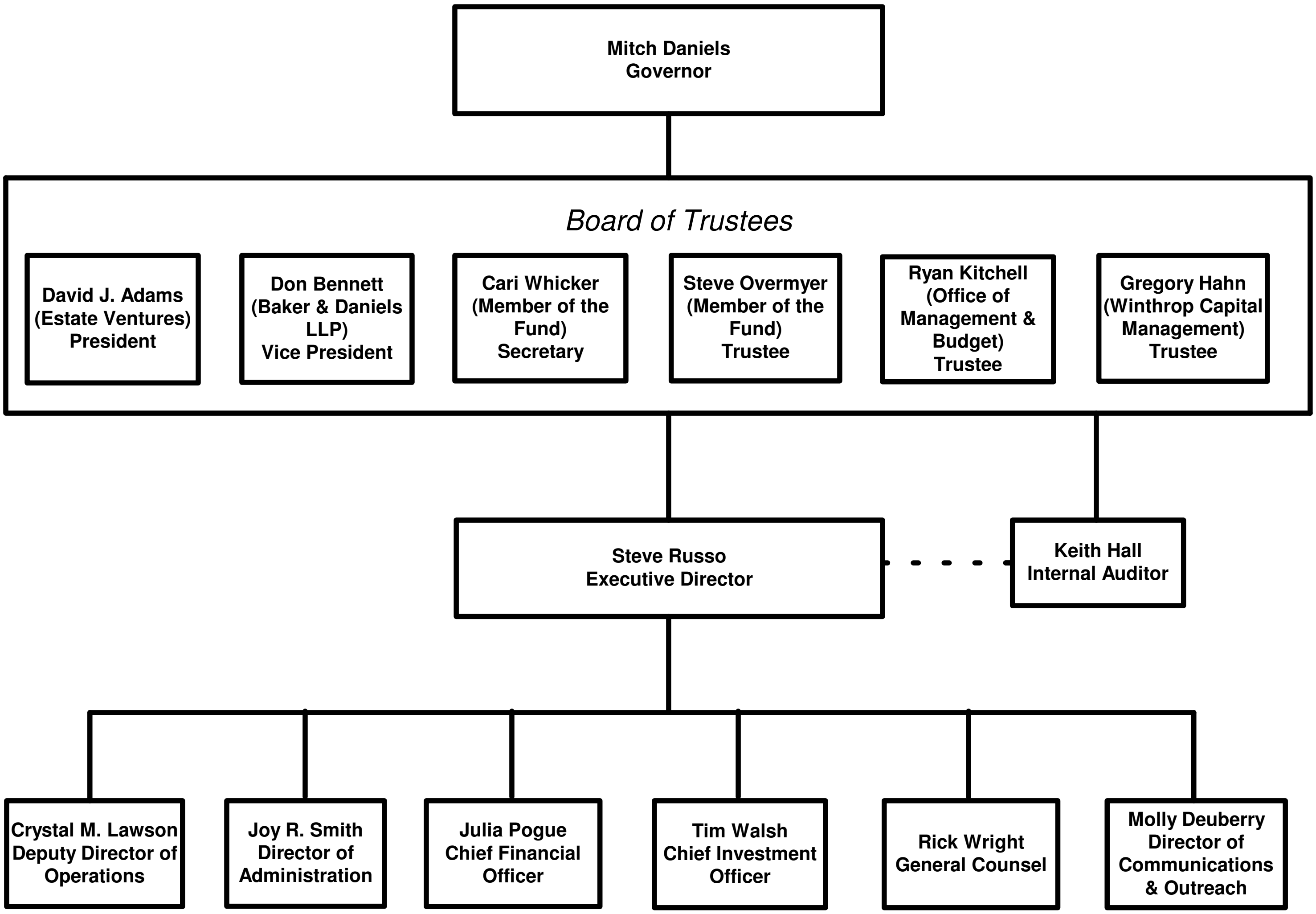
Indiana State Teachers' Retirement Fund

2007 Annual Report

The mission of the Indiana State Teachers' Retirement Fund is to prudently manage the Fund in accordance with fiduciary standards, provide quality benefits, and deliver a high level of service to its members, while demonstrating responsibility to the citizens of the state.

Indiana State Teachers' Retirement Fund
Organization Chart
As of July 25, 2008



Building Your Retirement Future

Indiana State Teachers' Retirement Fund

July 21, 2008

The Honorable Mitchell E. Daniels, Jr.
Governor of Indiana, 204 Statehouse
Indianapolis, Indiana 46204-2797

Dear Governor Daniels:

We are pleased to submit the Indiana State Teachers' Retirement Fund 2007 Annual Report. This report features a summary of fiscal years 2006 and 2007, highlighting changes in the Fund.

	June 30, 2007	June 30, 2006	Increase (Decrease)
Number of Active Members	75,833	73,350	2,483
Number of Vested Inactive Members	5,021	5,303	(282)
Number of Non-Vested Inactive Members	38,404	32,912	5,492
Number of Retirees and Beneficiaries	41,253	39,849	1,404
Annual Payout to Retirees and Beneficiaries	897.7 Million	780.7 Million	117 Million
Net Assets held in trust for Pension Benefits	8,980.8 Million	7,791.4 Million	1,189.4 Million
Rate of Invested Earnings Distribution:			
Guaranteed Fund	5.50%	6.00%	(0.50%)
Bond Fund	7.35%	0.23%	7.12%
Money Market (rollover accounts only)	5.34%	4.16%	1.18%
S&P 500	20.59%	8.59%	12.00%
Small Cap	20.02%	10.12%	9.90%
International	30.69%	29.74%	0.95%
Unfunded Accrual Date Liability:			
Closed Plan			
Retired Lives	4,147.1 Million	3,620.8 Million	526.3 Million
Active and Inactive Members	6,077.7 Million	5,904.4 Million	173.3 Million
New Plan			
Retired Lives	148.6 Million	63.9 Million	84.7 Million
Active and Inactive Members	(34.1Million)	89.8 Million	(123.9 Million)
Total	10,339.3 Million	9,678.9 Million	660.4 Million

Please Note: Annuity reserve accounts are fully funded and available to each member at the time of retirement or withdrawal. In the event of a member's death, account balances are made payable to the designated beneficiary.

The financial security of the Fund is most important to us. Over 160,000 members trust in our ability to manage their assets. Accordingly, we will continue to uphold the integrity of the Fund by demonstrating the highest level of fiduciary responsibility and providing quality service.

Respectfully,

Dave Adams, President
Don Bennett, Vice President
Ryan Kitchell
Steve Overmyer
Cari Whicker, Secretary

Steve Russo
Executive Director

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AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE INDIANA STATE TEACHERS' RETIREMENT FUND

We have audited the accompanying basic financial statements of the Indiana State Teachers' Retirement Fund as of and for the year ended June 30, 2007. These basic financial statements are the responsibility of the Indiana State Teachers' Retirement Funds' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the fiduciary funds of the Indiana State Teachers' Retirement Fund as of June 30, 2007, and the changes in the plan net assets of the fiduciary fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, Schedule of Funding Progress, Schedule of Employer Contributions, and the Notes to Required Supplemental Schedules are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

STATE BOARD OF ACCOUNTS

December 20, 2007

MANAGEMENT'S DISCUSSION & ANALYSIS

This section presents management's discussion and analysis of the Indiana State Teachers' Retirement Fund (TRF) financial statements for the year ended June 30, 2007.
The MD&A is presented as a narrative overview and analysis. The MD&A should also be read in conjunction with the financial statements, the notes to the financial statements, and the supplementary information.

FINANCIAL HIGHLIGHTS

- The net assets of TRF were $9.0 billion as of June 30, 2007.

- The net assets of TRF increased by $1.189 billion, or 15.27% from the prior year. The increase was primarily due to positive total returns on Fund investments, resulting in higher investment values.

- The TRF rate of return on investments for the year was positive 15.95% on a market value basis, compared to last year's positive 8.30%, as stocks provided above average returns and bonds provided a average return.

- As of June 30, 2006, the date of the most recent actuarial valuation, the Pre-96 plan(Closed Plan) is actuarially funded at 36.5%, which is less than the 40.7% funded level as of June 30, 2005. The 96 plan(New Plan) is actuarially funded at 93.5%, which is more than the 63.1% funded level as of June 30, 2005. The closed plan includes all members who were hired before July 1, 1995 and have been continuously employed by the same board of education as they were on that date. The new plan includes all other members. $715 million in assets were transferred from the closed plan to the new plan during FY 2006, which accounts for the majority of the changes above.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to TRF's financial statements. The financial section of the TRF Annual Financial Report is comprised of three components: 1) TRF's financial statements, 2) notes to the financial statements, 3) required supplementary information. The information available in each of these sections is briefly summarized as follows:

1) Financial Statements

The statement of plan assets presents information on TRF's assets and liabilities and the resulting net assets held in trust for pension benefits. This statement reflects TRF's investments, at fair value, along with cash and short-term investments, receivables and other assets and liabilities. This statement indicates the net assets available to pay future pension benefits and gives a snapshot at a particular point in time.

The statement of changes in plan net assets presents information showing how TRF's net assets held in trust for pension benefits changed during the year ended June 30, 2007. It reflects contributions by members and employers along with deductions for retirement benefits, refunds, and administrative expenses. Investment income and losses during the period are also presented showing income from investing and securities lending activities.

2) Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in TRF's financial statements.

3) Required Supplementary Information

The required supplementary information consists of a Schedule of Funding Progress and a Schedule of

Employer Contributions and related notes concerning the funding status of TRF.
FINANCIAL ANALYSIS

Total assets of TRF were $11.7 billion as of June 30, 2007 compared with $10.4 billion as of June 30, 2006. The increase in total assets was primarily due to an increase in the market value of investments and interest and dividends received from the Fund's investments during the fiscal year ended June 30, 2007.

Total liabilities of were $2.7 billion as of June 30, 2007 compared with $2.6 billion as of June 30, 2006. The increase in total liabilities was due to a increase in Securities Lending Collateral..

A summary of TRF's Net Assets is presented below:

NET ASSETS
($ in thousands)

	June 30, 2007	June 30, 2006	% Change
Assets			
Cash and Cash Equivalents	$ 817,158	$1,027,346	(20.46%)
Securities Lending Collateral	1,448,921	1,317,608	9.97%
Receivables	721,392	797,245	(9.51%)
Investments	8,715,377	7,266,429	19.94%
Other Assets	9	31	(70.97%)
Total Assets	**11,702,857**	**10,408,659**	**12.43%**
Liabilities			
Securities Lending Collateral	1,448,921	1,317,608	9.97%
Other Current Liabilities	1,273,082	1,299,504	(2.03%)
Long-Term Liabilities	60	123	(51.22%)
Total Liabilities	**2,722,063**	**2,617,235**	**4.01%**
Total Net Assets	**$8,980,794**	**$7,791,424**	**15.27%**

As the above table shows, plan net assets were $9.0 billion as of June 30, 2007 a increase of $1,189 million, or 15.27%, compared to the prior year, driven by the increase in market value of investments during the year.

The following table presents TRF's investment allocation compared to TRF's target investment allocation and the prior year allocation.

	June 30,2007	June 30, 2007	June 30,2006
	Actual	Target	Actual
Fixed Income	20.8%	20.0%	23.2%
Large Cap Equity	31.0%	24.5%	31.0%
Mid Cap Equity	4.4%	3.5%	4.8%
Small Cap Equity	10.3%	7.0%	9.8%
International Equity	21.2%	20.0%	20.3%
Absolute Return	4.2%	7.0%	4.7%
Private Equity	3.7%	10.0%	2.8%
Real Estate	4.4%	8.0%	3.4%
Total	100%	100%	100%

The remaining Private Equity target allocation of 6.3% will be drawn from the Large Cap Equity investments as suitable investment in this asset class are selected. This will happen over a extended time period , as suitable investments become available. The remaining 2.8% and 3.6% from Absolute Return and Real Estate, respectively, will be drawn from Large Cap Equity investments over approximately the next six months.

A summary of the changes in net assets during the years ended June 30, 2007 and 2006 is presented below:

CHANGES IN NET ASSETS
($ in thousands)

	FY Ended June 30, 2007	FY Ended June 30, 2006	% Change
Additions			
Member Contributions	$126,195	$130,496	(3.3%)
Employer Contributions	723,040	671,340	7.7%
Contributions to Pension Stabilization Fund:			
From State Lottery	30,000	30,000	0.0%
Net Investment (Loss) Income	1,223,431	572,290	113.8%
Transfers from Public Employees' Fund	3,841	5,092	(24.6%)
Total Additions	**2,106,507**	**1, 409,218**	**49.5%**
Deductions			
Benefits	897,676	779,694	15.1%
Refunds	12,901	9,562	34.9%
Transfers to Public Employees' Fund	37	1,484	(97.5%)
Administrative Expenses	6,522	6,750	(3.4%)
Claims on Outdated Benefit Checks	0	20	(100.0%)
Total Deductions	**917,136**	**797,510**	**15.0%**
Increase (Decrease) in Net Assets	**$1,189,371**	**$611,708**	**94.4%**

ADDITIONS

Additions needed to fund benefits are accumulated through contributions from members and employers and returns on invested funds. Member contributions for the year ended June 30, 2007 totaled $126.2 million. This represents an decrease of $4.3 million or 3.3% compared to the prior year. Employer contributions ere $723.0 million, an increase of $51.7 million or 7.7%. The increase was due to larger appropriations made by the State of Indiana and new employees that the employers were making contributions on.

TRF recognized net investment income of $1,223.4 million for the year ended June 30, 2007 compared to net investment income of $572.3 million in the prior year. The higher investment income was primarily due to the fact that TRF's domestic equity investments earned a gain of 19.76%, for the fiscal year. This compares to a gain of 20.09% for the S&P 500 index during the year. Domestic Mid Cap equities had a gain of 13.50% as compared to a gain of 18.51% for the S & P 400 Mid Cap index during the fiscal year. Domestic Small Cap equities had a gain of 20.57%, as compared to a gain of 16.40% for the Russell 2000 index during the fiscal year. International equities had a gain of 30.82%, as compared to a gain of

30.15% for the EAFE index during the fiscal year. Investment gains on equities were supplemented by TRF's fixed income portfolio, which achieved a total return of 7.19% for the year ended June 30, 2007. This compares to a gain of 6.12% for the Lehman's Brothers Aggregate Index. The total rate of return on TRF's investments was a positive 15.95% compared to a positive 8.30% in the prior year.

DEDUCTIONS

The deductions from TRF's net assets held in trust for pension benefits include primarily retirement, disability, and survivor benefits, refunds of contributions to former members, and administrative expenses. For the year ended June 30, 2007, benefits amounted to $897.7 million, an increase of $117.0 million or 15.0% from the prior year. The increase in benefits was due to an increase both in the number of retirees and the average benefit paid. Refunds to former members were $12.9 million, which represents a increase of 34.9% over the prior year. This was primarily the result of TRF's efforts to locate inactive members and encourage them to withdrawal their funds.

Administrative expenses were $6.5 million, which was a decrease of $228,000, or 3.4% from the prior year.

HISTORICAL TRENDS

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The funded ratios of the defined benefit pension plans administered by TRF as of the latest actual valuations were as follows:

	July 1, 2006	July 1, 2005
Pre –96 Plan (Closed Plan)	36.5%	40.7%
96 Plan (New Plan)	93.5%	63.1%

An analysis of the funding progress, employer contributions, and a discussion of actuarial assumptions and methods is set forth in the required supplementary information section of the financial statements.

INDIANA STATE TEACHERS' RETIREMENT FUND
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2007

Assets	
Cash and Cash Equivalents	$ 817,157,942
Securities Lending Collateral	1,448,920,710
Receivables:	
Employer Contributions	29,246,347
Member Contributions	38,053,905
Interest and Dividends	32,567,033
Due From Public Employees' Retirement Fund	2,098,572
Securities Sold	619,425,900
Total Receivables	721,391,757
Investments:	
Debt Securities	3,893,861,902
Equity Securities	4,340,551,773
Other	480,962,951
Total Investments	8,715,376,626
Furniture and Equipment (Original Cost of $187,041 Net of $177,481 Accumulated Depreciation)	9,560
Total Assets	11,702,856,595
Liabilities	
Accrued Salaries Payable	128,037
Accrued Liability for Compensated Absences - Current	71,011
Accounts Payable	5,566,770
Securities Lending Collateral	1,448,920,710
Payables for Securities Purchased	1,267,315,577
Total Current Liabilities	2,722,002,105
Accrued Liability for Compensated Absences - Long-Term	60,491
Total Liabilities	2,722,062,596
Net Assets Held in Trust for Pension Benefits (See Schedule of Funding Progress, page 23)	$ 8,980,793,999

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

INDIANA STATE TEACHERS' RETIREMENT FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For The Year Ended June 30, 2007

Additions	
Contributions:	
Member Contributions	$ 126,194,680
Employer Contributions	723,039,657
Employer Contributions - Pension Stabilization	30,000,000
Total Contributions	879,234,337
Investment Income:	
Net Appreciation (Depreciation) in Fair Value	945,150,422
Interest Income	200,435,363
Dividend Income	93,943,883
Securities Lending Income	77,859,483
Total Investment Income	1,317,389,151
Less Investment Expense:	
Investment Fees	19,593,644
Securities Lending Expenses	74,364,137
Net Investment Income	1,223,431,370
Other Additions:	
Transfer from Public Employees' Retirement Fund	3,840,644
Total Additions	2,106,506,351
Deductions	
Pension and Disability Benefits	897,676,227
Distributions of Contributions and Interest	12,901,454
Administrative Expenses	6,500,503
Depreciation Expense	21,052
Transfer to Public Employees' Retirement Fund	36,947
Total Deductions	917,136,183
Net Increase in Net Assets Held in Trust for Pension Benefits	1,189,370,168
Net Assets - Beginning of Year	7,791,423,831
Net Assets - End of Year	$ 8,980,793,999

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

Note I. Summary of Significant Accounting Policies

A. Reporting Entity - The financial statements presented in this report represent only those funds that the Indiana State Teachers' Retirement Fund (TRF) has responsibility for and are not intended to present the financial position or results of operations of the State of Indiana or all of the retirement and benefit plans administered by the State. Effective July 1, 2001, TRF became an independent corporate and politic (Public Law 119-2000). TRF is not a department or agency of the State but is an independent body corporate and politic exercising essential government functions. The members of the Board of Trustees of the Indiana State Teachers' Retirement Fund are appointed by the Governor of the State of Indiana and a financial benefit/burden relationship exists between the TRF and the State of Indiana. For these reasons, TRF is considered a component unit of the State of Indiana for financial statement reporting purposes.

B. Basis of Presentation - The financial statements of the Indiana State Teachers' Retirement Fund have been prepared using fund accounting in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles. GASB Statement 25 has been implemented for the defined benefit pension plans.

C. Fund Accounting - Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. The Indiana State Teachers' Retirement Fund is a pension trust fund. For a description of this fund, see Note 2.

D. Basis of Accounting - The records of this Fund are maintained on a cash basis. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

E. Budgets - A budget for the administrative expenses is prepared and approved by the Board of Trustees.

F. Deposits and Investments - The Treasurer of State acts as the official custodian of the cash and securities, except for securities held by banks or trust companies under custodial agreements with the Board of Trustees. The Board of Trustees may contract with investment counsel, trust companies, or banks to assist the Board in its investment program. The Board is required to diversify investments in accordance with prudent investment standards. The Board has issued investment guidelines for its investment program which authorized investments of: U.S. Treasury and Agency obligations, U.S. Government securities, common stock, international equity, corporate bonds, notes and debentures, repurchase agreements secured by U.S. Treasury obligations, mortgage securities, commercial paper, and banker's acceptances. See Note 4 for more details.

During the year ended June 30, 2005, the Fund adopted Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3) ("GASB 40"). The adoption of GASB 40 required the Fund to include a presentation of Deposit and Investment Risk Disclosures. The adoption of GASB 40 did not have an impact on the Fund's financial statements.

G. Method Used to Value Investments - GASB 25 requires that investments of defined benefit plans be reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

H. Other Investments - Other investments includes investment in shares of limited liability partnerships, real estate securities, options and swaps. Also included is property owned for investments purposes.

I. Equipment - Equipment with a cost of $20,000 or more is capitalized at the original cost. Depreciation is computed on the straight-line method over the estimated five-year life of all assets.

J. Contributions Receivable - The contributions receivable was determined by using actual contributions received in July for days paid in the quarter ended June 30, 2006.

K. Inventories - Inventories of consumable supplies are not recognized on the balance sheet as they are considered immaterial. Purchases of consumable supplies are recognized as expenditures at the time of purchase.

L. Reserves and Designations

The following are the legally required reserves and other designations of fund equity:

1. Member Reserve: The member's reserve represents member contributions made by or on the behalf of the employees plus any interest distributions, less amounts refunded or transferred to the Benefits in Force reserve for retirement disability, or other benefit. For Indiana State Teachers' Retirement Fund this reserve is the employees' annuity savings account.

2. Benefits in Force: This reserve represents the actuarial present value of future benefits for all members who are presently retired or disabled. The accumulated contributions of the members are transferred to the reserve upon retirement or disability. The remainder of the actuarial pension cost is transferred from the employer reserve to fund the benefits. This reserve contains $1,880,110,945 for the Pension Stabilization Fund. The Pension Stabilization Fund was established by Indiana Code 5-10.4-2-5. See Note 3 for further detail on the Pension Stabilization Fund. This reserve has an unfunded actuarial accrued liability.

3. Employer Reserves: This reserve consists of the accumulated employer contributions plus earnings distributions less transfers made to the Benefits in Force reserve of the actuarial pension cost. This reserve has an unfunded actuarial accrued liability.

4. Undistributed Investment Income Reserve: This reserve was credited with all investment earnings. Interest transfers have been made annually to the other reserves as allowed or required by statutes. The transfers are at rates established by the Board of Trustees.

5. Unreserved Fund Balance: This reserve represents the unfunded actuarial accrued liability for retired and nonretired participants, determined by the fund's actuary, as of the date of the last valuation.

The following are the balances of the reserves and designations of fund equity:

Member Reserve	$	3,421,477,173
Employer Reserve		1,775,164,292
Benefits in Force		3,547,659,590
Undistributed Income		236,359,954
Unreserved Fund Balance		(9,678,883,167)

M. Payables and Liabilities - Payables and liabilities are not maintained throughout the year on the accounting records. They are calculated or estimated for financial statement reporting purposes and are posted to the general ledger at year end.

N. Compensated Absences - TRF's full-time employees are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of 1 day per month and sick leave at the rate of 1 day every 2 months plus an extra day every 4 months. Bonus vacation days are awarded upon completion of 5, 10 and 20 years of employment with the State of Indiana. Personal leave days are earned at the rate of 1 day every 4 months; any personal leave accumulated in excess of 3 days automatically becomes part of the sick leave balance. Upon separation from service, employees in good standing will be paid for a maximum of 30 unused vacation leave days.

No liability is reported for unpaid accumulated sick and personal leave. Vacation leave and the salary-related payments that are expected to be liquidated are reported as Compensated Absences Liability.

Note II. Fund Description

The Indiana State Teachers' Retirement Fund is the administrator of a multiple-employer retirement fund established to provide pension benefits for persons who are engaged in teaching or in the supervision of teaching in the public schools of the state or persons who are employed by the fund. At June 30, 2007, the number of participating school unit employers was:

Public School Units	353
Higher Education Units	4
State of Indiana Agencies	30
Associations	2
Total	389

Membership in the Fund is required for all legally qualified and regularly employed teachers who serve in the public schools of Indiana, including the faculty at Vincennes University, and employees of Fund. Additionally, faculty members at Ball State University, Indiana State University, and University of Southern Indiana have the option of selecting membership in the Fund or the alternate University Plan. As of July 1, 2007, Indiana State Teachers' Retirement Fund membership consisted of:

Currently Receiving Benefits	39,849
Active Plan Members	73,350
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	5,303
Total	118,502
Covered Payroll (in Thousands)	$ 3,802,721

The Indiana State Teachers' Retirement Fund provides retirement benefits, as well as death and disability benefits. Eligibility to retire occurs at age 50 with 15 or more years of service or at age 65 with 10 years of service. Annual retirement benefits, disability benefits, and death benefits are computed as follows:

Regular Retirement (No Reduction Factor For Age)

Eligibility - Age 65 with 10 years service or age 60 with at least 15 years of service or age 55 with age plus years of service equaling at least 85.

Mandatory Retirement Age - none.

Annual Amount - State pension equal to total years of service times 1.1% of final average salary; plus an annuity purchased by the member's accumulated contributions unless the member elects to withdraw the accumulated contributions in a lump sum.

Type of Final Average Salary - Average of highest 5 years.

Early Retirement (Age Reduction Factor Used)

Eligibility - Age 50 with 15 or more years service.

Annual Amount - State pension is computed as regular retirement benefit but reduced one-tenth of 1% for each month age at retirement is between 60 and 65 and five-twelfths of 1% for each month under age 60.

Deferred Retirement (Vested Benefit)

Eligibility – 10 years of service. Benefit commences at age 65 or at age 50 if member has 15 or more years of service.

Annual Amount - Computed as a regular retirement benefit with state pension based on service and final average salary at termination.

Regular Disability

Eligibility – 5 years of service.

Annual Amount - $125 per month plus $5 for each year of service credit over 5 years.

Disability Retirement (No Reduction Factor For Age)

Eligibility – 5 years of service and also qualify for Social Security Disability at time of termination.

Annual Amount - Computed as a regular retirement benefit with state pension based on service and final average salary at termination.

Duty Death Before Retirement

Eligibility – 15 years of service. Spouse to whom member had been married for 2 or more years is automatically eligible, or a dependent may be designated as beneficiary.

Annual Amount - Computed as regular retirement benefit but reduced in accordance with a 100% joint and survivor election.

Benefit Increases After Retirement: No automatic increases after retirement are provided. Unscheduled increases have been made from time to time.

Each member shall, as a condition of employment, contribute to the Fund 3% of his/her compensation. Effective July 1, 1986, each employing unit may elect to "pick up" the employee contribution. No part of the member contributions to the Fund picked up by the employer is includable in the gross income of the member. The "pick up" amount does count in the salaries used to determine the final average at retirement. Any member who leaves covered employment has the option to withdraw accumulated contributions and interest. In the event of a death of a member who has served less than 15 years or does not meet the surviving spouse requirements, their designated beneficiary or estate is entitled to a lump sum settlement of their contributions plus interest.

Indiana pension statutes stipulate that each member of the Fund shall have the opportunity to direct their annuity savings account into one of five current investment programs:

1. The Guaranteed Fund - Interest is credited at a rate annually determined by the Board of Trustees. Principal and interest are "guaranteed." Market risk is assumed by the Fund.

2. The Bond Fund - Contains high quality fixed-income instruments which provide interest/ capital gain income. Market risk is assumed by the member.

3. S & P 500 Index Fund - Closely tracts the return on the S & P 500 Index by employing an indexing strategy that invest in the stocks of the S & P 500 Index companies. Market risk is assumed by the member.

4. Small Cap Equity Fund - Consist of stocks with a market capitalization of less than $1.5 billion. Market risk is assumed by the member.

5. International Equity Fund - Consists of securities of developed non-U.S. countries. Market risk is assumed by the member.

The Guaranteed Fund, Bond Fund, S & P 500 Index Fund, Small Cap Fund and International Fund are valued at market value. When a member retires, dies or suspends membership and withdraws from the fund, the amount credited to the member shall be valued at the market value of the member's investment plus accrued interest on investment less accrued investment expenses.

Members may only make a selection or re-allocation once per quarter. The changes will be in effect the first month of the quarter following the request for change. Members may request allocations to one or all of the approved funds, as long as those allocations are made in 10% increments of the total balance in the member's account at the time of allocation. The total must equal 100%.

Note III. Employer Contributions Required and Employer Contributions Made

The Indiana State Teachers' Retirement Fund is funded on a "pay as you go" basis for employees hired prior to July 1, 1995. State appropriations are made for the amount of estimated pension benefit payout for each fiscal year. If the actual pension benefit payout for the fiscal year exceeds the amount appropriated, the difference is paid from the Pension Stabilization Fund. For employees hired on or after July 1, 1995, the individual employer will make annual contributions. These contributions are actuarially determined.

Based on the actuarial valuation at June 30, 2006, employer actuarially required contributions were $758,503,977 of normal cost, with no amortization of the unfunded actuarial accrued liability and zero provision for expenses. Contributions made by employers for the year ended June 30, 2007, were $753,039,657, which was 19.8% of covered payroll.

Note IV. Deposit and Investment Risk Disclosures

The Fund's Investment policy states the following:

"The Fund was established to provide retirement, disability, death, and termination benefits to present and former members of the Fund and their beneficiaries who meet the statutory requirements for such benefits. The Fund must be operated for the exclusive benefit of members and their beneficiaries, pursuant to Indiana law and the Internal Revenue Code. The Fund is required by Indiana law to meet all rules applicable to a qualified plan under Section 401 of the Internal Revenue Code, in order to provide the ensuing tax advantages to its members. In addition, the Fund is a trust, exempt from taxation under Section 501 of the Internal Revenue Code. The Fund is also governed by Indiana statutes and administrative rules. See IC 5-10.2 and IC 21-6.1."

"Whereas, the general assembly also believes that a prudent diversification of investments by public retirement funds is an essential element of a stringent investment standard for such funds and is critical for the future; and"

"Whereas, the general assembly finds that numerous actuarial studies of retirement funds in Indiana and other states have demonstrated that, due to the long term nature of the investment made by public retirement funds, diversification of such investments in a responsible manner reduces risk, increases income, and improves security for such funds, while a lack of diversification results in reduced income and increased risk to the retirement funds, while creating a substantial additional burden for the taxpayers who ultimately bear the burden of providing the assets for such funds in the absence of sufficient investment income; and"

"Whereas, the general assembly desires to pass a diversification rule patterned after the stringent federal law applicable to private plans, which will provide that the trustees of each fund must diversify the investments of their fund so as to minimize the risk of large losses."

"Thus, the primary governing statutory provision is that the Board must 'invest its assets with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.' The Board is also required to diversify such investments in accordance with prudent investment standards. IC 21-6.1-3-9."

It is the responsibility of the Board of Trustees to determine the allocation of assets among distinct capital markets in accordance with allowable legal limits.

At its September 26, 2006, meeting, the Board changed the strategic asset allocation to:

Domestic Equities	35%
International Equities	20%
Private Equity	10%
Real Estate	8%
Absolute Return	7%
Fixed Income	20%
Total	100%

Interest Rate Risk

The Fund uses the Lehman Brothers Aggregate Index(LBA) as the benchmark for performance measurement of their fixed income managers. TRF's investment policy states that each fixed income manager must manage their portfolio so that the duration is no less than 80% and no more than 120% of the duration of the index.

As of June 30, 2007, the Fund had the following debt investments and maturities (amounts are in thousands):

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
Short-Term Investment Funds	$ 425,699	$ 425,699	$ -	$ -	$ -
Commercial Paper	43,674	43,674	-	-	-
Asset Backed Securities	232,658	5,144	141,748	3,777	81,989
Commercial Mortgage - Backed Securities	298,227	-	-	-	298,227
Corporate Bonds	830,339	38,709	364,496	205,741	221,393
U.S. Agencies	405,853	66,917	261,694	56,768	20,474
U.S. Treasuries	359,190	72,132	14,901	134,551	137,606
Government Mortgage Backed Securities	1,672,478	23	33,993	122,102	1,516,360
Municipal/Provincial Bonds	85	-	-	-	85
Collaterized Mortgage Obligations	154,786	-	-	12,882	141,904
Totals	$ 4,422,989	$ 652,298	$ 816,832	$ 535,821	$ 2,418,038

Custodial Credit Risk

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the Fund.

There was no custodial credit risk for investments including investments related to securities - lending collateral. Per Indiana Code 5-10.4-3-13 fund investment custodial agreements are held with banks domiciled in the United States and approved by the department of financial institutions to act in a fiduciary capacity and manage custodial accounts in Indiana.

Deposit Risks

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the demand deposit account are carried at cost and are insured up to $100,000 each. Deposits in the demand accounts held in excess of $100,000 are not collateralized. Deposits with the Treasurer of State are entirely insured. Cash Deposits held with the custodian are carried at cost and are not insured or collateralized.

Cash Deposits (in Thousands):		
Demand Deposit Account - Bank Balance	$	45,815
Demand Deposit Account - Book Balance		1,745
Held with Treasurer of State		9,936
Cash Held with Custodian		338,475

Credit Risk

The credit risk of investments is the risk that the issuer will default and not meet their obligation. This credit risk is measured by the credit quality ratings issued by national rating agencies such as Moody's and Standard and Poor's.

The Fund's investment policy limits each fixed income manager's purchase of below Baa grade securities to 10% of the total market value of the manager's portfolio.

The following table (in thousands of dollars) provides information on the credit ratings associated with the Fund's investments in debt securities. Ratings were obtained from Moody's. On securities that Moody's did not provide a rating then a rating was obtained from Standard and Poor's.

Rating		Fair Value	Percentage of Portfolio
Aaa	$	2,847,047	64.37%
Aa1		85,242	1.93%
A1		161,457	3.65%
Baa1		309,682	7.00%
Ba1		108,048	2.44%
B1		23,464	0.53%
Caa1		7,259	0.16%
Unrated		880,789	19.91%
Totals	$	4,422,988	100.00%

Concentration of Credit Risk

At June 30, 2007, TRF did not have investments in any one issuer, other than securities issued or guaranteed by the U.S. Government that represented more than 5% of net investments.

Foreign Currency Risk

As of June 30, 2007, 16.59% of the Fund's investments were in foreign currencies. In addition to the Fund's international equity managers, fixed income managers are allowed to invest up to 10% of their portfolio in international bonds. The table below breaks down the Fund's exposure to each foreign currency:

Currency	Equity Securities	Contracts, Currencies and Comingled Money Funds	Total Fair Value	Percentage of Total Fund Fair Value
Euro Currency Unit	$ 460,996,263	$ 41,074,112	$ 502,070,375	5.66%
Japanese Yen	263,719,757	164,139,346	427,859,103	4.82%
British Pound Sterling	198,752,172	13,551,894	212,304,066	2.39%
Canadian Dollar	55,714,882	605,204	56,320,086	0.63%
Swiss Franc	72,558,747	167,432	72,726,179	0.82%
Hong Kong Dollar	35,584,873	558,006	36,142,879	0.41%
Australian Dollar	44,268,187	212,447	44,480,634	0.50%
Norwegian Krone	21,058,932	1,682	21,060,614	0.24%
South Korean Won	19,288,709	-	19,288,709	0.22%
Swedish Krona	19,462,404	14,904,489	34,366,893	0.39%
Other	26,148,108	19,542,417	45,690,525	0.51%
Totals	$ 1,217,553,034	$ 254,757,029	$ 1,472,310,063	16.59%

Securities Lending

State statutes and the Board of Trustees permit the Fund to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Fund's custodial bank manages the securities lending program and receives securities or cash as collateral. The Fund's custodial bank maintains a list of broker-dealers that have passed their credit analysis and are eligible to borrow securities. In addition the Fund can have any borrower removed from this list by requesting the custodian not lend to this borrower. The collateral securities cannot be pledged or sold by the Fund unless the borrower defaults, but cash collateral may be invested by the Fund. Collateral securities and cash are initially pledged at 102% of the market value of domestic securities lent and 105% on international securities lent. Collateral is adjusted to the market on a daily basis. No more than 40% of TRF's total assets may be lent at any one time. At year-end, TRF has no credit risk exposure to borrowers because the amount TRF owes the borrowers exceed the amounts the borrowers owe TRF.

Approximately 25% of the securities loans can be terminated on demand either by the Fund or by the borrower, although generally the average term of these loans is one day. Total cash collateral of $1,449 million is invested in a pooled fund.

As of June 30, 2007, the Fund had the following security on loan:

Security Type	Market Value of Loaned Securities Collateralized by Cash	Market Value of Loaned Securities Collateralized by Noncash	Total Securities Loaned
Global Equities	$ 218,295,512	$ 7,724,061	$ 226,019,573
Global Fixed	71,860,988	-	71,860,988
U.S. Agencies	244,613,072	-	244,613,072
U.S. Corporate Fixed	63,127,308	17,295,595	80,422,903
U.S. Equities	532,546,152	10,328,211	542,874,363
U.S. Government Fixed	281,998,334	2,017,911	284,016,245
Totals	$ 1,412,441,366	$ 37,365,778	$ 1,449,807,144

Derivative Financial Instruments

TRF invested in derivative financial investments as authorized by Board policy. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or market index. TRF's investments in derivatives are not leveraged. In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and senior management, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. During the year, TRF's derivative investments included cash and cash equivalent futures, equity derivatives - options, fixed income derivatives - options, rights/warrants, swaps, foreign currency forward contracts, collateralized mortgage obligations (CMOs), treasury inflation protected securities (TIPS), and futures.

Cash and cash equivalent futures are used to manage exposure at the front end of the yield curve. These include swaps with duration of one year or less, and Eurodollar, Euribor and other futures based on short-term interest rates. At June 30, 2007, TRF's notional value in these totaled $472.5 million and an offset of equal value of $472.5 million.

Equity derivatives - options are used to gain exposure to an index or market sector. These may offer an opportunity to outperform due to active management of the liquid portfolio backing the exposure. Exposure is backed by underlying fixed-income portfolio. At June 30, 2007, TRF's equity derivatives position had a notional value of $686.6 million and an offset of an equal value of $686.6 million.

Fixed income derivatives - futures are used to manage interest rate fluctuations. At June 30, 2007, TRF's fixed income futures with a notional value of $386.0 million and an offset of an equal value of $386.0 million.

Stock Rights/Warrants give the holder the right to buy a stock at a certain price until a certain date. At June 30, 2007, the carrying value of TRF's stock rights and warrants totaled $4.3 million.

Swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities. Long swap positions ("received fixed") increase exposure to long-term interest rates; short positions ("pay fixed") decrease exposure. At June 30, 2007, the market value of TRF's swaps was $10.5 million and swap liabilities totaled $8.8 million.

Foreign currency contracts are used to hedge against currency risk and to purchase investments in non-dollar currencies. A foreign currency contract is an agreement to buy and sell a specific amount of foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency contracts are marked to market on a daily basis. At June 30, 2007, TRF had Pending Foreign Exchange purchases of $438.2 million and Pending Foreign Exchange sales of $431.9 million.

TRF's fixed income managers invest in Collateralized Mortgage Obligations to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2007, the carrying value of the TRF's CMO holdings totaled $154.8 million.

Treasury inflation protected securities (TIPS) are used by TRF's fixed income managers to provide a real return against inflation (as measured by the Consumer Price Index). As of June 30, 2007, the carrying value of the System's TIPS holdings totaled $8.7 million.

TRF's investment managers use financial futures to replicate an underlying security or index they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Additionally, TRF's investment managers use futures contracts to adjust the portfolios risk exposure. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Financial future positions are recorded with a corresponding offset, which results in a carrying value equal to zero. At June 30, 2007, the total offset was $652 million. As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio.

Note V. Partnership Investments

The Board of Trustees had approved commitments and TRF had entered into agreements to fund limited liability partnerships of $427.7 million as of June 30, 2007. The Fund has paid out $205.0 million of the commitments as of June 30, 2007. The funding period of the amounts that TRF has already committed is from April of 2002 to approximately June of 2017.

Note VI. Deferred Compensation Plan

The State offers its employees a deferred compensation plan (the plan) created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies and political subdivisions within the State, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of participants of the plan and their beneficiaries as required by section 457(g) of the Internal Revenue Code. In addition, the State has an Indiana Incentive Match Plan which provides $15 per pay period for each employee who contributes to the 457 Plan.

The state has established a deferred compensation committee that holds the fiduciary responsibility for the plan. The committee holds the deferred amounts in an expendable trust.

Note VII. Contingent Liabilities

The Indiana State Teachers' Retirement Fund is defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, the resolution of these matters will not have a material or adverse effect on the financial condition of the Fund. Tort claims are paid from the General Fund of the State of Indiana through the Attorney General's Office and are not paid by the Fund.

Note VIII. Risk Management

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The policy of the Fund is not to purchase commercial insurance for the risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

Note IX. Employee Fund Membership

Employees of the Indiana State Teachers' Retirement Fund are eligible for membership in the Fund. Effective July 1, 2001, Indiana Code 21-6.1-4-1(a)-10 states that members of the fund include persons who are employed by the fund.

Note X. Reserve Transfers with the Public Employees Retirement Fund (PERF)

Transfers of a member's reserves are made between TRF and PERF when a member has service at the time of retirement that is covered by both funds. Service covered by PERF and the related Annuity Savings Account balance will be used by TRF at the time of retirement in calculating the member's retirement benefit from TRF if the member was last employed in a TRF covered position. If the member was last employed in a PERF covered position, PERF will use the member's TRF service and Annuity Savings Account balance. At the time the retirement is calculated TRF sets up a receivable from PERF for both the Annuity Savings Account balance and the calculated reserve for the service credit brought in from PERF. This receivable is included as a line item in the "Receivables" section of TRF's Statement of Fiduciary Net Assets. On the reverse side, TRF recognizes a payable in the Liabilities section of the Statement of Fiduciary Net Assets for TRF amounts used in calculating a PERF retiree's benefit.

INDIANA STATE TEACHERS' RETIREMENT FUND
REQUIRED SUPPLEMENTARY SCHEDULES
June 30, 2007

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Value of Assets (a)	Liability (AAL) (b)	Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Covered Payroll ((b-a)/c)
06-30-01	$ 5,810,759,564	$ 13,523,825,973	$ 7,713,066,409	43%	$ 3,318,877,027	232%
06-30-02	6,176,574,529	14,664,661,236	8,488,086,707	42%	3,609,470,436	235%
06-30-03	6,554,364,927	14,747,339,056	8,192,974,129	44%	3,585,134,913	229%
06-30-04	6,804,394,627	15,197,925,988	8,393,531,361	45%	3,651,653,125	230%
06-30-05	7,065,299,476	16,264,893,444	9,199,593,968	43%	3,734,329,113	246%
06-30-06	7,686,688,965	17,365,572,132	9,678,883,167	44%	3,802,721,221	255%

Revised benefits and/or actuarial assumptions and/or methods for all years except 2001.

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

Fiscal Year Ending	Valuation Date	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
06-30-02	06-30-00	$ 537,789,669	$ 566,226,658	106%
06-30-03	06-30-01	572,226,197	602,231,775	106%
06-30-04	06-30-02	638,541,074	438,180,343	69%
06-30-05	06-30-03	619,186,005	484,778,888	78%
06-30-06	06-30-04	672,555,533	701,340,085	104%
06-30-07	06-30-05	742,882,002	753,039,657	101%

NOTES TO REQUIRED SUPPLEMENTAL SCHEDULES

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

Valuation Date	June 30, 2006
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Pay Closed
Amortization Period	28 Years
Asset Valuation Method	4-year smoothed market value with corridor
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increase*	4.50% - 15.50%
*Includes Wage Inflation at	4.50%
Cost of Living Adjustments	0.5% compounded annually on pension portion

Investment Report

Callan Associates Inc.
Investment Measurement Service
Quarterly Review

Indiana State Teachers' Retirement Fund
June 30, 2007

Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2007, with the distribution as of March 31, 2007.

Asset Distribution Across Investment Managers

	June 30, 2007		March 31, 2007	
	Market Value	**Percent**	**Market Value**	**Percent**
Employer Assets	**$5,501,174,931**	**61.78%**	**$5,254,901,326**	**61.12%**
Domestic Large Cap Equity	1,705,867,509	19.16%	1,616,980,384	18.81%
Domestic Mid Cap Equity	242,723,100	2.73%	230,399,711	2.68%
Domestic Small Cap Equity	564,258,716	6.34%	527,930,522	6.14%
International Equity	1,165,314,809	13.09%	1,077,160,449	12.53%
Domestic Fixed-Income	1,144,567,439	12.85%	1,247,766,269	14.51%
Absolute Return	230,883,568	2.59%	224,109,092	2.61%
Alternative Investment	205,212,619	2.30%	173,123,339	2.01%
Real Estate	242,347,171	2.72%	157,431,560	1.83%
Employee Assets	**$3,403,188,857**	**38.22%**	**$3,342,326,135**	**38.88%**
Domestic Large Cap Equity	708,659,317	7.96%	684,151,726	7.96%
Domestic Small Cap Equity	399,478,926	4.49%	379,634,395	4.42%
International Equity	224,810,574	2.52%	202,180,093	2.35%
Domestic Fixed-Income	2,070,240,040	23.25%	2,076,359,921	24.15%
Total Fund	**$8,904,363,788**	**100.0%**	**$8,597,227,461**	**100.0%**

Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2007, with the distribution as of June 30, 2006.

Asset Distribution Across Investment Managers

	June 30, 2007 Market Value	June 30, 2007 Percent	June 30, 2006 Market Value	June 30, 2006 Percent
Domestic Equity	**$3,620,987,568**	**40.67%**	**$3,051,293,283**	**39.44%**
Large Cap Equity	**$2,414,526,826**	**27.12%**	**$2,033,903,611**	**26.29%**
Passive				
BGI (Equity Index)	814,127,545	9.14%	696,011,313	9.00%
Rhumbline	471,702,028	5.30%	391,413,459	5.06%
BGI (Russell 3000)	-	-	12,054	0.00%
Enhanced				
PIMCO	684,967,983	7.69%	564,745,344	7.30%
Growth				
INTECH	202,025,260	2.27%	124,878,714	1.61%
H-S&Y	-	-	56,992,934	0.74%
Value				
Earnest	85,730,825	0.96%	72,465,800	0.94%
ICAP	78,549,063	0.88%	64,282,648	0.83%
Barrow Hanley	77,424,122	0.87%	63,101,345	0.82%
Mid Cap Equity	**$242,723,100**	**2.73%**	**$214,307,233**	**2.77%**
Core				
Franklin Associates	242,723,100	2.73%	214,307,233	2.77%
Small Cap Equity	**$963,737,642**	**10.82%**	**$803,082,439**	**10.38%**
Growth				
Aeltus Capital Management	250,774,222	2.82%	209,598,282	2.71%
Wells	256,574,397	2.88%	204,458,739	2.64%
Value				
BGI R2000VL I	220,496,039	2.48%	189,503,881	2.45%
Brandywine Capital Mgmt	235,892,984	2.65%	199,521,537	2.58%
International Equity	**$1,390,125,383**	**15.61%**	**$1,068,471,789**	**13.81%**
Alliance Capital Mgmt	105,938	0.00%	60,686	0.00%
Bank of Ireland	-	-	33,592	0.00%
Alliance Bernstein	253,999,422	2.85%	195,051,328	2.52%
Fisher	183,962,088	2.07%	146,278,345	1.89%
Gryphon	238,361,748	2.68%	185,253,377	2.39%
Manning & Napier	54,323,653	0.61%	40,189,500	0.52%
State Street	659,372,534	7.41%	504,604,961	6.52%
Domestic Fixed-Income	**$3,214,807,479**	**36.10%**	**$3,124,652,918**	**40.39%**
Alliance Capital Mgmt	1,436,063,482	16.13%	1,372,736,465	17.74%
Reams Asset Management	1,444,261,505	16.22%	1,372,932,920	17.75%
Taplin, Canida & Habacht	322,756,418	3.62%	304,192,193	3.93%
Cash Flow Account	11,726,074	0.13%	74,791,340	0.97%
Absolute Return	**$230,883,568**	**2.59%**	**$212,284,268**	**2.74%**
Bridgewater	109,580,767	1.23%	106,555,227	1.38%
GMO	121,302,801	1.36%	105,729,041	1.37%
Real Estate	**$242,347,171**	**2.72%**	**$152,535,687**	**1.97%**
TA Associates VII	31,139,578	0.35%	30,804,070	0.40%
TA Associates VIII	7,500,000	0.08%	-	-
RREEF	143,707,593	1.61%	121,731,617	1.57%
RREEF Global	60,000,000	0.67%	-	-
Alternative Investment	**$205,212,619**	**2.30%**	**$127,170,031**	**1.64%**
Portfolio Advisors	201,178,999	2.26%	127,170,031	1.64%
Credit Suisse	4,033,620	0.05%	-	-
Total Fund	**$8,904,363,788**	**100.0%**	**$7,736,407,976**	**100.0%**

Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended June 30, 2007. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

Returns for Periods Ended June 30, 2007

	Market Value $(Dollars)	Ending Weight	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 8-3/4 Years
Domestic Equity	**$3,620,987,568**	**40.67%**	**6.08%**	**19.76%**	**12.41%**	**11.65%**	**8.98%**
Large Cap Equity	**$2,414,526,826**	**27.12%**	**6.06%**	**20.09%**	**11.81%**	**10.89%**	**6.49%**
Passive	**$1,285,829,573**	**14.44%**	**6.26%**	**20.58%**	**12.02%**	**10.92%**	**-**
BGI (Equity Index)	814,127,545	9.14%	6.27%	20.58%	11.69%	10.72%	6.25%
Rhumbline Advisors	471,702,028	5.30%	6.24%	20.55%	11.70%	10.75%	-
Standard & Poor's 500	-	-	6.28%	20.59%	11.68%	10.71%	6.24%
Enhanced	**$684,967,983**	**7.69%**	**6.11%**	**21.44%**	**12.04%**	**11.41%**	**-**
PIMCO	684,967,983	7.69%	6.11%	21.44%	12.04%	11.41%	6.18%
Standard & Poor's 500	-	-	6.28%	20.59%	11.68%	10.71%	6.24%
Growth	**$202,025,260**	**2.27%**	**3.40%**	**11.63%**	**6.54%**	**8.04%**	**-**
INTECH	202,025,260	2.27%	3.40%	12.50%	8.21%	11.26%	-
S&P 500 Growth	-	-	6.63%	19.37%	8.31%	8.57%	3.59%
Value	**$241,704,010**	**2.71%**	**7.12%**	**21.46%**	**14.89%**	**12.18%**	**-**
Earnest	85,730,825	0.96%	7.66%	18.80%	16.45%	14.83%	-
ICAP	78,549,063	0.88%	6.90%	22.83%	16.56%	12.50%	-
Barrow Hanley	77,424,122	0.87%	6.76%	23.16%	-	-	-
S&P 500 Value	-	-	5.95%	21.77%	15.09%	12.84%	8.57%
Mid Cap Equity	**$242,723,100**	**2.73%**	**5.40%**	**13.50%**	**13.91%**	**12.36%**	**-**
Franklin Portfolio Assoc.	242,723,100	2.73%	5.40%	13.50%	13.91%	14.07%	-
S&P 400 Mid Cap	-	-	5.84%	18.51%	15.15%	14.17%	14.32%
Small Cap Equity	**$963,737,642**	**10.82%**	**6.31%**	**20.57%**	**14.16%**	**13.98%**	**15.64%**
Growth	**$507,348,619**	**5.70%**	**8.88%**	**23.34%**	**14.43%**	**13.59%**	**-**
Aeltus Capital Management	250,774,222	2.82%	7.99%	20.48%	13.78%	12.92%	9.59%
Wells	256,574,397	2.88%	9.77%	26.29%	-	-	-
Russell 2000 Growth	-	-	6.69%	16.83%	11.76%	13.08%	7.64%
Value	**$456,389,023**	**5.13%**	**3.59%**	**17.64%**	**12.62%**	**13.35%**	**-**
BGI R2000VL I	220,496,039	2.48%	2.36%	16.40%	-	-	-
Brandywine Asset Management	235,892,984	2.65%	4.76%	18.81%	14.74%	14.36%	14.85%
Russell 2000 Value	-	-	2.30%	16.05%	15.02%	14.62%	14.19%
International Equity	**$1,390,125,383**	**15.61%**	**8.77%**	**30.82%**	**24.21%**	**17.40%**	**10.66%**
Alliance Capital Management	105,938	0.00%	-	-	-	-	-
Alliance Bernstein	253,999,422	2.85%	9.48%	32.97%	-	-	-
Fisher	183,962,088	2.07%	9.71%	26.52%	-	-	-
Gryphon	238,361,748	2.68%	8.26%	29.31%	-	-	-
Manning & Napier	54,323,653	0.61%	6.99%	36.02%	-	-	-
State Street	659,372,534	7.41%	8.58%	31.42%	-	-	-
International Benchmark*	-	-	8.42%	30.15%	23.84%	18.65%	10.47%
Alternative Investment	**$205,212,619**	**2.30%**	**9.58%**	**24.09%**	**23.19%**	**17.01%**	**-**
Portfolio Advisors	201,178,999	2.26%	9.58%	24.09%	23.19%	17.01%	-
Credit Suisse	4,033,620	0.05%	-	-	-	-	-
Post Venture Cap Index	-	-	9.17%	20.69%	10.78%	16.61%	5.17%
Composite Fund	**$8,904,363,788**	**100.00%**	**4.15%**	**15.95%**	**10.91%**	**10.12%**	**7.67%**

*International Benchmark is MSCI EAFE through June 30, 2005 and MSCI ACWI ex US thereafter.

Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended June 30, 2007. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

Returns for Periods Ended June 30, 2007

	Market Value $(Dollars)	Ending Weight	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 4 Years
Domestic Fixed-Income	**$3,214,807,479**	**36.10%**	**(0.28%)**	**7.19%**	**3.78%**	**4.79%**	**4.03%**
Alliance Capital Mgmt.	1,436,063,482	16.13%	0.05%	6.89%	3.36%	4.45%	3.63%
Reams Asset Management	1,444,261,505	16.22%	(0.66%)	7.49%	3.85%	4.97%	4.28%
Taplin, Canida & Habacht	322,756,418	3.62%	(0.28%)	6.05%	3.55%	4.15%	3.97%
Lehman Brothers Agg.	-	-	(0.52%)	6.12%	2.60%	3.98%	3.05%
Absolute Return	**$230,883,568**	**2.59%**	**2.90%**	**8.83%**	**-**	**-**	**-**
Bridgewater	109,580,767	1.23%	1.78%	2.82%	-	-	-
GMO	121,302,801	1.36%	3.94%	14.89%	-	-	-
Real Estate	**$242,347,171**	**2.72%**	**13.57%**	**17.22%**	**-**	**-**	**-**
TA Associates VII	31,139,578	0.35%	1.38%	13.92%	-	-	-
TA Associates VIII	7,500,000	0.08%	-	-	-	-	-
RREEF	143,707,593	1.61%	17.01%	18.05%	-	-	-
RREEF Global	60,000,000	0.67%	-	-	-	-	-
Cash Flow Account	11,726,074	0.13%	1.32%	10.45%	10.53%	10.47%	9.27%
Treasury Bills	-	-	1.28%	5.21%	4.59%	3.77%	3.07%
Composite Fund	**$8,904,363,788**	**100.00%**	**4.15%**	**15.95%**	**12.06%**	**10.91%**	**11.13%**
Standard & Poor's 500	-	-	6.28%	20.59%	14.45%	11.68%	13.49%
Domestic Equity Database	-	-	6.61%	19.85%	16.00%	13.86%	16.60%
Domestic Fixed Database	-	-	(0.11%)	6.62%	3.73%	4.68%	3.98%

Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended June 30, 2007. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

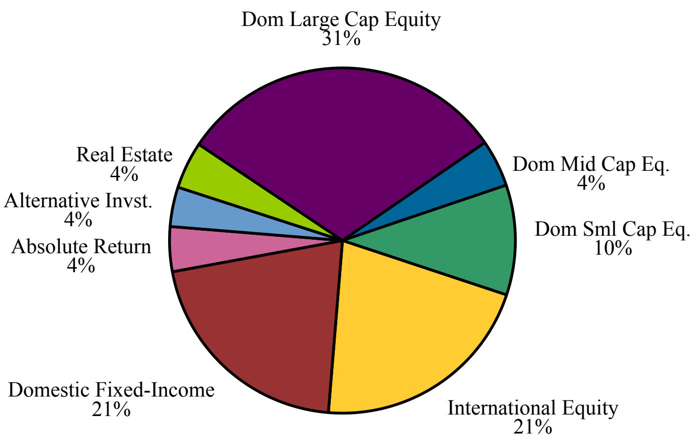
Returns for Periods Ended June 30, 2007

	Market Value $(Dollars)	Ending Weight	Last 5 Years	Last 7 Years	Last 10 Years	Last 12 Years	Last 15 Years
Domestic Fixed-Income	**$3,214,807,479**	**36.10%**	**5.61%**	**6.46%**	**6.38%**	**6.40%**	**6.71%**
Alliance Capital Mgmt	1,436,063,482	16.13%	5.55%	6.60%	6.67%	6.67%	7.38%
Reams Asset Mgmt	1,444,261,505	16.22%	5.63%	6.29%	6.63%	6.74%	-
Taplin, Canida & Habacht	322,756,418	3.62%	6.00%	6.78%	6.45%	6.46%	-
Lehman Brothers Aggregate	-	-	4.48%	6.01%	6.02%	6.11%	6.38%
Cash Flow Account	11,726,074	0.13%	7.93%	6.77%	6.23%	6.17%	5.80%
Treasury Bills	-	-	2.76%	3.18%	3.80%	4.05%	4.04%
Composite Fund	**$8,904,363,788**	**100.00%**	**10.12%**	**6.85%**	**8.07%**	**7.82%**	**7.84%**
Lehman Brothers Aggregate	-	-	4.48%	6.01%	6.02%	6.11%	6.38%
Total Fixed-Income Database	-	-	5.35%	6.24%	6.13%	6.31%	6.61%
Core Bond Fixed-Inc. Style	-	-	4.78%	6.17%	6.12%	6.23%	6.56%

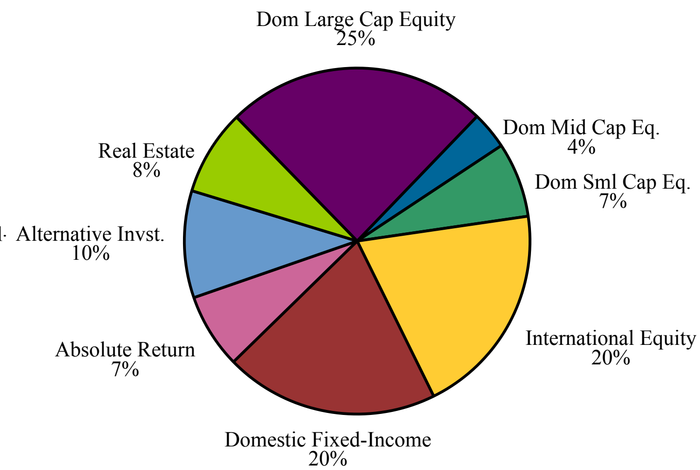
Actual vs Target Asset Allocation

The top left chart shows the Fund's asset allocation as of June 30, 2007. The top right chart shows the Fund's target asset allocation as outlined in the investment policy statement. The bottom chart ranks the fund's asset allocation and the target allocation versus the CAI Public Fund Sponsor Database.

Actual Asset Allocation

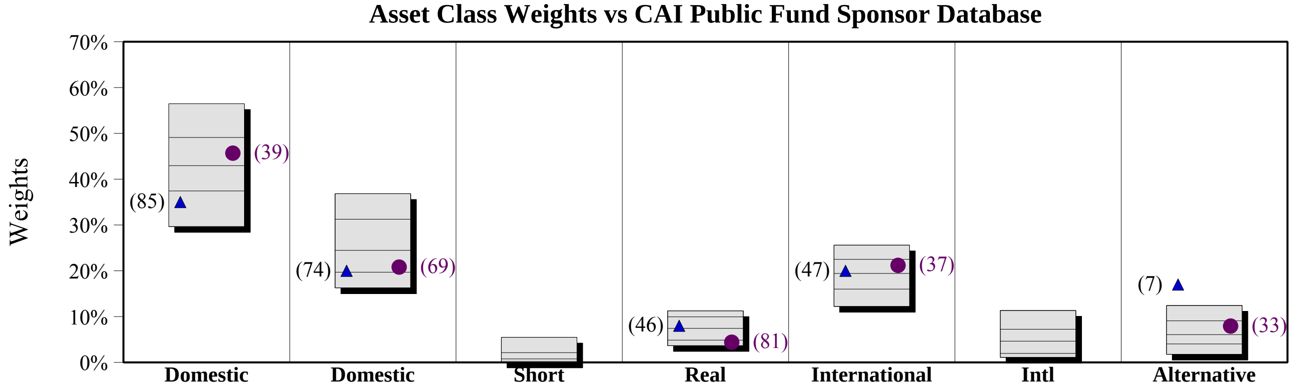


Target Asset Allocation



Asset Class	$Millions Actual	Percent Actual	Percent Target	Percent Difference	$Millions Difference
Dom Large Cap Equity	1,706	31.0%	24.5%	6.5%	358
Dom Mid Cap Eq.	243	4.4%	3.5%	0.9%	50
Dom Sml Cap Eq.	564	10.3%	7.0%	3.3%	179
International Equity	1,165	21.2%	20.0%	1.2%	65
Domestic Fixed-Income	1,145	20.8%	20.0%	0.8%	44
Absolute Return	231	4.2%	7.0%	(2.8%)	(154)
Alternative Invst.	205	3.7%	10.0%	(6.3%)	(345)
Real Estate	242	4.4%	8.0%	(3.6%)	(198)
Total	5,501	100.0%	100.0%		

Asset Class Weights vs CAI Public Fund Sponsor Database



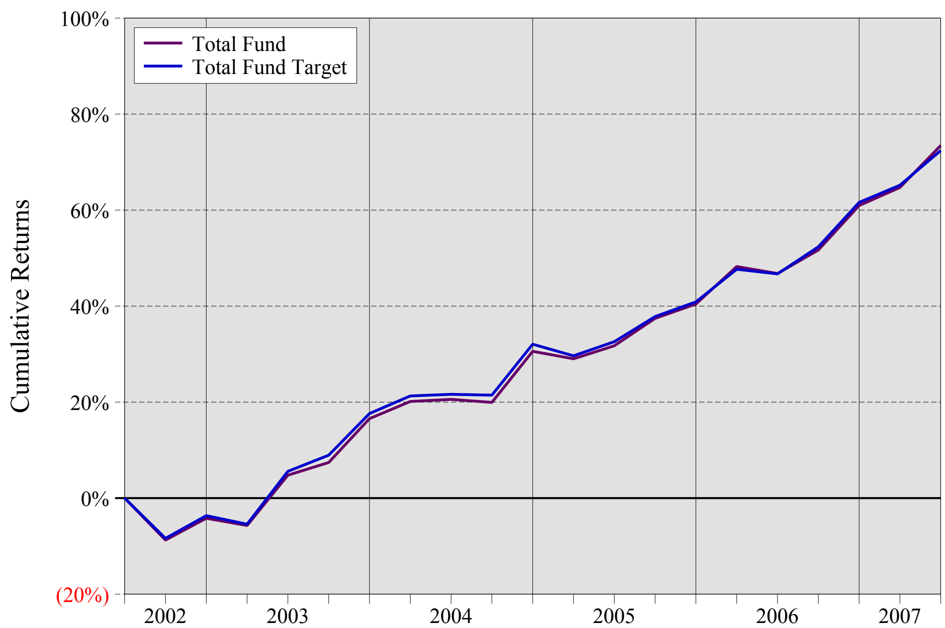
	Domestic Broad Eq	Domestic Fixed-Income	Short Term-Cash	Real Estate	International Equity	Intl Fixed-Inc	Alternative
10th Percentile	56.47	36.83	5.48	11.26	25.60	11.33	12.42
25th Percentile	49.10	31.25	2.12	9.94	22.49	7.23	9.08
Median	42.95	24.46	0.76	7.43	19.42	4.63	6.06
75th Percentile	37.43	19.69	0.20	4.86	16.00	1.96	4.03
90th Percentile	29.64	16.27	0.06	3.65	12.21	1.09	1.76
Fund ●	45.68	20.81	-	4.41	21.18	-	7.93
Target ▲	35.00	20.00	-	8.00	20.00	-	17.00
% Group Invested	96.49%	96.49%	46.90%	49.56%	92.92%	30.09%	44.25%

* Current Quarter Target = 24.5% S&P 500, 20.0% MSCI EAFE Index, 20.0% L/B Agg, 10.0% Dow Jones Wilshire 5000, 8.0% NCREIF Total Index, 7.0% Russell 2000, 7.0% 90 Day T-Bill + 5 % and 3.5% S&P Mid Cap 400.

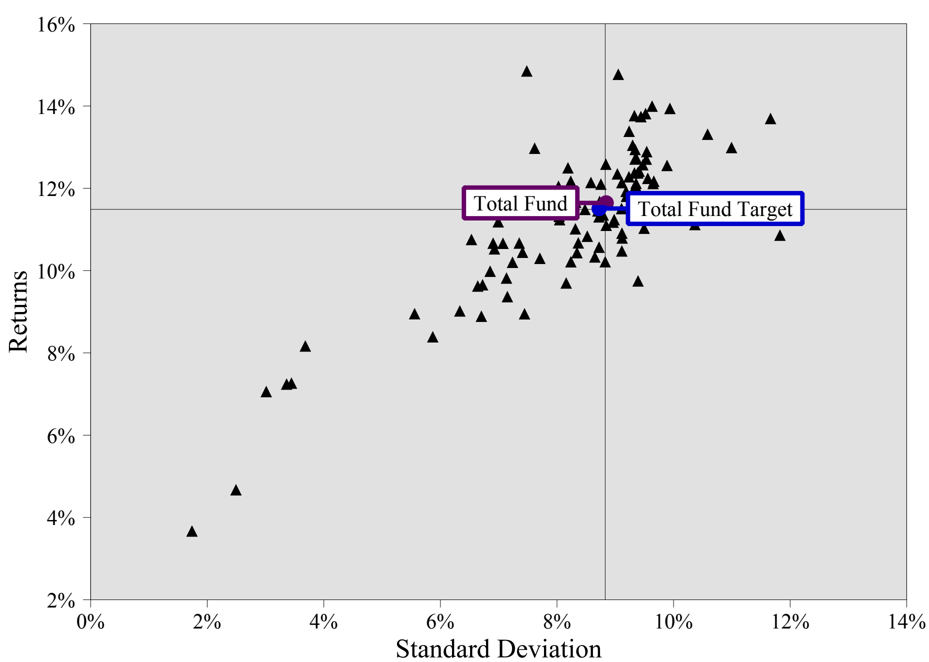
Cumulative Performance Relative to Target

The first chart below illustrates the cumulative performance of the Total Fund relative to the cumulative performance of the Fund's Target Asset Mix. The Target Mix is assumed to be rebalanced each quarter with no transaction costs. The difference between the Total Fund return and the Target Mix return is explained by the performance attribution on the next page. The second chart below shows the return and the risk of the Total Fund and the Target Mix, contrasted with the returns and risks of the funds in the CAI Public Fund Sponsor Database.

Cumulative Returns Actual vs Target



Five Year Annualized Risk vs Return



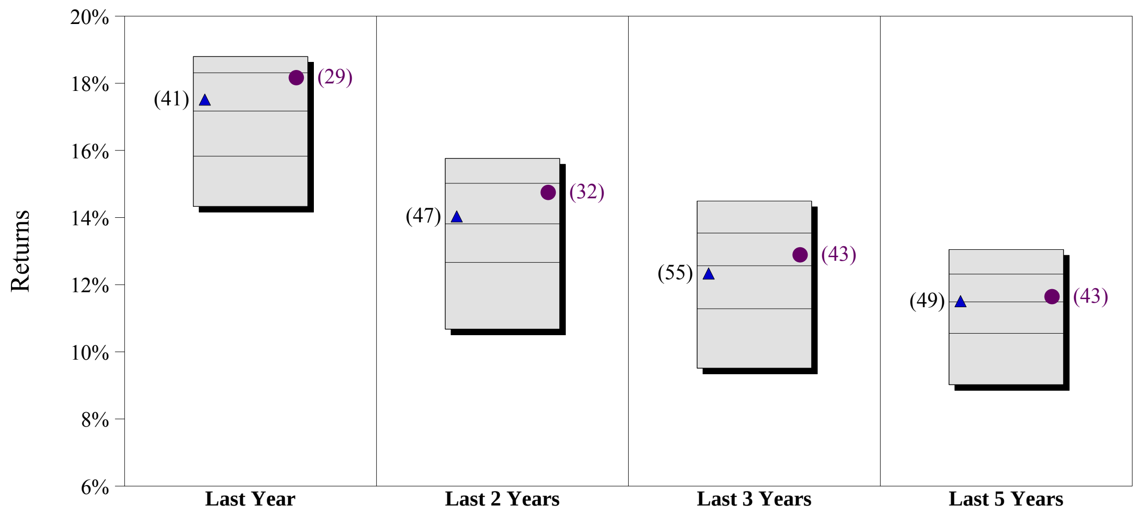
Triangles represent membership of the CAI Public Fund Sponsor Database

* Current Quarter Target = 24.5% S&P 500, 20.0% MSCI EAFE Index, 20.0% L/B Agg, 10.0% Dow Jones Wilshire 5000, 8.0% NCREIF Total Index, 7.0% Russell 2000, 7.0% 90 Day T-Bill + 5 % and 3.5% S&P Mid Cap 400.

Total Fund Ranking

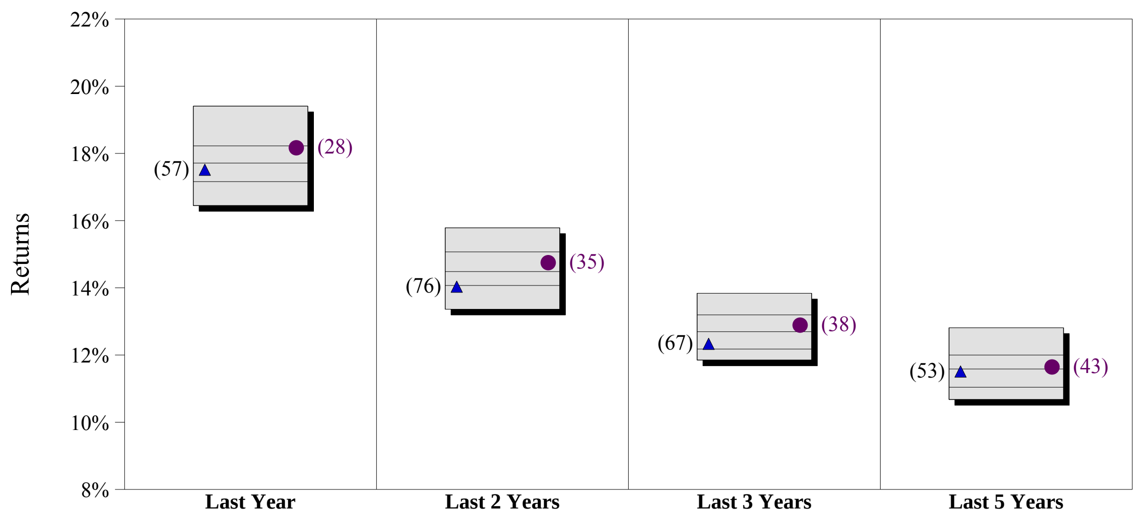
The first two charts show the ranking of the Total Fund's performance relative to that of the CAI Public Fund Sponsor Database for periods ended June 30, 2007. The first chart is a standard unadjusted ranking. In the second chart each fund in the database is adjusted to have the same historical asset allocation as that of the Total Fund.

CAI Public Fund Sponsor Database



	Last Year	Last 2 Years	Last 3 Years	Last 5 Years
10th Percentile	18.80	15.76	14.49	13.05
25th Percentile	18.31	15.02	13.54	12.32
Median	17.17	13.81	12.57	11.49
75th Percentile	15.83	12.66	11.28	10.55
90th Percentile	14.33	10.68	9.51	9.02
Total Fund ●	18.17	14.75	12.89	11.64
Policy Target ▲	17.51	14.03	12.33	11.51

Asset Allocation Adjusted Ranking



	Last Year	Last 2 Years	Last 3 Years	Last 5 Years
10th Percentile	19.41	15.79	13.84	12.81
25th Percentile	18.22	15.07	13.19	12.00
Median	17.71	14.48	12.69	11.58
75th Percentile	17.16	14.07	12.18	11.04
90th Percentile	16.45	13.36	11.85	10.68
Total Fund ●	18.17	14.75	12.89	11.64
Policy Target ▲	17.51	14.03	12.33	11.51

* Current Quarter Target = 24.5% S&P 500, 20.0% MSCI EAFE Index, 20.0% L/B Agg, 10.0% Dow Jones Wilshire 5000, 8.0% NCREIF Total Index, 7.0% Russell 2000, 7.0% 90 Day T-Bill + 5 % and 3.5% S&P Mid Cap 400.

Actuarial Reports

June 10, 2008

The Board of Trustees
Indiana State Teachers' Retirement Fund
Indianapolis, IN

Dear Board Members:

Submitted in this report are the results of the June 30, 2007 actuarial valuation of the Indiana State Teachers' Retirement Fund.

The member census data and the asset information for this valuation were furnished by your Chief Financial Officer and Staff. Their efforts and cooperation in furnishing these materials are acknowledged with appreciation. We did not audit the information provided, but we did review it thoroughly for reasonableness and compared it with the prior year's submission for consistency.

The actuarial assumptions were adopted by the Board pursuant to the Experience Study dated August 14, 2003 and covering the period July 1, 1996 to June 30, 2002. That study was conducted by the prior actuary at Gabriel Roeder Smith & Company. Assumptions are summarized in the Assumptions and Methods section of this report.

Your attention is directed to the Comments on page 1 and the Summary of Key Valuation Results on page 2.

The valuation was completed under the supervision of a Member of the American Academy of Actuaries with significant experience in valuing employee retirement systems, and was prepared using generally accepted actuarial principles and in accordance with standards of practice prescribed by the Actuarial Standards Board. To the best of our knowledge, this report is complete and accurate and the actuarial methods and assumptions produce results that are reasonable.

Respectfully submitted,

John Dowell

John L. Dowell, FSA, EA, MAAA

Michael Zurek, EA, MAAA

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Comments

Contribution Rates

Page 10 shows the calculated contribution rate for the 1996 Account. That rate is determined as if the 1996 Account were a stand-alone plan.

Since the Pre-1996 Account is funded on a pay-as-you-go-basis, only the expected benefit payments are shown on page 10. A similar normal cost plus UAL amortization contribution rate was calculated for the Pre-1996 Account and the two rates have been combined to determine the Annual Required Contribution disclosed on page 12.

Plan Provisions

The ad-hoc COLA effective January 1, 2007 pursuant to IC 5-10.2-5-41 was included in the census information provided to us. Any additional COLA, including the increase pursuant to IC 5-10.2-5-42, is estimated by an ongoing assumption of 1.5% annual increases in all pension payments. We are not aware of any other changes in the plan provisions since the June 30, 2006 actuarial valuation.

Census Data

Census data for the valuation was provided by ISTRF. We have thoroughly examined the data for reasonableness and consistency with prior years, but we did not otherwise audit it.

Change in Assumptions

ISTRF has granted retirees ad-hoc COLAs on a regular basis. In accordance with recent legislation, the ISTRF is required to account for future COLAs in reported liabilities. In the past, COLAs have averaged 1.5% per year. Whether or not COLAs will be paid at levels similar to the past depends on the financial situation of ISTRF each year. Beginning with the June 30, 2005 valuation, an assumption to account for future ad-hoc permanent COLAs was implemented pursuant to the requirements of the Indiana Code that states that the Board must consult with the actuary and the budget agency before determining the COLA assumption. The June 30, 2007 valuation reflects a future compound COLA assumption of 1.5%, as adopted by the Board.

Several of the actuarial assumptions are based on a plan experience study completed by Gabriel Roeder Smith & Company. A similar study will be conducted in 2008. The results of that study will likely be reflected in the June 30, 2008 valuation assumptions.

Investment Experience

Investment experience for the year ended June 30, 2007 was excellent. The market value rate of return was 15.7%. Under the asset valuation method, market gains and losses are spread over a four-year period. The Market Value of Assets now exceeds the Funding Value by $504 million, providing significant cushion against potential future losses.

Challenges

The 1996 Account has been steadily funded since its inception. As membership in that portion of the plan increases, the amount of required contributions will increase as a dollar amount, but should remain relatively stable as a percentage of covered payroll with plan experience causing gradual changes. The primary funding challenge will be for the State to meet the projected pay-as-you-go obligations as shown on pages 24 to 25 for the Pre-1996 Account.

Summary of Key Valuation Results

	6/30/2007 Pre-1996 Account	6/30/2007 1996 Account	6/30/2007 Total	6/30/2006
Member Information				
Number				
Active Members	36,526	39,307	75,833	73,350
Vested Inactive Members	3,861	1,160	5,021	5,303
Nonvested Inactive Members	12,714	25,690	38,404	32,912
Retired Members and Beneficiaries	39,328	1,925	41,253	39,849
Total	92,429	68,082	160,511	151,414
Active Payroll	$ 2,376,389,845	$ 1,891,605,321	$ 4,267,995,166	$ 3,802,721,220
Annual Benefit Payments				
Annuity	$ 81,398,004	$ 3,670,188	$ 85,068,192	$ 81,233,016
Pension	576,898,596	33,342,792	610,241,388	568,799,400
Total	$ 658,296,600	$ 37,012,980	$ 695,309,580	$ 650,032,416
Assets and Liabilities				
Accrued Liability				
ASA Account Balance	$ 2,840,180,829	$ 618,611,500	$ 3,458,792,329	$ 3,453,881,159
ASA Annuities	758,610,462	34,763,819	793,374,281	766,168,333
Pension	12,389,467,864	2,174,178,461	14,563,646,325	13,145,522,640
Total	$ 15,988,259,155	$ 2,827,553,780	$ 18,815,812,935	$ 17,365,572,132
Market Value of Assets				
ASA Account Balance	$ 3,016,052,518	$ 656,917,599	$ 3,672,970,117	$ 3,500,941,966
ASA Annuities	891,017,973	40,831,480	931,849,453	769,298,463
Pension	2,199,283,884	2,176,690,545	4,375,974,429	3,521,183,403
Total	$ 6,106,354,375	$ 2,874,439,624	$ 8,980,793,999	$ 7,791,423,832
Funding Value of Assets				
ASA Account Balance	$ 2,846,713,484	$ 620,034,358	$ 3,466,747,842	$ 3,453,881,159
ASA Annuities	840,990,952	38,538,959	879,529,911	758,957,302
Pension	2,075,803,074	2,054,478,259	4,130,281,333	3,473,850,504
Total	$ 5,763,507,510	$ 2,713,051,576	$ 8,476,559,086	$ 7,686,688,965
Unfunded Accrued Liability				
ASA Account Balance	$ (6,532,655)	$ (1,422,858)	$ (7,955,513)	$ 0
ASA Annuities	(82,380,490)	(3,775,140)	(86,155,630)	7,211,031
Pension	10,313,664,790	119,700,202	10,433,364,992	9,671,672,136
Total	$ 10,224,751,645	$ 114,502,204	$ 10,339,253,849	$ 9,678,883,167
Funded Percentage				
ASA Account Balance	100.2%	100.2%	100.2%	100.0%
ASA Annuities	110.9%	110.9%	110.9%	99.1%
Pension	16.8%	94.4%	28.4%	26.4%
Total	36.1%	95.9%	45.1%	44.3%
Annual Costs				
Pension Normal Cost	$ 171,479,555	$ 108,607,821	$ 280,087,376	
Calculated Employer Contribution Rate - 1996 Account Only		**Fiscal 2009**		**Fiscal 2008**
Normal Cost		5.74%		6.65%
Amortization of Unfunded Liability		0.30%		0.49%
Total		6.04%		7.14%
Actual Employer Contribution Rate - 1996 Account Only		7.00%		7.25%
Pre-1996 Account Only	**Fiscal 2009**			**Fiscal 2008**
Pension Benefit Payments	686,400,000			645,000,000
Pension Contributions	688,000,000			651,000,000

Unfunded Accrued Liability

Pre-1996 Account

$ millions

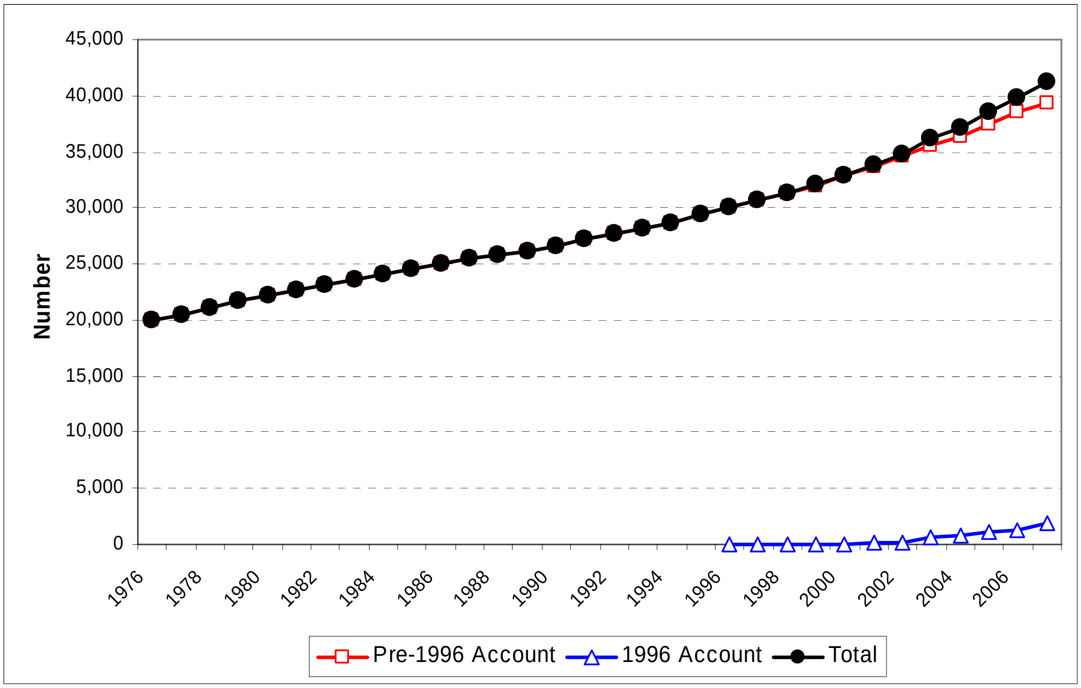
June 30	Accrued Liability	Funding Value of Assets	Unfunded Accrued Liability	Funded Percentage
1975	$ 1,570	$ 312	$ 1,258	19.9%
1980	2,843	539	2,304	19.0%
1985	4,023	1,073	2,950	26.7%
1991	7,182	2,161	5,021	30.1%
1992	7,949	2,376	5,573	29.9%
1993	8,508	2,592	5,916	30.5%
1994	9,087	2,809	6,278	30.9%
1995	9,675	2,984	6,691	30.8%
1996	10,283	3,242	7,041	31.5%
1997	10,868	3,678	7,190	33.8%
1998	11,481	4,130	7,351	36.0%
1999	12,173	4,731	7,442	38.9%
2000	12,409	5,210	7,199	42.0%
2001	12,696	5,363	7,333	42.2%
2002	13,498	5,555	7,943	41.2%
2003	13,355	5,728	7,627	42.9%
2004	13,549	5,765	7,784	42.5%
2005	14,254	5,797	8,457	40.7%
2006	15,003	5,478	9,525	36.5%
2007	15,988	5,764	10,224	36.1%

1996 Account

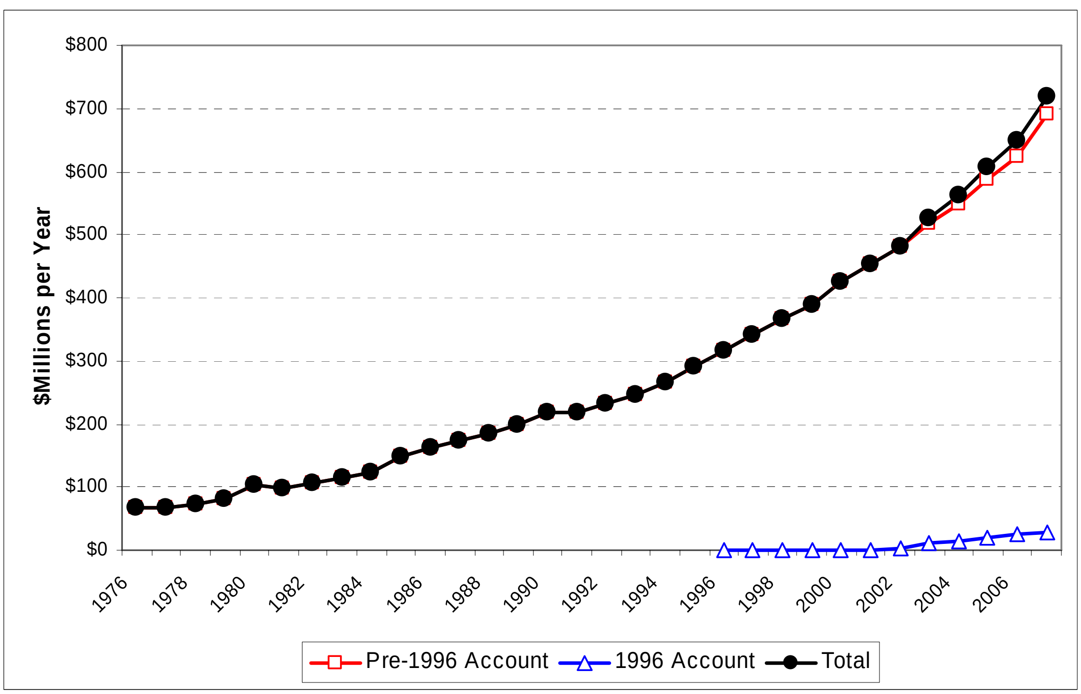
$ millions

June 30	Accrued Liability	Funding Value of Assets	Unfunded Accrued Liability	Funded Percentage
1996	$ 48	$ 21	$ 27	43.8%
1997	176	72	104	40.9%
1998	298	136	162	45.6%
1999	498	240	258	48.2%
2000	706	368	338	52.1%
2001	828	447	381	54.0%
2002	1,167	621	546	53.2%
2003	1,392	826	566	59.3%
2004	1,649	1,039	610	63.0%
2005	2,011	1,268	743	63.1%
2006	2,363	2,209	154	93.5%
2007	2,828	2,713	115	95.9%

Retired Members and Beneficiaries Receiving Benefits



Total Retirement Allowances Being Paid



Active Member Data

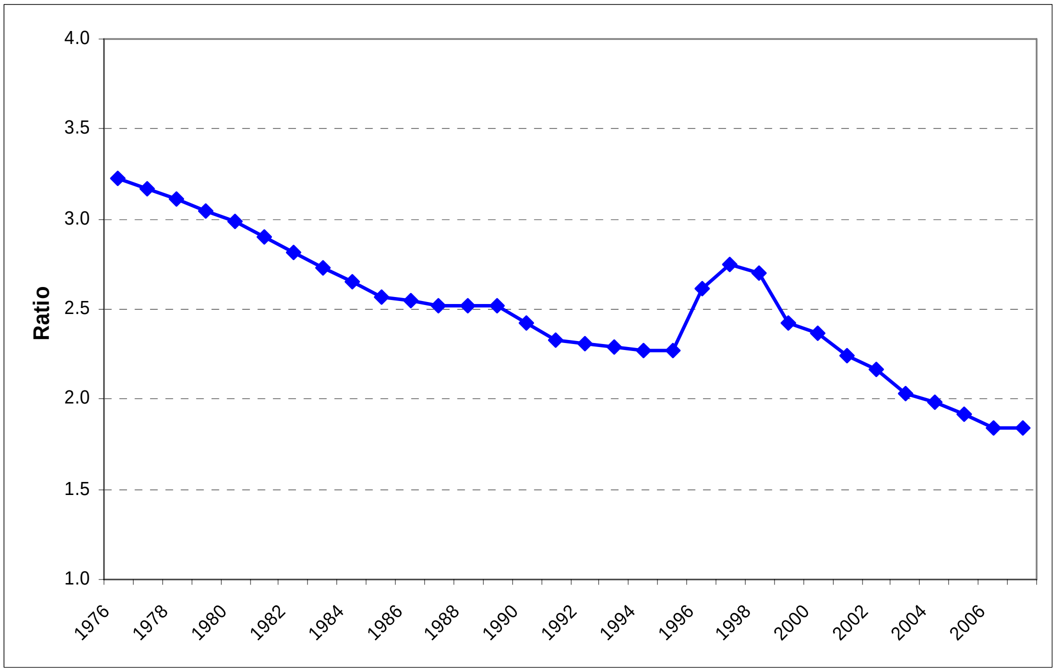
Pre-1996 Account

June 30	Number	Valuation Payroll ($000s)	Average Age	Average Service	Average Pay	Average Pay Increase %
1975	63,932	$ 749,200	38.7	10.9	$ 11,719	
1980	66,575	1,107,699	39.7	11.9	16,638	
1985	62,932	1,519,887	41.5	14.2	24,151	
1987	64,157	1,751,709	42.0	14.5	27,303	
1989	65,986	2,044,797	42.6	14.9	30,988	
1991	63,373	2,278,715	43.0	15.4	35,957	
1992	63,980	2,416,263	43.8	16.0	37,766	5.0%
1993	64,594	2,536,165	44.0	16.1	39,263	4.0
1994	65,209	2,614,915	44.1	16.2	40,101	2.1
1995	66,542	2,728,811	44.2	16.2	41,009	2.3
1996	70,183	2,805,823	44.2	15.7	39,979	(2.5)
1997	63,520	2,739,436	45.4	16.9	43,127	7.9
1998	59,030	2,699,183	46.4	18.0	45,726	6.0
1999	56,560	2,755,489	47.4	19.3	48,718	6.5
2000	52,920	2,561,533	48.2	20.1	48,404	(0.6)
2001	50,802	2,564,451	48.7	20.7	50,479	4.3
2002	47,510	2,604,956	49.4	21.5	54,830	8.6
2003	43,705	2,448,271	49.6	21.7	56,018	2.2
2004	41,510	2,384,480	50.1	22.2	57,444	2.5
2005	39,097	2,305,726	50.6	22.7	58,974	2.7
2006	36,994	2,237,380	51.1	23.2	60,480	2.6
2007	36,526	2,376,390	52.1	23.8	65,060	7.6

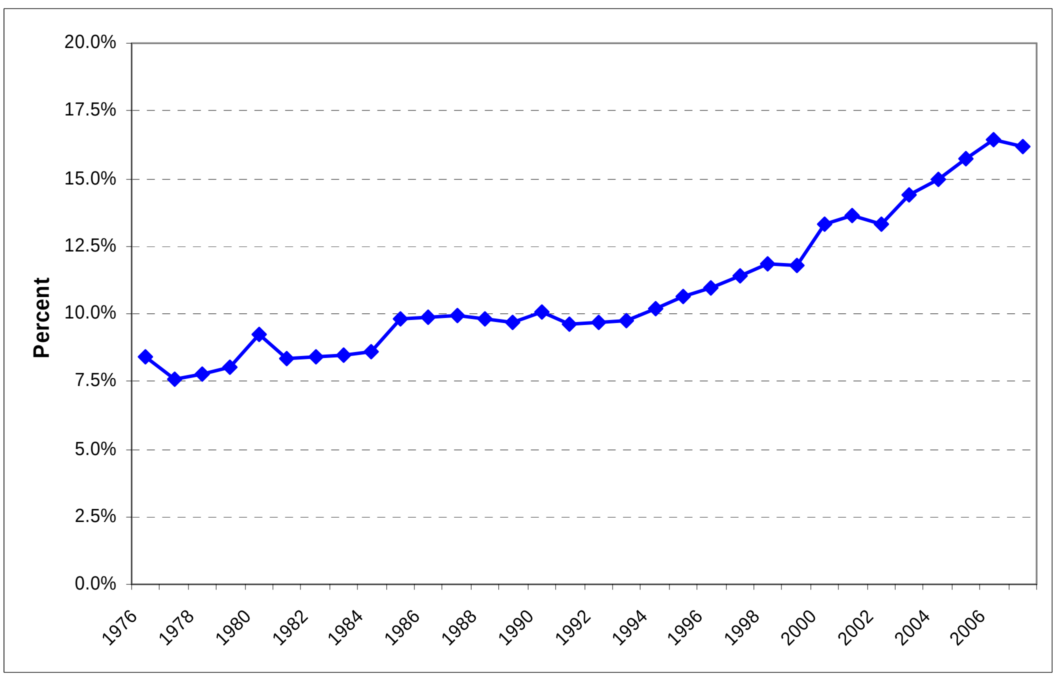
1996 Account

June 30	Number	Valuation Payroll ($000s)	Average Age	Average Service	Average Pay	Average Pay Increase %
1996	8,683	$ 72,506	32.2	1.3	$ 8,350	
1997	20,686	245,168	33.0	1.8	11,852	41.9%
1998	25,634	395,758	33.6	2.2	15,439	30.3
1999	21,185	538,837	35.3	4.0	25,435	64.7
2000	24,950	631,072	36.4	4.7	25,293	(0.6)
2001	24,846	754,426	36.3	5.5	30,364	20.0
2002	27,873	1,004,515	36.7	6.1	36,039	18.7
2003	29,936	1,136,864	37.0	6.5	37,976	5.4
2004	32,000	1,267,173	37.3	6.9	39,599	4.3
2005	34,826	1,428,604	37.5	7.2	41,021	3.6
2006	36,356	1,565,341	37.7	7.5	43,056	5.0
2007	39,307	1,891,605	38.2	7.8	48,124	11.8

Active Members per Retired Life



Total Retirement Allowances as a Percent of Valuation Payroll



Reconciliation of Market Value of Assets

	6/30/2006 thru 6/30/2007	6/30/2005 thru 6/30/2006
Market Value, beginning of year	$ 7,791,423,831	$ 7,179,715,874
Member Contributions	126,194,680	130,496,002
Employer Contributions	753,039,657	701,340,085
Benefit Payments	(910,577,681)	(789,275,978)
Transfers	3,803,697	3,608,120
Non-Investment Net Cash Flow	$ (27,539,647)	$ 46,168,229
Plan Expenses	$ (6,521,555)	$ (6,749,971)
Investment Return	1,223,431,370	572,289,699
Net Investment Return	$ 1,216,909,815	$ 565,539,728
Market Value, end of year	$ 8,980,793,999	$ 7,791,423,831
Market Value Net Rate of Return	15.7%	7.9%

Development of the Funding Value of Assets

			6/30/2006 thru 6/30/2007
1.	Funding Value, beginning of year	$	7,686,688,965
2.	Market Value, beginning of year		7,791,423,831
3.	Market Value, end of year		8,980,793,999
4.	Non-Investment Net Cash Flow		(27,539,647)
5.	Net Investment Return		
	a. Expected [.075 x ((2)+0.5(4))]		583,324,051
	b. Actual [(3) - (2) - (4)]		1,216,909,815
6.	Current Year Market Value Gain/(Loss) [(5b) - (5a)]	$	633,585,764
7.	Deferred Recognition of Investment Gain/(Loss)		
	a. Fiscal 2007 (75% of (6))	$	475,189,323
	b. Fiscal 2006 (50%)		16,955,479
	c. Fiscal 2005 (25%)		12,090,111
	d. Total [(a) + (b) + (c)]	$	504,234,913
8.	Preliminary Funding Value, end of year [(3) - (7d)]		8,476,559,086
	a. 80% of Market Value, end of year [80% of (3)]		7,184,635,199
	b. 120% of Market Value, end of year [120% of (3)]		10,776,952,799
9.	Funding Value, end of year [(8), but not Greater than 8(b), nor Less than (8a)]	$	8,476,559,086
10.	Funding Value as a % of Market Value [(9) / (3)]		94.3854%
11.	Net Investment Return on Funding Value [(9) - (1) - (4)]	$	817,409,768
12.	Funding Value Net Rate of Return [(11) / ((1) + 0.5(4))]		10.7%

Asset and Liability Allocation

Market Value of Assets Allocation

	Pre-1996 Account	1996 Account	Total
Member			
Active and Inactive	$ 3,016,052,518	$ 656,917,599	$ 3,672,970,117
Retired	891,017,973	40,831,480	931,849,453
Total Member	$ 3,907,070,491	$ 697,749,079	$ 4,604,819,570
Employer			
Active and Inactive	$ 0	$ 1,898,732,364	$ 1,898,732,364
Retired			
Pension Stabilization Fund	$ 1,880,110,945	$ 0	$ 1,880,110,945
Other	319,172,939	277,958,181	597,131,120
Total	$ 2,199,283,884	$ 277,958,181	$ 2,477,242,065
Total Employer	$ 2,199,283,884	$ 2,176,690,545	$ 4,375,974,429
Total	$ 6,106,354,375	$ 2,874,439,624	$ 8,980,793,999

Unfunded Accrued Liability Allocation

	Pre-1996 Account	1996 Account	Total
Retired Members and Beneficiaries			
Accrued Liability	$ 7,063,889,376	$ 449,452,159	$ 7,513,341,535
Funding Value of Assets*	2,916,794,026	300,890,923	3,217,684,949
Unfunded Accrued Liability	$ 4,147,095,350	$ 148,561,236	$ 4,295,656,586
Active and Inactive Members			
Accrued Liability	$ 8,924,369,779	$ 2,378,101,621	$ 11,302,471,400
Funding Value of Assets*	2,846,713,484	2,412,160,653	5,258,874,137
Unfunded Accrued Liability	$ 6,077,656,295	$ (34,059,032)	$ 6,043,597,263
Total			
Accrued Liability	$ 15,988,259,155	$ 2,827,553,780	$ 18,815,812,935
Funding Value of Assets*	5,763,507,510	2,713,051,576	8,476,559,086
Unfunded Accrued Liability	$ 10,224,751,645	$ 114,502,204	$ 10,339,253,849

* Funding Value of Assets is 94.3854% of Market Value of Assets and is allocated between actives/retirees and Pre-96/Post-96 in same proportion as Market Value shown above.

Calculated Employer Contribution Rate

1996 Account

	6/30/2007	% of Projected Payroll for Fiscal 2008	Projected Employer Contribution for Fiscal 2009
Normal Cost	$ 108,607,821	5.74%	
Amortization of Unfunded Accrued Liability			
Unfunded Accrued Liability	$ 114,502,204		
Amortization Factor (30-years, level % of pay)	20.5040		
Amortization Payment	$ 5,584,384	0.30%	
Calculated Employer Contribution Rate	**$ 114,192,205**	**6.04%**	**$ 119,000,000**

- The dollar contribution, based on calculated rates, is a projection to the 2009 fiscal year at the 4.5% payroll growth rate assumption and is provided for illustrative purposes.
- The calculated contribution rate for the 1996 Account is determined as if it were a stand-alone plan.

Pre-1996 Account

Expected Pension Benefit Payments	**$ 645,000,000**		**$ 686,400,000**

- The Pre-1996 Account is funded on a pay-as-you-go basis. The figures shown above reflect the expected pension payments to be made during fiscal year 2008 and fiscal year 2009.
- Although not shown here, a Pre-1996 Account normal cost plus UAL amortization was calculated and has been reflected on page 12.

GASB Statements No. 25 and No. 27

Required Supplementary Information

Under the Governmental Accounting Standards Board (GASB) Statements No. 25 and No. 27, certain information about the plan is required to be disclosed. The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Pay
Amortization Period	30 Years
Asset Valuation Method	4-Year Smoothed Market Value with Corridor
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Pay Increases	4.75% - 15.50% (includes 4.5% wage inflation)
Cost-of-Living Adjustments	1.5% Compounded Annually on Pension Portion

Membership in the plan consisted of the following at June 30, 2007, the date of the latest actuarial valuation:

	2007
Retired Members and Beneficiaries Receiving Benefits	41,253
Terminated Plan Members Entitled to but Not Yet Receiving Benefits	
Vested	5,021
Non-Vested	38,404
Active Plan Members	75,833
Total	160,511

GASB Statements No. 25 and No. 27

Required Supplementary Information

Schedule of Funding Progress

Valuation Date June 30	Funding Value of Assets (a)	Entry Age Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAL as a % of Covered Payroll [(b) - (a)] / (c)
1996	$ 3,262,619,379	$ 10,330,788,316	$ 7,068,168,937	31.6%	$ 2,878,329,486	245.6%
1997	3,750,138,439	11,044,660,156	7,294,521,717	34.0	2,984,603,913	244.4
1998	4,266,312,063	11,780,174,095	7,513,862,032	36.2	3,094,940,606	242.8
1999	4,970,720,334	12,670,924,443	7,700,204,109	39.2	3,294,326,130	233.7
2000	5,578,046,785	13,115,065,443	7,537,018,658	42.5	3,192,604,492	236.1
2001	5,810,759,564	13,523,825,973	7,713,066,409	43.0	3,318,877,027	232.4
2002	6,176,574,529	14,664,661,236	8,488,086,707	42.1	3,609,470,436	235.2
2003	6,554,364,927	14,747,339,056	8,192,974,129	44.4	3,585,134,913	228.5
2004	6,804,394,627	15,197,925,988	8,393,531,361	44.8	3,651,653,125	229.9
2005	7,065,299,476	16,264,893,444	9,199,593,968	43.4	3,734,329,113	246.4
2006	7,686,688,965	17,365,572,132	9,678,883,167	44.3	3,802,721,221	254.5
2007	8,476,559,086	18,815,812,935	10,339,253,849	45.1	4,267,995,166	242.3

Schedule of Employer Contributions

Fiscal Year Ending	Valuation Date June 30	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
1998	1996	$ 508,940,065	$ 465,350,488	91.4%
1999	1997	508,259,679	612,349,218	120.5
2000	1998	524,815,537	647,441,260	123.4
2001	1999	547,532,673	689,219,756	125.9
2002	2000	537,789,669	566,226,658	105.3
2003	2001	572,226,197	602,231,775	105.2
2004	2002	638,541,074	438,180,343	68.6
2005	2003	619,186,005	484,778,888	78.3
2006	2004	672,555,533	701,340,085	104.3
2007	2005	742,882,002	753,039,657	101.4
2008	2006	800,059,308		
2009	2007	819,638,258		

GASB Statements No. 25 and No. 27

Statement of Plan Net Assets

Assets		
Cash and Cash Equivalents	$	817,157,942
Securities Lending Collateral		1,448,920,710
Receivables		
Employer Contributions	$	29,246,347
Due from PERF		2,098,572
Member Contributions		38,053,905
Due from Lottery Commission		0
Securities Sold		619,425,900
Interest and Dividends		32,567,033
Total Receivables	$	721,391,757
Investments		
Equity Securities	$	4,340,551,773
Debt Securities		3,893,861,902
Other		480,962,951
Total Investments	$	8,715,376,626
Furniture and Equipment		9,560
Insurance Premium Paid in Advance		0
Total Assets	$	11,702,856,595
Liabilities		
Accrued Benefits Payable	$	0
Accrued Wages Payable		128,037
Accrued Liability for Compensated Absences - Current		71,011
Accounts Payable		5,566,770
Due to PERF		0
Securities Lending Collateral		1,448,920,710
Payables for Securities Purchased		1,267,315,577
Total Current Liabilities	$	2,722,002,105
Accrued Liability for Compensated Absences - Long-Term		60,491
Total Liabilities	$	2,722,062,596
Net Assets Held in Trust for Pension Benefits	**$**	**8,980,793,999**

GASB Statements No. 25 and No. 27

Statement of Changes in Plan Net Assets

		6/30/2006 thru 6/30/2007
Net Assets at Beginning of Year	**$**	**7,791,423,831**
Additions		
Contributions		
Member Contributions	$	126,194,680
Employer Contributions		723,039,657
Employer Contributions - Pension Stabilization		30,000,000
Total Contributions	$	879,234,337
Investments		
Net Appreciation (Depreciation) in Fair Value	$	945,150,422
Interest Income		200,435,363
Dividend Income		93,943,883
Securities Lending Income		77,859,483
Less Investment Expense		
Investment Fees		(19,593,644)
Securities Lending Fees		(74,364,137)
Net Investment Income	$	1,223,431,370
Other Additions		
Transfers from Other Retirement Funds	$	3,840,644
Annuity and Disability Refunds		0
Outdated Benefit Checks		0
Reimbursement of Administrative Expense		0
Total Other Additions	$	3,840,644
Total Additions	$	2,106,506,351
Deductions		
Annuity and Disability Benefits	$	897,676,227
Voluntary and Death Withdrawals		12,901,454
Claims on Outdated Benefit Checks		0
Administrative Expenses		6,044,784
Capital Projects		455,719
Depreciation Expenses		21,052
Transfer to Other Retirement Funds		36,947
Total Deductions	$	917,136,183
Change in Net Assets Held in Trust for Pension Benefits	$	1,189,370,168
Net Assets at End of Year	**$**	**8,980,793,999**

Member Data

The tables below summarize the member data used in the valuation. The pages that follow show distributions of the member groups by age and service (for active and inactive vested members) and age and number of years retired (for retired members.) A retired member distribution of pension amounts by year of retirement is also included.

Pre-1996 Account

	Males	Females	Total
Number of Actives	**9,674**	**26,852**	**36,526**
- Average Age	*52.8*	*51.8*	*52.1*
- Average Service	*26.0*	*23.0*	*23.8*
- Average Pay	*$ 70,128*	*$ 63,235*	*$ 65,060*
Number of Vested Inactives	**900**	**2,961**	**3,861**
- Average Age	*55.7*	*55.5*	*55.6*
- Average Service	*17.7*	*16.2*	*16.5*
Number of Nonvested Inactives	**2,896**	**9,818**	**12,714**
Number of Retirees and Beneficiaries	**14,229**	**25,099**	**39,328**
- Average Age	*70.9*	*72.7*	*72.1*
- Average Years Retired	*11.4*	*13.1*	*12.5*
- Average Monthly Annuity	*$ 203*	*$ 155*	*$ 173*
- Average Monthly Pension	*$ 1,414*	*$ 1,114*	*$ 1,222*
Total Number of Members	**27,699**	**64,730**	**92,429**

1996 Account

	Males	Females	Total
Number of Actives	**11,014**	**28,293**	**39,307**
- Average Age	*38.5*	*38.1*	*38.2*
- Average Service	*8.8*	*7.4*	*7.8*
- Average Pay	*$ 54,012*	*$ 45,832*	*$ 48,124*
Number of Vested Inactives	**310**	**850**	**1,160**
- Average Age	*50.0*	*50.9*	*50.7*
- Average Service	*15.2*	*14.4*	*14.6*
Number of Nonvested Inactives	**7,000**	**18,690**	**25,690**
Number of Retirees and Beneficiaries	**770**	**1,155**	**1,925**
- Average Age	*64.4*	*64.7*	*64.6*
- Average Years Retired	*5.3*	*5.2*	*5.2*
- Average Monthly Annuity	*$ 185*	*$ 142*	*$ 159*
- Average Monthly Pension	*$ 1,646*	*$ 1,308*	*$ 1,443*
Total Number of Members	**19,094**	**48,988**	**68,082**

Total

	Males	Females	Total
Number of Actives	**20,688**	**55,145**	**75,833**
- Average Age	*45.2*	*44.7*	*44.8*
- Average Service	*16.9*	*15.0*	*15.5*
- Average Pay	*$ 61,548*	*$ 54,306*	*$ 56,282*
Number of Vested Inactives	**1,210**	**3,811**	**5,021**
- Average Age	*54.3*	*54.5*	*54.5*
- Average Service	*17.0*	*15.8*	*16.1*
Number of Nonvested Inactives	**9,896**	**28,508**	**38,404**
Number of Retirees and Beneficiaries	**14,999**	**26,254**	**41,253**
- Average Age	*70.6*	*72.4*	*71.7*
- Average Years Retired	*11.1*	*12.8*	*12.2*
- Average Monthly Annuity	*$ 202*	*$ 155*	*$ 172*
- Average Monthly Pension	*$ 1,426*	*$ 1,122*	*$ 1,233*
Total Number of Members	**46,793**	**113,718**	**160,511**

Closed Group Actuarial Projections

The schedules on the following pages for the Pre-1996 Account were produced by means of an actuarial projection.

Whereas actuarial valuations provide a snapshot of the Retirement Fund as of a given date, actuarial projections provide a moving picture of Retirement Fund activities. The projected active and retired groups are developed from year to year by applying assumptions regarding pre-retirement withdrawal from service, retirements, deaths, and disabilities. Projected information regarding plan activity produces an expected future benefit payment stream.

Projection results are useful in demonstrating changing relationships among key elements affecting system financial activity. For example, the relationship between annual benefits paid and assets will change over time. Projections are not predictions of specific future events and do not provide numeric precision in absolute terms. The future pension benefits shown in the table are estimates. Actual payments will likely differ from the amounts shown, however, understanding the relative growth is critical.

Closed Group Projection: Pre-1996 Account

$ in Millions

Year Ended June 30	Active Members		Inactive Members	
	Number	Payroll	Number	Pension Benefits Paid
2008	33,691	$ 2,322.1	44,979	$ 645.0
2009	31,040	2,258.7	46,669	686.4
2010	28,457	2,181.0	48,305	734.2
2011	25,957	2,091.8	49,845	786.1
2012	23,538	1,991.7	51,228	841.6
2013	21,233	1,884.4	52,447	898.3
2014	19,089	1,775.7	53,451	954.3
2015	17,087	1,664.6	54,261	1,009.7
2016	15,226	1,552.9	54,875	1,063.2
2017	13,488	1,440.3	55,309	1,114.8
2018	11,872	1,329.2	55,555	1,163.6
2019	10,443	1,223.6	55,540	1,208.6
2020	9,158	1,122.7	55,306	1,249.8
2021	8,006	1,027.1	54,870	1,287.1
2022	6,971	936.0	54,244	1,320.4
2023	6,049	849.9	53,447	1,349.3
2024	5,222	767.7	52,494	1,374.0
2025	4,476	688.2	51,403	1,394.7
2026	3,808	612.4	50,189	1,410.9
2027	3,206	539.1	48,855	1,423.1
2028	2,684	471.7	47,395	1,430.0
2029	2,232	410.2	45,822	1,431.6
2030	1,842	353.7	44,144	1,428.4
2031	1,511	303.5	42,386	1,419.5
2032	1,226	257.4	40,575	1,405.6
2033	987	216.9	38,730	1,385.9
2034	788	180.9	36,855	1,361.0
2035	621	149.2	34,950	1,331.4
2036	486	122.4	33,017	1,297.2
2037	376	99.2	31,076	1,259.0

Note: Projections are intended to demonstrate the pattern of future activities and should not be viewed as a prediction of specific dollar amounts in any year.

Closed Group Projection: Pre-1996 Account (Continued)

$ in Millions

Year Ended June 30	Active Members		Inactive Members	
	Number	Payroll	Number	Pension Benefits Paid
2038	289	$ 79.9	29,137	$ 1,217.0
2039	220	63.8	27,214	1,171.8
2040	164	49.9	25,324	1,124.0
2041	121	38.7	23,474	1,074.0
2042	89	29.6	21,678	1,022.3
2043	66	23.0	19,945	969.4
2044	49	18.0	18,282	915.8
2045	36	13.9	16,700	862.2
2046	26	10.4	15,202	808.9
2047	18	7.6	13,790	756.3
2048	12	5.4	12,467	704.9
2049	8	3.6	11,232	654.7
2050	5	2.3	10,086	606.1
2051	3	1.4	9,026	559.3
2052	1	0.7	8,051	514.4
2053	1	0.3	7,157	471.6
2054	-	0.1	6,340	430.9
2055	-	-	5,597	392.4
2056	-	-	4,924	356.2
2057	-	-	4,314	322.3

Note: Projections are intended to demonstrate the pattern of future activities and should not be viewed as a prediction of specific dollar amounts in any year.

Summary of Benefit Provisions

Regular Retirement

Eligibility	Age 65 with ten years service or age 60 with 15 or more years of service or if age is at least 55 and the sum of age plus credited service is 85 or more.
Annual Amount	State pension equal to total service times 1.1% of Average Annual Compensation

Early Retirement

Eligibility	Age 50 with 15 or more years of service
Annual Amount	State pension is computed as regular retirement benefit, but reduced for each month between age at early retirement and attainment of age 65. The age reduction factor is calculated as the sum of the following: • 1/10 of 1% for each month from age 60 to 65. • 5/12 of 1% for each month from age at early retirement to 60

Deferred Retirement

Eligibility	Ten years of service. Benefit commences at regular or early retirement eligibility.
Annual Amount	Computed as a regular retirement benefit with state pension based on service and Average Annual Compensation at termination.

Disability Retirement

Classroom Disability Benefit:

Eligibility	Five years of service.
Annual Amount	$125 per month plus $5 per month for each year of service credit over five years.

Alternative Disability Benefit:

Eligibility	Five years of service and determined to be disabled by the Social Security Administration. Annual verification of Social Security disability is required.
Annual Amount	Computed as a regular retirement benefit using creditable service to the date of disability and without reduction for early retirement. The minimum benefit is $100 per month.

Summary of Benefit Provisions

Death Before Retirement

Eligibility	15 years of service. Spouse to whom member had been married for two or more years is automatically eligible, or a dependent may be designated as beneficiary.
Annual Amount	Computed as regular retirement benefit but reduced in accordance with a 100% joint and survivor election

Benefit Increases After Retirement

No automatic increases after retirement are provided. Periodically, unscheduled increases have been made.

Average Annual Compensation

Average of highest five years of compensation. Years do not need to be consecutive.

Member Contributions

All Fund members are required by state law to contribute 3% of salary contributions to their Annuity Savings Account. These 3% contributions are generally "picked up" by the employer and contributed on a pre-tax basis on behalf of the employee. Extra voluntary contributions by the member are also possible, but on a post-tax basis. At retirement, there are six alternatives for receiving the proceeds of this account, including lump sums, full and partial rollovers, full and partial annuitization of the balance, and deferred distribution.

Forms of Benefit Payment (State Pension)

The normal form of benefit payment (Option A-1) is a single life annuity with a five-year certain period. There are five optional forms of payment available, as listed below. Additionally, members retiring between ages 50 and 62 may integrate their pension benefit with their Social Security benefit by choosing Social Security Integration (Option A-4) in conjunction with the normal form or any other optional form selected. Optional forms of payment are calculated on an actuarial equivalent basis.

Option A-2:	Straight Life benefit with no certain period
Option A-3:	Modified Cash Refund Annuity (operates in conjunction with the Annuity Savings Account).
Option B-1:	100% Survivorship
Option B-2:	66 2/3% Survivorship
Option B-3:	50% Survivorship

State law provides for actuarially-adjusted and re-calculated benefits based on a new optional form election in the event of the death of the member's spouse after retirement (IC 5-10.2-4-7).

Optional forms of benefit are calculated based on 7.5% interest with a 40%/60% unisex blend of the 1983 Group Annuity Male Mortality table set back three years and the 1983 Group Annuity Male Mortality table set back seven years.

Summary of Actuarial Assumptions and Methods

The assumptions used in this valuation reflect the study of experience covering the period July 1, 1996 through June 30, 2002.

Investment Return Rate	7.5% per year, compounded annually (net after administrative expenses). The 7.5% investment return rate translates to an assumed real rate of return of 3.0% over across-the-board salary increases and 3.5% over price inflation.
Pay Increase Assumption	Sample increases are shown on page 32. The assumption for each consists of a merit and/or seniority increase, 4.0% for price inflation, and 0.5% for real wage growth.
Total Active Member Payroll	Assumed to increase 4.5% annually for purposes of calculating the projected contribution for the 2009 fiscal year.
Price Inflation	4.0% per year. Price inflation is not directly tied to benefits, however, it is a component of the economic model used to determine total wage inflation.
Mortality	
Healthy	1983 Group Annuity Male Mortality Table set back five years for males and seven years for females
Disabled	1983 Group Annuity Male Mortality Table set forward five years for males and three years for females.
Retirement	Sample probabilities are shown on page 30.
Withdrawal	Sample probabilities are shown on page 31.
Disability	Sample probabilities are shown on page 30.
Actuarial Cost Method	Entry Age Normal (level percent of pay) method.
Asset Valuation Method	The Funding Value of Assets recognizes investment gains and losses in equal installments over four years.
Marriage Assumption	100% of members are assumed to be married for purposes of valuing death-in-service benefits. Male spouses are assumed to be three years older than female spouses.
Pay Increase Timing	Beginning of (fiscal) year. Payroll amounts stated in the valuation data are amounts projected to be paid during the current year.
Decrement Timing	Decrements are assumed to occur at the beginning of the year.
Other	Disability and withdrawal decrements do not operate after member reaches retirement eligibility. Only the withdrawal and death decrements operate during the first ten years of service.

Summary of Actuarial Assumptions and Methods

Miscellaneous Adjustments	The calculated liabilities and normal costs were increased by 1% to account for the inclusion of unused sick leave in the calculation of Average Compensation.
Actuarial Equivalence Basis for Optional Forms of Payment	7.5% interest with a 40%/60% unisex blend of the 1983 Group Annuity Male Mortality table set back three years and the 1983 Group Annuity Male Mortality Table set back seven years.
Explicit Expense Load	None
COLA Assumption	1.5% compounded annually on pension portion.
Employee Census and Asset Data	Census and asset information was furnished as of the valuation date by the Fund's Administrative Staff. Although examined thoroughly for reasonableness and consistency with prior years, the data was not otherwise audited by the Actuary.

The actuarial valuation computations were made under the supervision of a Member of the American Academy of Actuaries (MAAA).

Summary of Actuarial Assumptions and Methods

Probabilities of Age and Service Retirement

Regular Retirement			Rule of 85 Retirement			Early Retirement		
Age	**Male**	**Female**	**Age**	**Male**	**Female**	**Age**	**Male**	**Female**
						50	0.0100	0.0100
			55	0.1100	0.1100	55	0.0300	0.0300
60	0.1500	0.1500	60	0.1500	0.1500			
65	0.3500	0.3500	65	0.3500	0.3500			
70	1.0000	1.0000	70	1.0000	1.0000			

Probabilities of Disability

Attained Age	Age Based	
	Male	**Female**
25	0.0001	0.0001
30	0.0001	0.0001
35	0.0001	0.0001
40	0.0001	0.0001
45	0.0002	0.0002
50	0.0005	0.0005
55	0.0009	0.0009
60	0.0010	0.0010

Summary of Actuarial Assumptions and Methods

Probabilities of Withdrawal

Years of Service	Service Based	
	Male	Female
0	0.3000	0.3500
1	0.1700	0.1800
2	0.1100	0.1400
3	0.0900	0.1100
4	0.0700	0.1000
5	0.0600	0.0800
6	0.0500	0.0650
7	0.0450	0.0600
8	0.0400	0.0550
9	0.0400	0.0500

Attained Age	Age Based	
	Male	Female
25	0.0664	0.0950
30	0.0432	0.0720
35	0.0232	0.0430
40	0.0144	0.0260
45	0.0120	0.0200
50	0.0120	0.0200
55	0.0104	0.0180
60	0.0096	0.0140

Summary of Actuarial Assumptions and Methods

Pay Increase Assumption

Years of Service	Merit & Seniority	Base (Economic)	Total
1	11.00%	4.50%	15.50%
5	5.00%	4.50%	9.50%
10	3.50%	4.50%	8.00%
15	2.50%	4.50%	7.00%
20	1.50%	4.50%	6.00%
25	0.25%	4.50%	4.75%
30	0.25%	4.50%	4.75%
35	0.25%	4.50%	4.75%
40	0.25%	4.50%	4.75%

Definitions of Technical Terms

Accrued Service	Service credited under the system that was rendered before the date of the actuarial valuation.
Accrued Liability	The difference between the actuarial present value of future benefit payments and the actuarial present value of future normal costs. Also referred to as "actuarial accrued liability" or "past service liability".
Actuarial Assumptions	Estimates of expected future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment return, and pay increases. Decrement assumptions (rates of mortality, disability, turnover, and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (pay increases and investment return) consist of the underlying rates in an inflation-free environment plus a provision for a long-term average rate of inflation.
Actuarial Cost Method	A mathematical budgeting procedure for allocating the dollar amount of the "actuarial present value of future benefit payments" between future normal costs and actuarial accrued liabilities. Sometimes referred to as the "actuarial funding method".
Actuarial Equivalent	One series of payments is said to be actuarially equivalent to another series of payments if the two series have the same actuarial present value.
Actuarial Gain (Loss)	The difference between actual unfunded actuarial accrued liability and anticipated unfunded actuarial accrued liability — during the period between two valuation dates. It is a measurement of the difference between actual and expected experience.
Actuarial Present Value	The single amount now that is equal to a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest and by probabilities of payment.
Amortization	Paying off a present value with periodic payments.
Normal Cost	The portion of the actuarial present value of future benefits that is assigned to the current year by the actuarial cost method. Sometimes referred to as "current cost".
Unfunded Accrued Liability	The difference between the actuarial accrued liabilities and the actuarial value of assets. Sometimes referred to as "unfunded past service liability" or "unfunded actuarial accrued liability" or simply as "unfunded liability".

The Actuarial Valuation Process

The actuarial valuation is the mathematical process by which a contribution rate is determined. The flow of activity constituting the valuation may be summarized as follows:

A. **Covered Person Data:** Furnished by the Plan Administrator

Retired Members and Beneficiaries Now Receiving Benefits
Former Employees with Vested Benefits Not Yet Payable
Active Members

B. + **Asset Data (Cash and Investments):** Furnished by the Plan Administrator

C. + **Estimates of Future Experience (Actuarial Assumptions):** Established by the Board of Trustees after Consulting with the Actuary

D. + **Funding Method:** The Allocation of Employer Costs to Past Service, Current Service, and Future Service

E. + **Mathematically Combining the Assumptions, the Funding Method, and the Data**

F. = **Determination of:**

Plan Funded Status and Employer Contribution Rate

Funding Objective

The funding objective of the ISTRF 1996 Account is to establish and receive contributions that, when invested at the assumed rate of return, will ultimately accumulate assets over each member's working lifetime that will be sufficient to pay expected retirement allowances.

Fund Structure and Funding Arrangements

The Indiana State Teachers' Retirement Fund (ISTRF) is comprised of a two-account structure in compliance with Indiana Code Section 21-6.1-2-2:

- The **Pre-1996 Account** consists of those members who were hired prior to July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date.

- The **1996 Account** consists of those members who were:
  a. hired on or after July 1, 1995 or
  b. hired before July 1, 1995 and prior to June 30, 2005, and subsequently served in a position covered by ISTRF were either hired by another school corporation or institution covered by ISTRF, or were re-hired by a covered prior employer.

Characteristics of the Pre-1996 Account

1. Active membership in the Pre-1996 Account continues to decline as members quit, become disabled, die, retire, or incur a change in status as described in (b) above, thereby automatically transferring to membership in the 1996 Account.

2. The pension benefits from the Pre-1996 Account are funded by State appropriations (including short-term contributions of some revenue from the State Lottery). Annuity benefits payable from the Pre-1996 Account are funded by the annuitization of Pre-1996 Account member contributions at the time of retirement.

Characteristics of the 1996 Account

1. As members depart from active service in the Pre-1996 Account, their replacements will become members of the 1996 Account. If the 1996 Account were a stand-alone plan, this pattern of departures and hirings would produce a fairly constant population size. However, overall active membership in the 1996 Account is expected to increase over time due to the following factors:

   a. As Pre-1996 Account members depart from active service, their replacements will become members of the 1996 Account; and
   b. The special provisions of Indiana Code Section 21-6.1-2-2 require that any member who changed jobs within the System or who was re-hired within the System during the period July 1, 1995 - June 30, 2005 after a period of absence were moved to the 1996 Account..

2. Pension benefits payable from the 1996 Account are funded by contributions from local school corporations or other institutions that employ covered members. Annuity benefits payable at retirement from the 1996 Account are funded by 1996 Account members.

Statistical Reports

SCHEDULE OF ADMINISTRATIVE EXPENSES

	2007	2006	2005	2004
PERSONAL SERVICES				
TRUSTEES PER DIEMS	$5,628.00	$6,164.00	$12,056.00	$9,856.00
STAFF SALARIES	$2,101,470.57	$2,163,053.55	$2,152,409.83	$2,066,823.52
SOCIAL SECURITY	$160,308.68	$156,332.49	$157,831.57	$154,544.37
RETIREMENT	$226,645.28	$292,220.60	$232,928.80	$231,590.48
INSURANCE	$369,900.91	$340,149.18	$361,592.69	$296,761.33
PERSONNEL RECLASSIFICATION/ADD'L STAFF	$0.00	$0.00	$0.00	$0.00
TEMPORARY SERVICES	$2,889.80	$11,010.00	$27,783.75	$21,179.93
TOTAL PERSONAL SERVICES	**$2,866,843.24**	**$2,968,929.82**	**$2,944,602.64**	**$2,780,755.63**
PROFESSIONAL & TECHNICAL SERVICES				
ACTUARIAL	$117,200.00	$109,600.00	$187,250.00	$119,450.00
DATA PROCESSING(MAINTAIN OLD SYSTEM)**	$1,778,071.16	$1,751,349.25	$1,936,423.79	$699,395.75
ENHANCEMENTS TO DATA PROCESSING SYSTEM	$455,718.60	$653,369.87	$0.00	$0.00
AUDIT	$27,076.00	$28,750.00	$35,394.00	$35,502.00
BENCHMARKING	$37,500.00	$30,000.00	$30,000.00	$25,000.00
PENSION DEATH RECORD COMPARISON	$8,915.00	$13,664.50	$29,329.00	$21,144.00
MEDICAL EXAMINATIONS	$700.00	$525.00	$1,362.50	$70.50
LEGAL SERVICES	$46,173.21	$38,023.52	$79,336.31	$95,592.37
TOTAL PROF. & TECH. SERVICES	**$2,471,353.97**	**$2,625,282.14**	**$2,299,095.60**	**$996,154.62**
COMMUNICATION				
PRINTING	$349,850.99	$278,735.65	$315,800.75	$339,428.79
TELEPHONE	$36,827.33	$75,695.22	$81,284.60	$59,390.54
POSTAGE	$395,738.25	$373,127.62	$361,157.20	$422,583.79
TRAVEL	$27,913.66	$22,615.86	$20,165.18	$21,012.21
TOTAL COMMUNICATION	**$810,330.23**	**$750,174.35**	**$778,407.73**	**$842,415.33**
MISCELLANEOUS				
ADMINISTRATIVE LEGAL SERVICES	$9,976.06	$13,257.19	$8,220.25	$10,591.32
EQUIPMENT RENTAL	$18,586.25	$24,415.23	$17,074.10	$15,250.98
MEMBERSHIP & TRAINING	$23,969.06	$23,225.98	$28,366.35	$77,883.92
OFFICE SUPPLIES	$61,479.11	$85,481.29	$96,856.58	$40,748.00
MAINTENANCE	$16,374.42	$9,517.40	$5,981.04	$19,345.45
BONDING	$1,055.00	$2,128.00	$2,019.00	$2,019.00
OFFICE RENT	$220,535.66	$223,348.60	$226,754.71	$216,750.75
TOTAL MISCELLANEOUS	**$351,975.56**	**$381,373.69**	**$385,272.03**	**$382,589.42**
TOTAL ADMINISTRATIVE EXPENSES	**$6,500,503.00**	**$6,725,760.00**	**$6,407,378.00**	**$5,001,915.00**

SCHEDULE OF INVESTMENT EXPENSES

	2007	2006	2005	2004
NORTHERN TRUST	$100,000.00	$100,000.00	$100,000.00	$100,000.00
TOTAL CUSTODIAL	**$100,000.00**	**$100,000.00**	**$100,000.00**	**$100,000.00**
FIXED INCOME MANAGERS				
ALLIANCE CAPITAL MGMT.	$1,004,735.09	$918,781.00	$886,752.00	$1,056,787.00
REAMS ASSET MGMT.	$1,453,867.00	$1,298,940.00	$1,260,732.00	$1,492,271.00
TAPLIN, CANIDA, HABACHT	$328,370.12	$300,599.99	$264,581.86	$176,142.08
EQUITY MANAGERS				
BARCLAYS	$133,336.14	$107,807.34	$318,635.66	$134,859.65
RHUMBLINE	$152,749.80	$145,470.76	$177,197.29	$181,095.71
PIMCO	$1,452,631.01	$3,231.00	$747,896.00	$1,139,898.00
PORTFOLIO ADVISORS	$620,000.00	$620,000.00	$545,000.00	$445,000.00
PUTNAM INVESTMENTS	$0.00	$0.00	$0.00	$146,533.69
TA ASSOCIATES REALTY	$0.00	$0.00	$52,677.00	$0.00
FRANKLIN PORTFOLIO ASSOC.	$486,971.35	$462,838.78	$427,516.22	$354,021.85
VALENZUELA CAPITAL PARTNERS	$0.00	$0.00	$0.00	$0.00
STATE STREET	$2,204,419.63	$2,013,595.42	$0.00	$0.00
ARIEL	$0.00	$933,506.60	$1,043,289.26	$1,000,707.92
BRANDYWINE	$798,845.02	$984,516.67	$892,092.94	$833,587.02
AELTUS	$1,191,884.47	$1,512,542.34	$1,267,098.65	$1,245,221.05
FISHER INVESTMENTS	$974,408.10	$966,283.16	$0.00	$0.00
TCW	$0.00	$0.00	$106,745.67	$690,026.29
EARNEST PARTNERS LLC	$334,221.96	$302,276.10	$226,205.00	$140,808.00
MANNING & NAPIER	$318,093.51	$256,014.06	$0.00	$0.00
GE ASSET MANAGEMENT	$0.00	$0.00	$58,899.29	$169,873.00
INSTITUTIONAL CAPITAL CORP	$385,084.00	$335,952.00	$260,519.00	$178,331.00
WELL CAPITAL MANAGEMENT	$1,482,233.98	$975,795.79	$0.00	$0.00
PACIFIC FINANCIAL RESEARCH INC	$267,242.00	$283,333.00	$316,474.00	$237,765.00
ENHANCED INVESTMENT TECH. INC	$859,814.81	$612,579.00	$494,280.57	$238,659.70
HOLT-SMITH & YATES ADVISORS	$77,605.00	$321,671.00	$296,019.00	$227,658.00
BRIDGEGWATER & ASSOCIATES	$1,068,027.47	$1,446,221.25	$0.00	$0.00
DRESDNER RCM GLOBAL ADVISORS	$0.00	$0.00	$69,577.00	$212,551.00
ALLIANCE	$1,212,042.33	$1,076,917.33	$350,090.00	$305,807.00
GMO	$378,894.58	$237,243.10	$0.00	$0.00
BANK OF IRELAND	$0.00	$0.00	$994,545.55	$1,051,590.31
ALLIANCE BERNSTEIN INTERNATIONAL	$0.00	$0.00	$76,661.35	$0.00
GRYPHON INTERNATIONAL INVESTMENT	$1,083,864.56	$897,128.10	$76,558.84	$0.00
TOTAL MANAGEMENT	**$18,269,341.93**	**$17,013,243.79**	**$11,210,044.15**	**$11,659,194.27**
CONSULTANT - CALLAN ASSOCIATES	$458,596.93	$274,606.04	331,750.00	$232,312.50
INVESTMENT BENCHMARKING	$18,500.00	$18,500.00	$18,500.00	$15,000.00
INVESTMENT ADMINISTRATIVE EXPENSES	$501,971.66	$499,819.82	$303,777.41	$531,928.23
OTHER CHARGES	$245,233.48	$703,054.35	$0.00	$0.00
TOTAL INVESTMENT EXPENSES	**$19,593,644.00**	**$18,609,224.00**	**$11,964,071.56**	**$12,538,435.00**

NUMBER OF APPROVED BENEFIT PAYMENTS

FISCAL YEAR ENDING - JUNE 30	**2007**	**2006**	**2005**	**2004**	**2003**
Retirement (including disability/survivorship)	2,407	2,310	2,457	2,238	2,142
Regular Disability	1	0	0	1	3
Voluntary Withdrawal	3,240	1,623	1,633	1,499	1,474
Death Withdrawal	540	502	396	328	90

RATE OF INVESTMENT EARNINGS DISTRIBUTION

FISCAL YEAR ENDING - JUNE 30	**2007**	**2006**	**2005**	**2004**	**2003**
Guaranteed Fund	5.50%	6.00%	6.25%	7%	7%
Bond Fund	7.35%	0.23%	7.16%	2.15%	13.85%
Money Market*	5.34%	4.16%	N/A	N/A	N/A
S&P 500 Index Fund	20.59%	8.59%	6.35%	18.99%	0.31%
Small Cap Equity Fund	20.02%	10.12%	10.07%	29.28%	-1.33%
International Fund	30.69%	29.74%	14.06%	29.58%	-7.15%

*Rollover accounts only

Building Your Retirement Future

Indiana State Teachers' Retirement Fund

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