulting Services
Alameda County Office Of Education	124	Regional Counseling Services
Ann Escott Bancroft	11	Consulting Services
Anne Staines Marketing Consulting	23	Consulting Services
Applied Network Security	28	Consulting Services
Benchmark Consulting Services	332	Consulting Services
Blackstone Technology Group	48	Consulting Services
Bridge Micro	21	Consulting Services
Business Advantage	179	Consulting Services
Cal Gov Technology	427	Consulting Services
California Department Of General Services	118	Consulting Services
Capital Network Solutions	12	Consulting Services
COMSYS Services LLC	224	Consulting Services
Contra Costa County Office Of Education	138	Regional Counseling Services
Cooperative Personnel Services	55	Consulting Services
Coretechs, Inc.	59	Consulting Services
Crusade	134	Consulting Services
Deferred Compensation Fund	165	Consulting Services
Department Of Justice	291	Consulting Services
DSG Group, Inc.	145	Consulting Services
Dublin Unified School District	141	Regional Counseling Services
Eclipse Solutions, Inc.	517	Consulting Services
Employee Relation, Inc.	13	Consulting Services
Employment Development Department	52	Consulting Services
Folsom Cordova Unified School	255	Regional Counseling Services
Forward Solutions	150	Consulting Services
Fresno County Office Of Education	214	Regional Counseling Services
Graphic-Focus	80	Consulting Services
Hareline Graphics	78	Consulting Services
Helm Technical Services	153	Consulting Services
Hogan & Hartson	180	Legal Services
Humboldt County Office Of Education	61	Regional Counseling Services

**California State Teachers' Retirement System**  
**Schedule of Consultant and Professional Services Expenses**  
*(Dollars in Thousands)*

**Schedule V (Continued)**

**Teachers' Retirement Fund (continued)**

<b>Individual or Firm</b>	<b>Commission/Fee</b>	<b>Nature of Services</b>
<b>Consulting and professional services:</b>		
Huron Consulting Services LLC	18	Consulting Services
iAnywhere Solutions, Inc.	10	Consulting Services
Image Access West	14	Consulting Services
Infiniti Consulting Group, Inc	310	Consulting Services
Inforce, Inc.	43	Consulting Services
Informatix Inc.	41	Consulting Services
Insight Technologies, Inc.	228	Consulting Services
Integrative Project Solutions	100	Consulting Services
Intergalactic Placements	430	Consulting Services
International Network	704	Consulting Services
Investment Training & Consulting Insititute, Inc.	15	Consulting Services
Jaykumar Maistry	1,557	Consulting Services
Jeve Consulting, Inc.	179	Consulting Services
Jubilee Technologies	11	Consulting Services
Katz & Associates Inc.	31	Consulting Services
Kearnford Application Systems	159	Consulting Services
Kern County Superintendent Of Schools	213	Regional Counseling Services
Kiefer Consulting, Inc.	153	Consulting Services
KPMG, LLP	76	Audit Services
Linda Rogers & Associates	48	Consulting Services
Link One Professionals, LLC	157	Consulting Services
Los Angeles Community Colleges	65	Regional Counseling Services
Los Angeles County Superintendent Of Schools	840	Regional Counseling Services
M Corporation	374	Consulting Services
Macias, Gini & O'Connell LLP	231	Audit Services
Mara Consulting, Inc.	213	Consulting Services
Matthew Bender & Company, Inc.	39	Consulting Services
Mayer Hoffman McCann, P.C.	365	Consulting Services
McLagan Partners, Inc.	32	Consulting Services
Mega Na, Inc.	47	Consulting Services
Milliman, Inc.	281	Consulting Services
Monterey County Office Of Education	55	Regional Counseling Services
Montridge Consulting	552	Consulting Services
MSLA, A Medical Corporation	17	Consulting Services
Nanran, Inc.	842	Consulting Services

**California State Teachers' Retirement System**  
**Schedule of Consultant and Professional Services Expenses**  
*(Dollars in Thousands)* **Schedule V (Continued)**

**Teachers' Retirement Fund (continued)**

<b>Individual or Firm</b>	<b>Commission/Fee</b>	<b>Nature of Services</b>
<b>Consulting and professional services:</b>		
nfpAccounting Technologies	11	Consulting Services
Office Of Emergency Services	10	Regional Counseling Services
Olson,Hagel & Fishburn, LLP	77	Legal Services
Onset Solutions	13	Consulting Services
Orange County Department Of Education	410	Regional Counseling Services
Performance Technology	94	Consulting Services
Personal Enterprises, Inc.	335	Consulting Services
Pinnacle Consulting	356	Consulting Services
Placer County Office Of Education	102	Regional Counseling Services
Pleasanton Unified School District	28	Regional Counseling Services
Princeton Solutions Group	240	Consulting Services
ProProse	15	Consulting Services
Public Sector Consultants, Inc.	78	Consulting Services
Q Data Consulting	193	Consulting Services
Quest Media & Supplies	355	Consulting Services
Rapidigm	55	Consulting Services
Renee Taylor Consulting, Inc.	56	Consulting Services
Robert Yetman	33	Consulting Services
Russbo, Incorporated	225	Consulting Services
Sacramento IT Consulting, LLC	123	Consulting Services
San Bernardino County Office Of Education	313	Regional Counseling Services
San Diego County Office Of Education	261	Regional Counseling Services
San Francisco County Office Education	75	Regional Counseling Services
San Joaquin County Office Of Education	115	Regional Counseling Services
San Jose Unified School District	220	Regional Counseling Services
San Mateo-Foster City School District	45	Regional Counseling Services
Santa Barbara County Office Of Education	94	Regional Counseling Services
Santa Cruz County Of Education	94	Regional Counseling Services
SAP Consulting, Inc.	216	Consulting Services
Segula Technologies, Inc.	114	Consulting Services
Senate Rules Committee	104	Consulting Services
Shasta County Office Of Education	133	Regional Counseling Services
Shaw Valenza LLP	20	Consulting Services
Shiva Systems	18	Consulting Services
Sierra Metrics, Inc.	617	Consulting Services

**California State Teachers' Retirement System**  
**Schedule of Consultant and Professional Services Expenses**  
*(Dollars in Thousands)* **Schedule V (Continued)**

**Teachers' Retirement Fund (continued)**

Individual or Firm	Commission/Fee	Nature of Services
<b>Consulting and professional services:</b>		
Solano County Office Of Education	36	Regional Counseling Services
Sonoma County Superintendent Of Schools	178	Regional Counseling Services
Staff Tech, Incorporated	87	Consulting Services
Stanfield Systems, Inc	39	Consulting Services
Stanislaus County Office Of Education	81	Regional Counseling Services
State Controller's Office	1,120	Consulting Services
Systems Technology Associates	83	Consulting Services
Systems West Computer	63	Consulting Services
The Ballard Group	165	Consulting Services
The Highlands Consulting	220	Consulting Services
The StateStore, Incorporated	18	Consulting Services
ThirdWave Corporation	239	Consulting Services
Thomas V. Ennis Consulting	332	Consulting Services
Thomas/Ferrous	280	Consulting Services
TranSystems Corporation	18	Consulting Services
Tulare County Superintendent Of Schools	82	Regional Counseling Services
University Enterprises, Inc.	1,094	Consulting Services
US Bank	13	Consulting Services
Ventura County Superintendent Of Schools	80	Regional Counseling Services
Visionary Integration	233	Consulting Services
Visual Communication	40	Consulting Services
Volt Services Group	115	Consulting Services
VR Election Services	241	Consulting Services
Wright On-Line Systems	51	Consulting Services
Yuba County Office Of Education	76	Regional Counseling Services
Other	82	Various Services under \$10K.
	<u>23,374</u>	
Data Processing:		
Department Of Technology Services	5,351	Data Processing
Visara International Inc.	2	Data Processing
	<u>5,353</u>	
Total consultant and professional services expenses	<u>\$ 28,727</u>	

**California State Teachers' Retirement System**  
**Schedule of Consultant and Professional Services Expenses**  
*(Dollars in Thousands)* **Schedule V (Continued)**

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**Teachers' Deferred Compensation Fund**

<b>Individual or Firm</b>	<b>Commission/Fee</b>	<b>Nature of Services</b>
<b>Consulting and professional services:</b>		
Meridian Wealth Management	\$ 57	Consulting Services
Citistreet	<u>3</u>	Administrative Services
 Total consultant and professional services expenses	 <u>\$ 60</u>	

**IRC 403(b) Plan**

<b>Individual or Firm</b>	<b>Commission/Fee</b>	<b>Nature of Services</b>
<b>Consulting and professional services:</b>		
Citistreet	\$ 352	Administrative Services
TIAA-CREF	<u>119</u>	Administrative Services
 Total consultant and professional services expenses	 <u>\$ 471</u>	