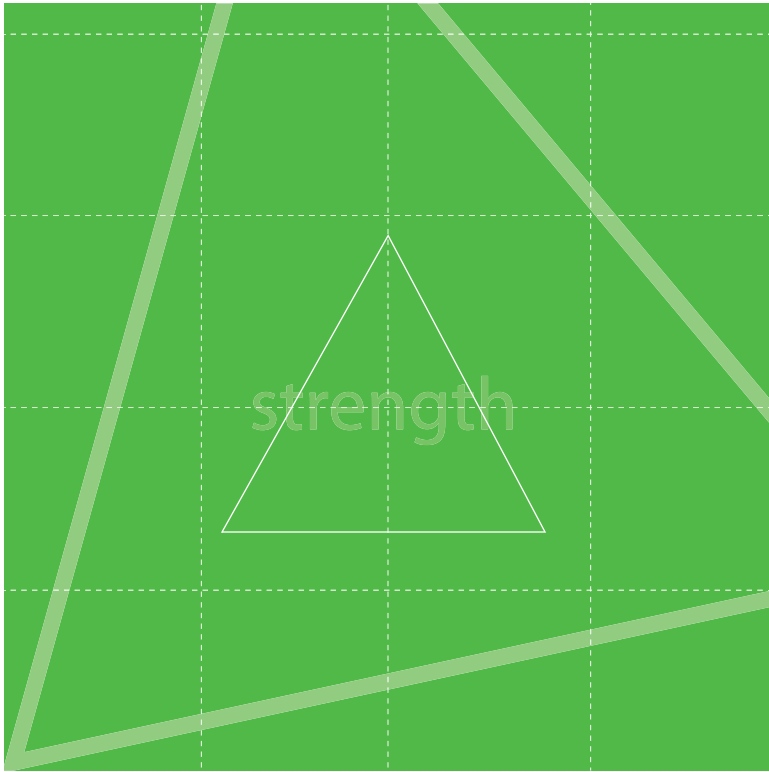


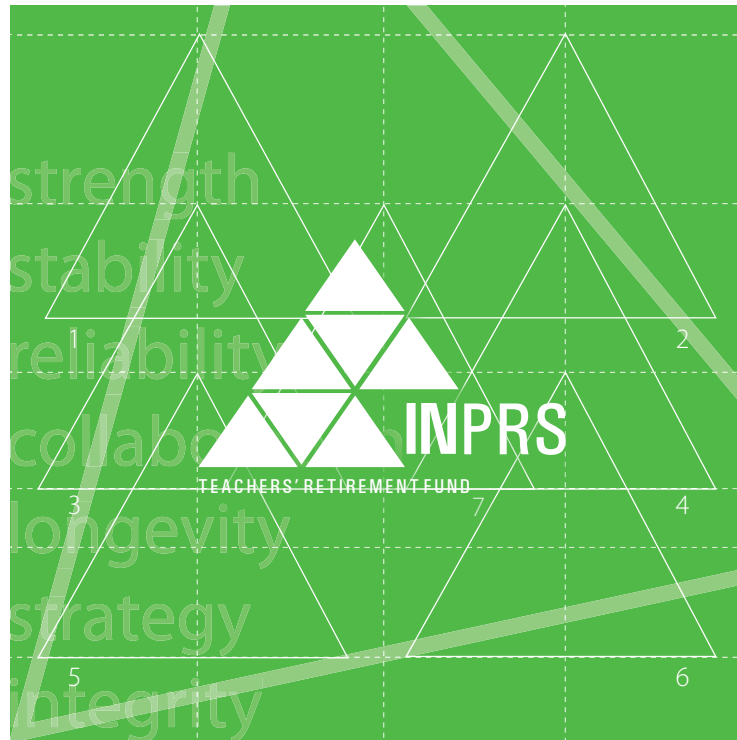
2011

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2011

The Teachers' Retirement Fund is a discretely presented component unit of the state of Indiana.





2011

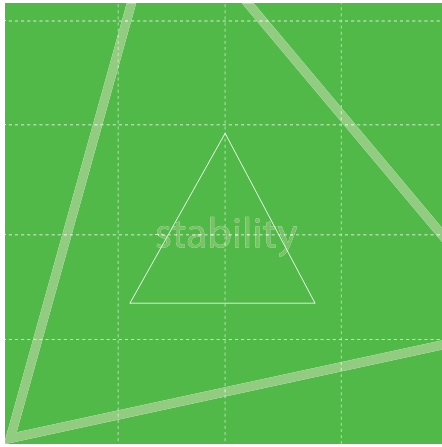
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2011

*The Teachers' Retirement Fund is a discretely presented component unit
of the state of Indiana.*

Prepared By

Teachers' Retirement Fund | One North Capitol, Suite 001 | Indianapolis, IN 46204
Toll-free: (888) 286-3544 | www.inprs.in.gov | questions@inprs.in.gov



2011 COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2011

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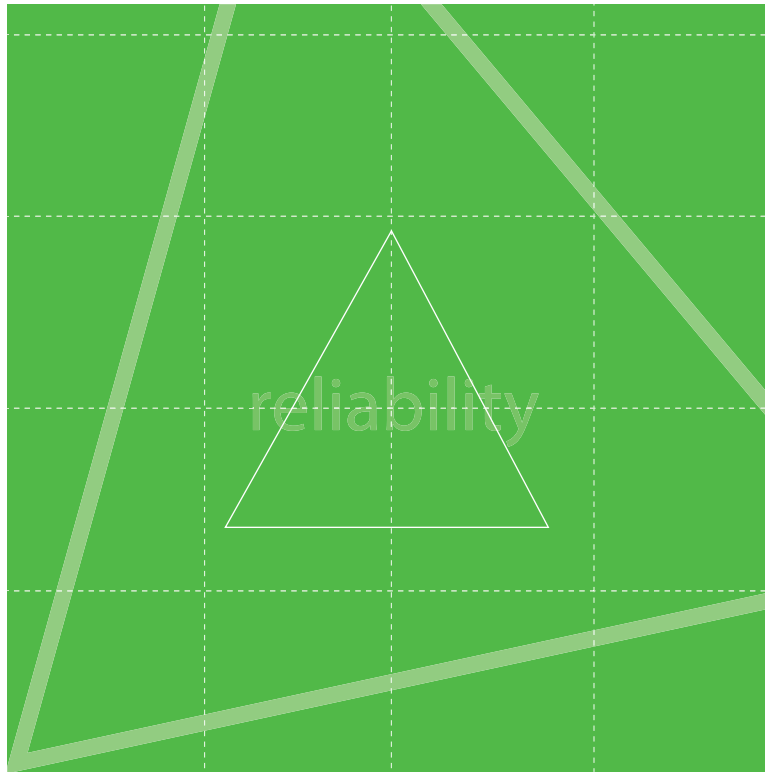
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TEACHERS' RETIREMENT FUND
**2011 COMPREHENSIVE
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For the Fiscal Year Ended June 30, 2011

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INTRODUCTORY

Letter of Transmittal

SECTION



Steve Russo
Executive Director

December 20, 2011

Dear Board Members:

It is with pleasure that we present the Comprehensive Annual Financial Report (CAFR) of the Indiana State Teachers' Retirement Fund (TRF) for the fiscal year ended June 30, 2011.

About the Indiana State Teachers' Retirement Fund

The Indiana General Assembly created the Indiana State Teachers' Retirement Fund (TRF or the Fund) in 1921 as a pay-as-you-go Defined Benefit retirement system to provide pension and disability benefits to its members and/or their beneficiaries. Pay-as-you-go means that the State decided not to pre-fund the teachers' retirements through employee and employer contributions while the members were actively teaching. Instead, the State chose to appropriate money for the retirement benefits as they became due for payment. Upon reaching age and service eligibility requirements, members are entitled to a Defined Benefit payment based in part upon a formula that takes into account the member's age, years of service, and the average of the member's highest five years of salary.

Since its establishment, the laws governing the administration of TRF have changed and expanded in response to the needs of our members, employers, and citizens. In 1955, the Annuity Savings Account (ASA) was established in its current form, requiring a percentage contribution based on member salary. This benefit is currently funded by a 3 percent member contribution; however, by statute, employers are allowed to make the 3 percent contribution on behalf of the member. Members are immediately vested in their ASAs. Upon retirement, members can withdraw their ASA balances in a lump sum or they can convert their balances into an annuitized amount that is added to their Defined Benefit.

The 1995 legislative session brought several significant changes to TRF. Legislation was passed that closed the pay-as-you-go plan (named the Pre-1996 Account) to newly hired members and created a new account named the 1996 Account. All teachers hired after June 30, 1995, would be members of the 1996 Account. This account was established to be actuarially

INTRODUCTORY

Letter of Transmittal, continued

pre-funded by requiring school corporations to set aside a fixed percentage of payrolls for teacher retirement benefits. Also, in 1995, the General Assembly passed legislation creating the Pension Stabilization Fund (PSF), designed to partially fund TRF's unfunded liability of the Pre-1996 Account. The PSF was initially funded from \$425 million of employer reserves from the Pre-1996 Account and, since that time, has received contributions from the Indiana State General Fund, contributions from the Indiana State Lottery, and interest earned from the investment of PSF assets. As of June 30, 2011, TRF's combined net assets had a market value of \$9.12 billion, of which \$2.26 billion resides in the PSF.

A public referendum held in 1996 approved an amendment to the Indiana Constitution to allow the Fund to invest in equities. Since that time, the Fund has been able to diversify its asset classes and grow its asset base. Beginning in 1998, TRF members were able to select from expanded investment choices that included equities, thereby diversifying their ASAs.

In 2000, legislation established that TRF was no longer a state agency but an "independent body corporate and politic", meaning it is not a department or agency of the State but is an independent instrument exercising essential government functions. Though TRF is under the authority of the governor and the Office of Management and Budget (OMB), it is not under the jurisdiction or authority of the State Personnel Department or the Department of Administration. By Executive Order of the Governor, the Fund is under the jurisdiction of the State Ethics Commission.

Indiana Code established a six-member Board of Trustees to oversee TRF. Five trustees, two of whom were required to be members of the Fund, were appointed by the governor. The sixth member of the Board was required to be a director of the budget agency or the director's designee.

In 2010, legislation required the boards of TRF and the Indiana Public Employees' Retirement Fund (PERF) to jointly appoint a common executive director and to cooperate to the extent practical and feasible in the investing of fund assets. In May 2010, the PERF and TRF Boards jointly appointed a common executive director to carry out the policies set by the Boards and to administer the Funds on a daily basis. During fiscal year 2011, a single common organization was implemented to most efficiently serve the needs of both TRF and PERF. In 2011, additional legislation was passed that created the Indiana Public Retirement System (INPRS), effective July 1, 2011. While the TRF fund remains a separate and distinct fund, this CAFR marks the end of a separate CAFR for TRF. Next year will be the inaugural year of a consolidated CAFR for all funds now administered by INPRS.

The TRF fund is comprised of approximately 162,000 members and approximately 370 employers. TRF provides a monthly benefit to approximately 46,000 retirees and maintains accounts for approximately 73,000 active members and 43,000 inactive members. Details about the demographics of TRF members can be found in the Statistical Section of this report.

Benefit Plan and Other Legislative Changes during Fiscal Year 2011

Several changes took effect during fiscal year 2011:

- One-time Check – Effective upon passage, in lieu of a Cost of Living Adjustment (COLA), the General Assembly provided a one-time check to members, survivors and beneficiaries who retired before January 1, 2010. The amount of the one-time check ranged from \$125 to \$400 depending upon a member's years of service and was to be paid to members no later than October 1, 2010.
- Beneficiaries – Effective July 1, 2010, permits a TRF member to allocate his or her benefit shares by percentages to more than one beneficiary.

INTRODUCTORY

Letter of Transmittal, continued

- Appeal Rights – Effective July 1, 2010, provides that a TRF member may appeal his or her retirement or disability retirement benefit up to six years after his or her retirement effective date.
- Five Star Mortgages – Effective July 1, 2010, provides that TRF may offer Five Star Mortgages as an investment option to members.
- Indefinite Teacher Contracts – Effective July 1, 2010, removes the age limit for teachers who hold an indefinite contract.

Management's Responsibility for Financial Reporting

TRF's management has the fiduciary responsibility to safeguard the fund and is responsible for the contents of this report. TRF's management is also responsible for establishing and maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization. The internal control framework has been designed to provide reasonable assurance rather than absolute assurance that the financial statements will be free from material misstatement. To ensure the validity of these controls, a system of both external and internal checks and balances exists. TRF's management is also charged with recording these transactions as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with generally accepted accounting principles. This system includes the written policies and procedures of the Board of Trustees.

For financial reporting purposes, TRF follows Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. Assets of TRF are presented at fair value. The actuarial value of assets and the actuarial accrued liability are presented in the Required Supplemental Schedules following the Notes to the Financial Statements.

GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. This Statement establishes financial reporting standards for state and local governments. The Management's Discussion and Analysis is contained within the Financial Section of this report and serves to supplement the Introductory Section of this CAFR, as well as financial statements, notes, and supplementary information within the Financial Section.

Economic Condition

TRF's economic condition is based primarily upon appropriations from the Indiana State General Assembly, contributions from members and employers, and investment results. In fiscal year 2011, the State of Indiana met its funding obligations to the TRF Pre-1996 Account. The State provided all expected payments to Indiana school corporations, thus providing an added level of assurance that school corporations could meet their obligations to pay required employer contributions to the TRF 1996 Account. In fiscal year 2011, TRF received all required appropriations from the State of Indiana and all required contributions from members and employers. Strategic Investment Solutions, Inc. (SIS), TRF's primary investment management consultant, evaluated the impact of economic conditions on TRF's investments. SIS's report is located in the Investment Section of this report.

Investments

Fiscal year 2011 was an excellent year from an investment return perspective despite an ongoing uncertainty in overall global economic conditions. The Defined Benefit (DB) assets returned a positive 18.0 percent net of fees. A common measure of investment performance is to compare a portfolio's actual return to its benchmark return. TRF's investment performance was not only better than the target benchmark of 16.8 percent for fiscal year 2011, but it remains better than the benchmark

INTRODUCTORY

Letter of Transmittal, continued

return over the past three- and five-year periods. While the DB assets' 5-year return rate of 4.2 percent remains below the fund's long-term actuarial assumed rate of 7 percent, the 8-year annualized net of fee rate of return is 7 percent.

Prudent diversification through strategic asset allocation is fundamental to TRF's overall investment policy. The policy is designed to provide an optimal mix of asset classes to meet TRF's long-term return objectives, while still minimizing risks. TRF continues to make progress in diversifying the mix of asset classes and adjusting its risk and return profile to deliver the earnings needed to meet benefit obligations. TRF has also begun the process of establishing a more robust risk management program. Detailed investment policies and performance results can be found in the Investment Section of this report.

Funding

An actuarial analysis of TRF is performed on an annual basis. An assumption experience study is performed every three to five years. The actuarial firm, Nyhart, completed the most recent annual actuarial analysis as of June 30, 2010. An assumption experience study was last completed in August of 2008. One of the purposes of the actuarial analysis is to measure the funding status, typically referred to as the funded percentage. The percentage is computed by dividing the actuarial value of net assets by the actuarial accrued liability. This ratio provides an indication of the funding status of the plan, and generally, the greater this percentage, the stronger the plan.

As discussed earlier in this letter, TRF is comprised of two separate accounts, the Pre-1996 Account and the 1996 Account. Each of these accounts is funded differently. Given that the Pre-1996 Account is funded on a pay-as-you-go basis from the State of Indiana, the funded percentage measurement is not as meaningful in measuring the strength of this account.

However, the application of the funded percentage to the 1996 Account is more meaningful, as this account is actuarially pre-funded by contributions from members and employers. The funded percentage of the 1996 Account is a healthy 94.7 percent. Another purpose of the actuarial analysis is to guide the Board of Trustees in the determination of the required contribution rate as a percent of payroll from employers. In fiscal year 2010, the required Defined Benefit contribution rate from employers for members in the 1996 Account was 7.5 percent of payroll.

Details of the actuarial analysis can be found in the Actuarial Section of the report. Supporting statistics can be found in the Statistical Section. In the Statement of Changes in Fiduciary Net Assets, contained in the Financial Section of this report, the accumulated balance of funds derived from the excess of additions over deductions is referred to as the net assets held in trust for pension benefits. The actuarial accrued liability is not disclosed in the Financial Statements but is disclosed in the Schedule of Funding Progress in the Required Supplemental Schedules following the Notes to the Financial Statements.

Accomplishments in 2011

TRF continued its pursuit of excellence throughout fiscal year 2011. TRF's commitment to outstanding customer service was demonstrated by the continued implementation of operational programs that have resulted in over 99 percent of new retirees receiving their first pension payment on time. Over 90 percent of members who received services from TRF rated their experience as good or excellent. A single administrative organization was implemented by bringing together the best practices of PERF and TRF without any interruption or impact on our members. The merging of TRF and PERF administrative functions delivered \$1.5 million per year in ongoing administrative cost savings in addition to \$10.6 million per year in investment costs. In total, the net present value of the savings represents over \$170 million in savings to Indiana taxpayers. Significant progress continues in the implementation of new information technologies. TRF successfully completed its fourth year of a multi-year program to modernize its business processes and systems. Most notably, the ASA platform was

INTRODUCTORY

Letter of Transmittal, continued

SECTION

overhauled and modernized. Effective August 2010, TRF member ASA accounts are valued on a daily basis versus quarterly, members can securely access their accounts online 24/7, and can transfer fund balances between a greater variety of fund choices on a daily basis.

Following this letter, you will find a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) and an Achievement Award from the Public Pension Coordinating Council (PPCC). The GFOA certification for TRF's 2010 CAFR marks the third consecutive year that a TRF annual report has achieved this recognition. The PPCC award recognizes TRF's excellence in meeting professional standards for plan design and administration. This recognition rates TRF's system management and administration among an exclusive handful of public retirement systems in the nation and also marks the third consecutive year TRF has achieved this distinction.

Acknowledgements

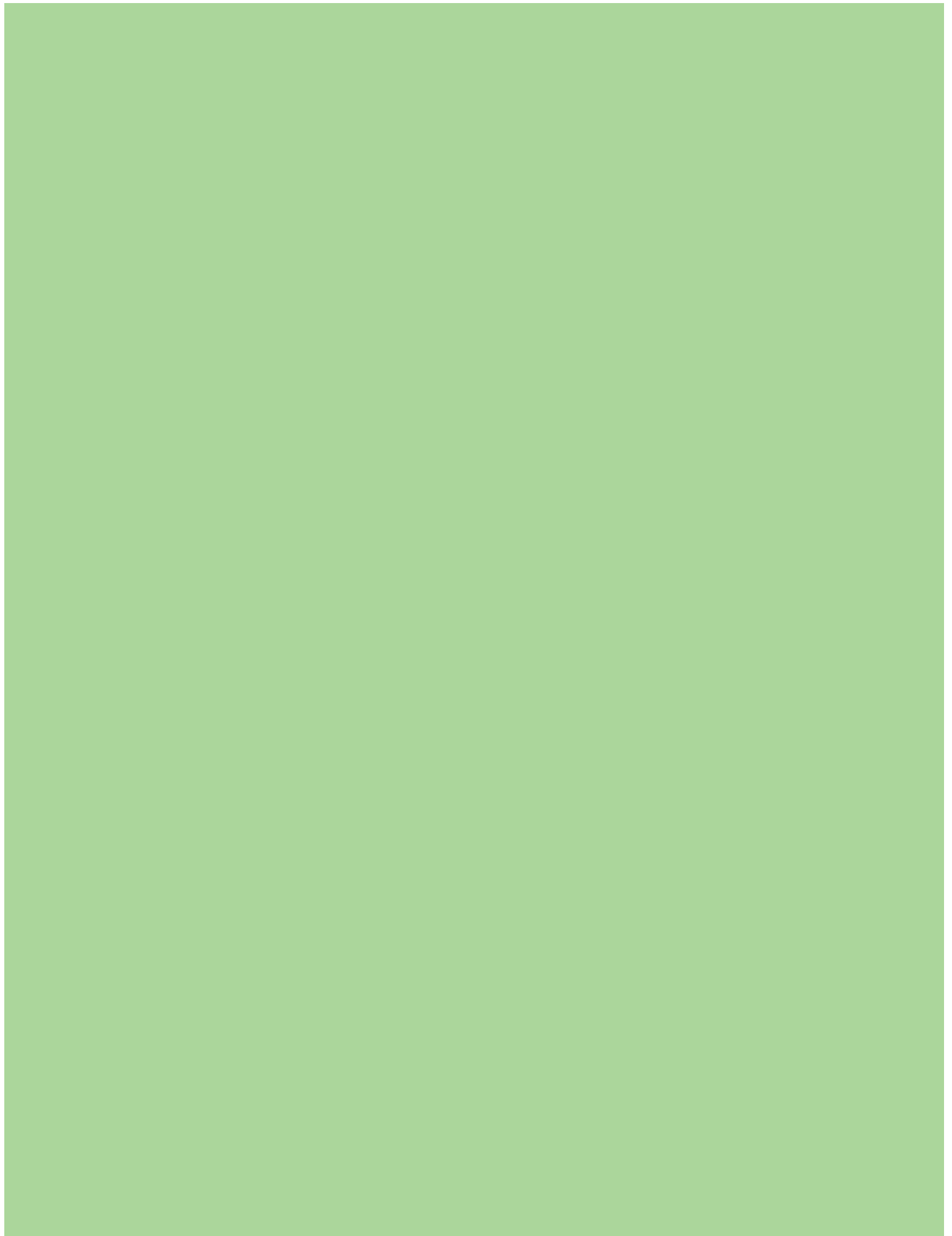
The compilation of this report reflects the combined efforts of TRF staff and advisors. It is intended to demonstrate the spirit of full disclosure and to provide information for use as the basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the assets contributed by our members and employers.

We express our gratitude to the staff, advisors, and all who have contributed to the preparation of this report. The TRF staff also wishes to express our gratitude to Indiana Governor Mitch Daniels, the Indiana General Assembly, members of the Indiana Pension Management Oversight Commission, and the TRF Board of Trustees who provided TRF staff the privilege of serving the needs of our members and employers.

Sincerely,



Steve Russo
Executive Director



Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Indiana State Teachers'
Retirement Fund

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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



Linda C. Sandson

President

Jeffrey R. Emmer

Executive Director



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2011***

Presented to

***Indiana Public Retirement System
(Teachers' Retirement Fund)***

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

Presented by the Public Pension Coordinating Council, a confederation of

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

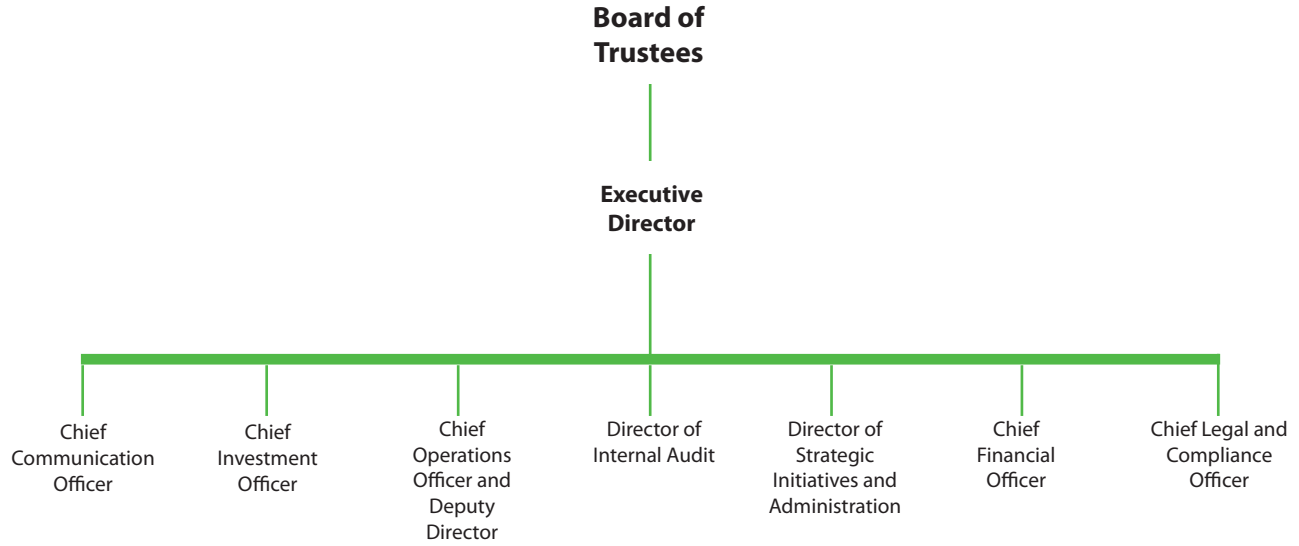
A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

INTRODUCTORY SECTION

Administrative Organization

Organizational Chart



Mitch Daniels
Governor

Becky Skillman
Lt. Governor

Executive Team

Steve Russo
Executive Director

Steven Barley
Chief Operations Officer and Deputy Director

David Cooper
Chief Investment Officer

Donna Grotz
Director of Strategic Initiatives and Administration

Jeffrey Hutson
Chief Communication Officer

Julia Pogue
Chief Financial Officer

Teresa Snedigar
Director of Internal Audit

Andrea Unzicker
Chief Legal and Compliance Officer

Professional Consultants

Ice Miller
One American Square
Suite 2900
Indianapolis, IN 46282

Krieg DeVault LLP
One Indiana Square
Suite 2800
Indianapolis, IN 46204

KPMG
303 East Wacker Drive
Chicago, IL 60601

Nyhart
8415 Allison Pointe Boulevard,
Suite 300
Indianapolis, IN 46250

Strategic Investment Solutions, Inc.
333 Bush Street, Suite 2000
San Francisco, CA 94104

A list of investment professionals can be found on page 72.

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Board of Trustees and Executive Team

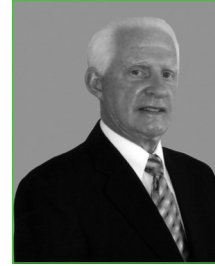
Board of Trustees



Ken Cochran
Chair



Greg Hahn
Vice Chairman



Allen Clark



Chris Ruhl



Bret Swanson



Cari Whicker

Executive Team



Steve Russo
Executive Director



Steven Barley
*Chief Operations Officer
and Deputy Director*



David Cooper
Chief Investment Officer



Donna Grotz
*Director of Strategic Initiatives
and Administration*



Jeffrey Hutson
*Chief Communication
Officer*



Julia Pogue
Chief Financial Officer



Teresa Snedigar
Director of Internal Audit



Andrea Unzicker
*Chief Legal and
Compliance Officer*

INTRODUCTORY

Fund Highlights

SECTION

Membership and Eligibility

The membership of the Indiana State Teachers' Retirement Fund includes eligible educators and administrators.

Members Receiving Retirement Benefits

Age	Years of Service	Allowance Reduction
50 to 59	15 or more	11% at age 59, additional 5% for each year under age 59
55	Age at retirement plus total years of service equals 85 or more	None
60	15 or more	None
65	10 or more	None

BENEFIT FORMULA

$$\begin{aligned} \text{Annual Benefit} = & \\ & \text{Average of Highest 5 Years of Annual Compensation} \times \text{Total Years of Service} \times 1.1\% (0.011) \\ & + \\ & \text{Annuity Savings Account}^1 \end{aligned}$$

¹At retirement, a member can elect to receive the Annuity Savings Account as a monthly supplement to the Defined Benefit or in a total distribution.

Cost of Living Adjustments (COLA)

Cost of living adjustments are passed by the Indiana General Assembly on an ad-hoc basis.

Contribution Rates

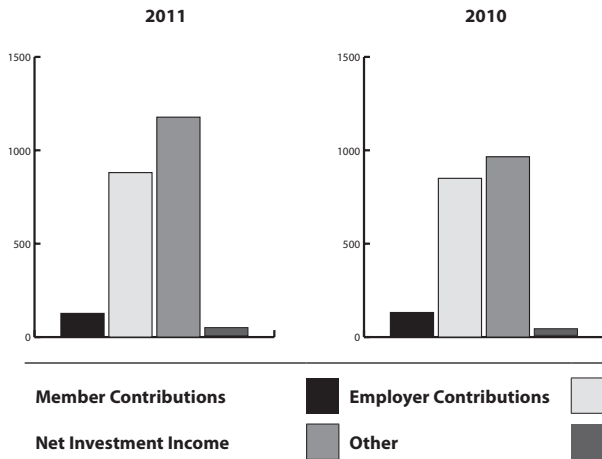
- Members are required to contribute 3 percent of gross wages to their Annuity Savings Accounts. Employers have the option of making all or part of this 3 percent contribution on behalf of the member.
- Members may also voluntarily contribute up to an additional 10 percent of their wages into their Annuity Savings Accounts, under certain limitations.
- The amount (rate) of employer contributions in the 1996 Account is adopted by the Board of Trustees based on recommendations by the Indiana State Teachers' Retirement Fund's actuary.

INTRODUCTORY SECTION

Fund Highlights, continued

Additions by Source

For fiscal year ended June 30 (in millions)

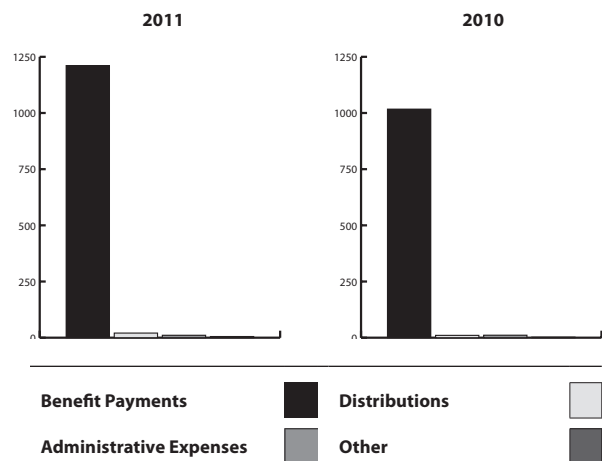


For fiscal year ended June 30
(dollars in millions)

	2011	2010
Additions by Source		
Member Contributions	\$ 126.8	\$ 131.7
Employer Contributions	880.6	849.9
Net Investment Income	1,177.4	965.6
Other	43.8	35.4
Total Additions by Source	\$ 2,228.6	\$ 1,982.6

Deductions by Type

For fiscal year ended June 30 (in millions)

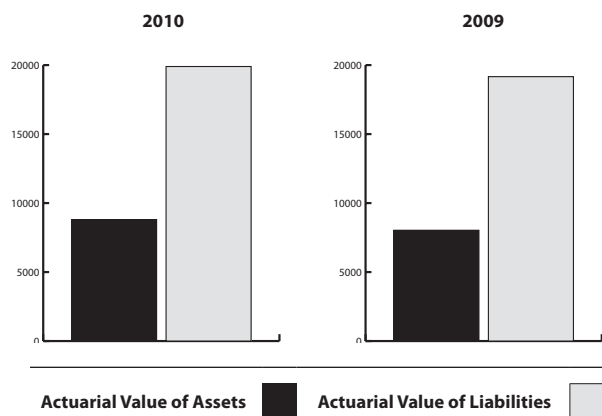


For fiscal year ended June 30
(dollars in millions)

	2011	2010
Deductions by Type		
Benefit Payments	\$ 1,211.0	\$ 1,017.1
Distributions of Contributions and Interest	20.6	10.4
Administrative and Project Expenses	10.8	11.1
Other	5.2	2.4
Total Deductions by Type	\$ 1,247.6	\$ 1,041.0

Funding Progress

Actuarial valuation as of June 30 (in millions)



Actuarial Valuation as of June 30
(dollars in millions)

	2010	2009
Funding Progress		
Actuarial Value of Assets	\$ 8,805.0	\$ 8,029.8
Actuarial Value of Liabilities	19,896.6	19,162.6
Funding Ratios	44.3%	41.9%

