

Indiana State Teachers' Retirement Fund

2004 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

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April 26, 2005

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

Dear Governor Daniels:

We are pleased to submit the Indiana State Teachers' Retirement Fund 2004 Annual Report. The report features a summary of fiscal years 2003 and 2004, highlighting elemental changes in Fund activity.

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	Increase (Decrease)
Number of Active Members	73,510	73,641	(131)
Number of Vested Inactive Members	5,260	5,283	(23)
Number of Non-Vested Inactive Members	31,472	30,403	1,069
Number of Retirees and Beneficiaries	37,068	36,235	833
Annual Payout to Retirees and Beneficiaries	\$655.3 Million	\$616 Million	\$39.3 Million
Net Assets Held in Trust for Pension Benefits	\$6,754.3 Million	\$6,148 Million	\$606.3 Million

Rate of Invested Earnings Distribution:

Guaranteed Fund	6.75%	7.00%	(0.25%)
Bond Fund	2.14%	13.85%	(11.71%)
S & P 500	18.99%	0.31%	18.68%
Small Cap	29.28	(1.33%)	27.95%
International	29.58	(7.15%)	22.43%

Unfunded Accrual Date Liability:

Closed Plan			
Retired Lives	\$2,220.7 Million	\$2,000.8 Million	\$219.9 Million
Active and Inactive Members	\$5,562.1 Million	\$5,625.5 Million	(\$63.4 Million)
New Plan			
Retired Lives	\$39.4 Million	\$82.7 Million	(\$43.3 Million)
Active and Inactive Members	<u>\$571.2 Million</u>	<u>\$483.9 Million</u>	\$87.3 Million
Total	<u>\$8,393.4 Million</u>	<u>\$8,193 Million</u>	\$200.4 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 Indiana State Teachers' Retirement Fund is most important to us. Over 145,000 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,

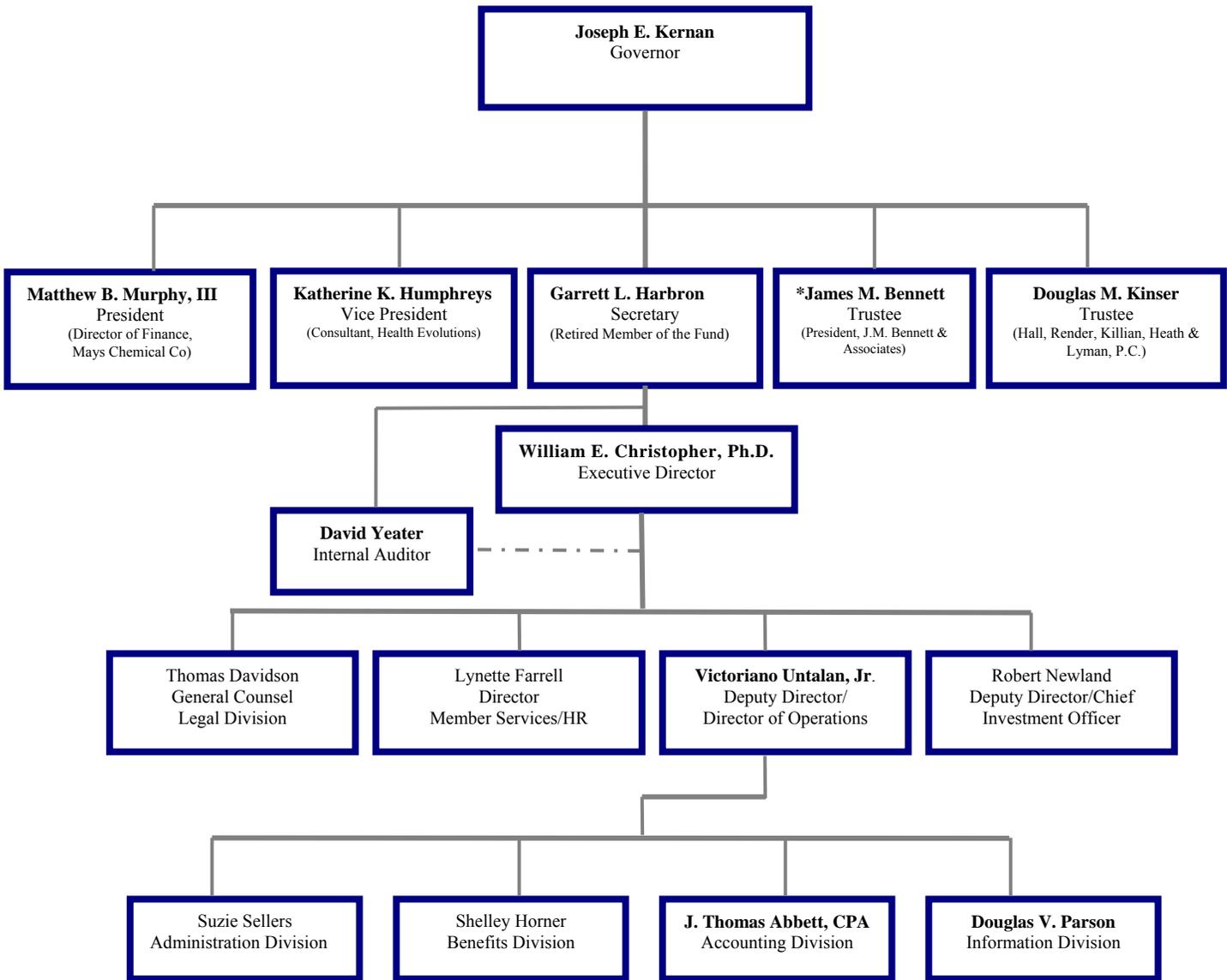
Matthew B. Murphy, III, President
Garrett L. Harbron, Vice-President
Katherine K. Humphreys, Secretary
Elizabeth A. Ballard, Trustee
Douglas M. Kinser, Trustee

William E. Christopher, Ph.D
Executive Director

Core Values

As an organization, the Indiana Teachers' Retirement Fund upholds the following core values in all working relationships:

- ◆ Professionalism;
- ◆ Respect;
- ◆ Compassion in dealing with others;
- ◆ Diversity, both of ideas and people;
- ◆ Open communication;
- ◆ Collaboration;
- ◆ Cooperation;
- ◆ Integrity;
- ◆ Avoidance of conflicts of interest;
- ◆ Courtesy;
- ◆ Timeliness;
- ◆ Accountability;
- ◆ Innovation;
- ◆ Flexibility; and
- ◆ Commitment to and focus on our mission.



*Replaced by Elizabeth A. Ballard (Teacher)

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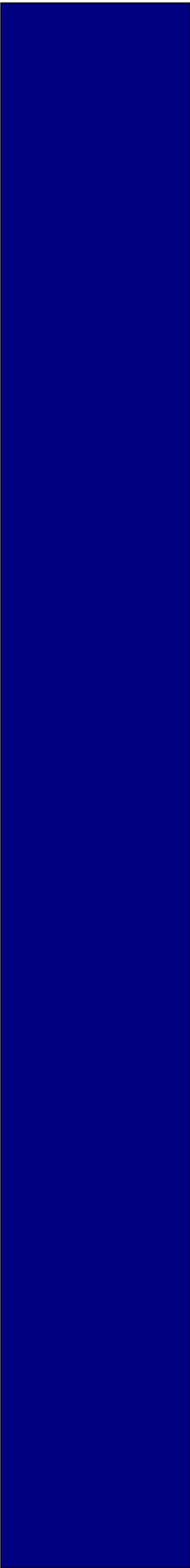
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STATISTICAL TABLES

SCHEDULE OF ADMINISTRATIVE EXPENSES	2004	2003	2002
PERSONAL SERVICES			
TRUSTEES PER DIEMS	9,856.00	10,080.00	11,648.00
STAFF SALARIES	2,066,823.52	2,008,898.88	1,622,317.99
SOCIAL SECURITY	154,544.37	153,678.64	114,958.85
RETIREMENT	231,590.48	173,597.95	155,764.10
INSURANCE	296,761.33	355,590.09	321,096.06
PERSONNEL RECLASSIFICATION/ADD'L STAFF	0	105,305.56	0
TEMPORARY SERVICES	21,179.93	<u>1,563.12</u>	<u>0</u>
TOTAL PERSONAL SERVICES	<u>2,780,755.63</u>	<u>\$2,808,714.24</u>	<u>2225785</u>
PROFESSIONAL & TECHNICAL SERVICES			
ACTUARIAL	119,450.00	190,587.00	154,170.00
DATA PROCESSING(MAINTAIN OLD SYSTEM)**	699,395.75	(1,163,041.95)	3,154,300.91
Y2K PROCESSING CONSULTANT	0	0	0
AUDIT	35,502.00	37,852.00	46,895.00
STRATEGIC PLANNING CONSULTING	0	0	0
BENCHMARKING	25,000.00	25,000.00	25,000.00
COMPENSATION CLASSIFICATION CONSULTING	0	0	0
WEBSITE DEVELOPMENT	0	0	0
PENSION DEATH RECORD COMPARISON	21,144.00	25,862.93	7,685.00
MEDICAL EXAMINATIONS	70.5	4,265.25	135
LEGAL SERVICES	95,592.37	<u>135,081.77</u>	<u>100,694.51</u>
TOTAL PROF. & TECH. SERVICES	<u>996,154.62</u>	<u>(\$744,393.00)</u>	<u>\$3,488,880.42</u>
COMMUNICATION			
PRINTING	339,428.79	334,002.26	251,826.14
TELEPHONE	59,390.54	130,270.07	89,637.55
POSTAGE	422,583.79	409,970.97	334,961.57
TRAVEL	21,012.21	<u>45,063.51</u>	<u>46,361.91</u>
TOTAL COMMUNICATION	<u>842,415.33</u>	<u>\$919,306.81</u>	<u>\$722,787.17</u>
MISCELLANEOUS			
ADMINISTRATIVE LEGAL SERVICES	10,591.32	8,620.25	6,675.20
EQUIPMENT RENTAL	15,250.98	12,705.00	7,933.39
UNEMPLOYMENT	0	0	0
MEMBERSHIP & TRAINING	77883.92	72,124.41	36,942.10
OFFICE SUPPLIES	40748	59,110.06	80,681.28
MAINTENANCE	19345.45	9,544.32	6,140.76
BONDING	2019	2,019.00	1,734.04
DEPRECIATION	0	0	0
OFFICE RENT	216750.75	<u>215,583.92</u>	<u>203,359.64</u>
TOTAL MISCELLANEOUS	<u>382,589.42</u>	<u>\$379,706.96</u>	<u>\$343,466.41</u>
TOTAL ADMINISTRATIVE EXPENSES	<u>5,001,915.00</u>	<u>\$3,363,335.00</u>	<u>\$6,780,919.00</u>

****Actual data processing for 2003 totaled \$490,868.00. A prior period adjustment of \$1,653,910.00 was made for payables on the new data processing system.**

SCHEDULE OF INVESTMENT EXPENSES	2004	2003	2002
CUSTODIAL			
NATIONAL CITY CORPORATION	N/A	\$568,431.75	\$1,168,988.31
NORTHERN TRUST	100,000.00	<u>50,000.00</u>	<u>N/A</u>
TOTAL CUSTODIAL	<u>100,000.00</u>	<u>618,431.75</u>	<u>1,168,988.31</u>
MANAGEMENT			
FIXED INCOME MANAGERS			
ALLIANCE CAPITAL MGMT.	1,056,787.00	1,077,146.00	753,230.00
BANK ONE, INDIANA	0.00	0.00	154,129.62
BANK OF NEW YORK	0.00	0.00	103,866.30
BAXTER CAPITAL MGMT.	0.00	0.00	59,939.84
REAMS ASSET MGMT.	1,492,271.00	1,502,478.00	1,133,940.00
SIEX INVESTMENT ADVISORS	0.00	0.00	57,047.81
TAPLIN, CANIDA, HABACHT	176,142.08	106,657.31	103,624.24
TODD INVESTMENT ADVISOR	0.00	0.00	0.00
EQUITY MANAGERS			
BARCLAYS	134,859.65	132,852.91	88,523.40
RHUMBLINE	181,095.71	90,173.23	74,043.23
J.P MORGAN	0.00	0.00	112,984.75
PIMCO	1,139,898.00	1,188,003.00	818,625.00
PORTFOLIO ADVISORS	445,000.00	345,000.00	80,000.00
CONSECO CAPITAL MANAGEMENT	0.00	0.00	0.00
PUTNAM INVESTMENTS	146,533.69	296,928.95	344,998.61
FRANKLIN PORTFOLIO ASSOC.	354,021.85	183,929.76	171,965.61
VALENZUELA CAPITAL PARTNERS	0.00	135,307.24	319,661.00
ARIEL	1,000,707.92	713,338.37	729,606.21
BRANDYWINE	833,587.02	677,658.27	808,571.91
AELTUS	1,245,221.05	808,105.68	734,869.00
TCW	690,026.29	477,907.83	623,444.20
EARNEST PARTNERS LLC	140,808.00	118,084.00	127,845.00
GE ASSET MANAGEMENT	169,873.00	140,931.00	159,353.00
INSTITUTIONAL CAPITAL CORP	178,331.00	145,024.00	166,290.27
PACIFIC FINANCIAL RESEARCH INC	237,765.00	202,443.00	214,592.00
ENHANCED INVESTMENT TECH. INC	238,659.70	183,548.53	167,424.02
HOLT-SMITH & YATES ADVISORS	227,658.00	186,141.00	190,389.00
FOREFRONT CAPITAL ADVISORS LLC	0.00	0.00	87,202.60
DRESDNER RCM GLOBAL ADVISORS	212,551.00	184,966.00	179,461.00
ALLIANCE	305,807.00	138,014.00	137,358.00
BANK OF IRELAND	1,051,590.31	843,586.00	852,775.17
DRESDNER	0.00	<u>761,546.00</u>	<u>769,432.00</u>
TOTAL MANAGEMENT	<u>11,659,194.27</u>	<u>\$10,639,770.08</u>	<u>\$10,325,192.79</u>
CONSULTANT - CALLAN ASSOCIATES	232,312.50	330,000.00	226,833.37
INVESTMENT BENCHMARKING	15,000.00		
INVESTMENT ADMINISTRATIVE EXPENSES	531,928.23		
FIDUCIARY AUDIT	0.00	0.00	231,998.09
OTHER CHARGES	0.00	<u>194,510.17</u>	<u>137,694.46</u>
TOTAL INVESTMENT EXPENSES	<u>12,538,435.00</u>	<u>\$11,782,712.00</u>	<u>\$12,090,707.02</u>

NUMBER OF PAYEES RECEIVING BENEFITS

Fiscal Year Ending June 30	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Gross Benefit Amount										
0.01 - 100.00	274	280	289	291	304	350	359	367	378	379
100.01 - 200.00	925	960	1,010	1,047	1,097	1,278	1,320	1,439	1,558	1,674
200.01 - 300.00	1,437	1,444	1,506	1,561	1,617	1,877	1,935	2,055	2,203	2,308
300.01 - 400.00	1,551	1,587	1,648	1,701	1,790	2,011	2,119	2,232	2,400	2,541
400.01 - 500.00	1,643	1,669	1,740	1,793	1,871	2,052	2,127	2,262	2,424	2,549
500.01 - 600.00	1,729	1,743	1,804	1,859	1,895	2,083	2,160	2,287	2,384	2,482
600.01 - 700.00	1,716	1,797	1,855	1,908	2,010	2,049	2,114	2,175	2,246	2,291
700.01 - 800.00	1,740	1,746	1,771	1,818	1,856	1,944	1,977	2,051	2,113	2,157
800.01 - 900.00	1,700	1,690	1,741	1,769	1,826	1,838	1,862	1,930	1,971	1,986
900.01 - 1,000.00	1,832	1,821	1,850	1,866	1,878	1,870	1,873	1,845	1,841	1,769
1,000.01 - 1,100.00	1,918	1,974	1,969	1,942	1,953	1,840	1,801	1,731	1,644	1,575
1,100.01 - 1,200.00	1,987	2,004	1,957	1,928	1,904	1,776	1,684	1,524	1,418	1,303
1,200.01 - 1,300.00	2,054	2,039	1,945	1,885	1,764	1,570	1,480	1,378	1,284	1,157
1,300.01 - 1,400.00	1,957	1,958	1,867	1,794	1,694	1,503	1,393	1,254	1,134	1,005
1,400.01 - 1,500.00	1,987	1,962	1,784	1,638	1,500	1,310	1,185	1,076	963	821
1,500.01 - 1,600.00	1,933	1,874	1,658	1,527	1,387	1,167	1,043	885	779	658
1,600.01 - 1,700.00	1,632	1,595	1,391	1,264	1,159	991	879	742	638	525
1,700.01 - 1,800.00	1,390	1,324	1,167	1,090	977	859	770	698	595	507
1,800.01 - 1,900.00	1,249	1,178	1,061	986	915	787	709	615	525	439
1,900.01 - 2,000.00	1,118	1,089	941	851	736	639	579	503	396	324
2,000.01 - 2,100.00	939	901	779	715	617	519	458	403	345	296
2,100.01 - 2,200.00	806	736	630	582	521	453	381	333	265	187
2,200.01 - 2,300.00	644	614	532	469	414	326	294	225	157	116
2,300.01 - 2,400.00	582	523	423	386	310	247	208	181	144	97
2,400.01 - 2,500.00	437	415	314	271	232	198	172	136	92	69
2,500.01 - 2,600.00	344	298	263	220	169	133	120	81	61	44
2,600.01 - 2,700.00	259	251	180	156	127	104	93	62	50	34
2,700.01 - 2,800.00	215	197	153	127	96	72	62	62	28	16
2,800.01 - 2,900.00	177	156	109	90	72	52	41	38	25	25
2,900.01 - 3,000.00	136	108	79	64	52	48	40	30	18	12
3,000.01 - 3,100.00	82	68	52	40	30	25	24	19	17	6
3,100.01 - 3,200.00	67	52	34	32	31	22	22	10	4	4
3,200.01 - 3,300.00	62	49	31	27	19	11	9	8	5	4
3,300.01 - 3,400.00	38	32	25	24	10	13	9	7	7	4
3,400.01 - 3,500.00	33	29	17	13	14	8	7	6	8	5
3,500.01 - 3,600.00	27	26	18	15	11	15	15	7	3	0
3,600.01 - 3,700.00	27	21	13	12	5	2	1	2	1	1
3,700.01 - 3,800.00	16	13	7	3	4	3	1	0	1	1
3,800.01 - 3,900.00	8	10	9	5	3	1	0	1	1	1
3,900.01 - 4,000.00	11	8	6	4	5	2	2	2	2	0
4,000.01 or more	44	36	24	15	9	7	4	3	2	0
Total:	36,726	36,277	34,652	33,788	32,884	32,055	31,332	30,665	30,130	29,372

NUMBER OF APPROVED BENEFIT PAYMENTS

FISCAL YEAR ENDING JUNE 30	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Retirement (including disability/survivorship)	2238	2142	2011	1946	1801	1828	1692	1593	1748	1654
Regular Disability	1	3	1	4	6	3	8	8	3	3
Voluntary Withdrawal	1499	1474	1427	7007	7896	1855	1357	1186	1272	1384
Death Withdrawal	328	90	93	137	94	115	97	101	138	122

RATE OF INVESTMENT EARNINGS DISTRIBUTION

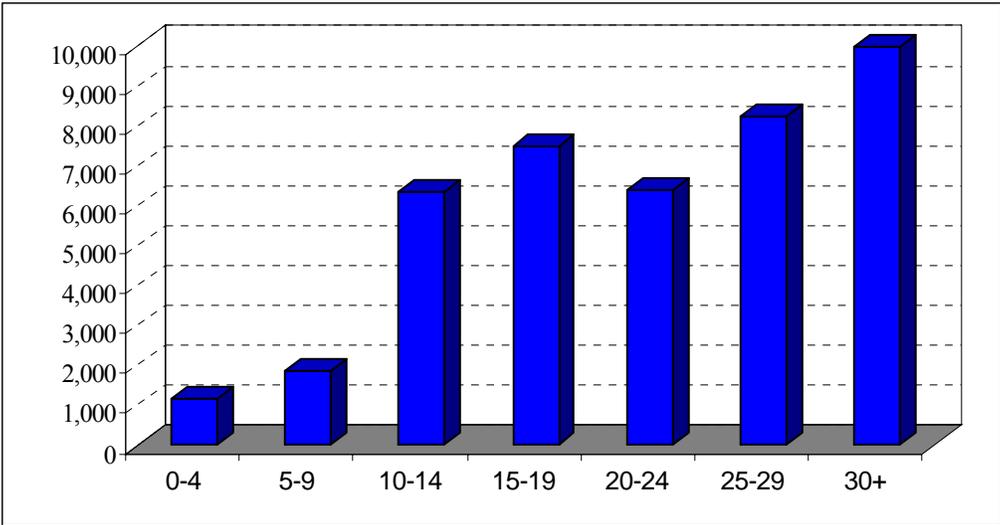
FISCAL YEAR ENDING JUNE 30	2004	2003	2002	2001	2000	1999*	1998	1997	1996	1995
Guaranteed Fund	6.75%	7%	7.50%	7.75%	7.75%	8.00%	8.00%	8.50%	9.00%	9.00%
Bond Fund	2.15%	13.85%	5.54%	11.08%	5.99%	4.49%	10.05%	7.13%	4.30%	11.19%
Money-Market*	N/A	N/A	N/A	N/A	N/A	N/A	6.06%	6.03%	5.90%	6.43%
S&P500 Index Fund	18.99%	0.31%	(17.96%)	(14.71%)	7.21%	36.37%	**	**	**	**
Small Cap Equity Fund	29.28%	(1.33%)	(4.46%)	7.58%	38.65%	34.66%	**	**	**	**
International Fund	29.58%	(7.15%)	(11.98%)	(24.13%)	26.27%	29.74%	**	**	**	**

* Money-Market is no longer available as an investment option

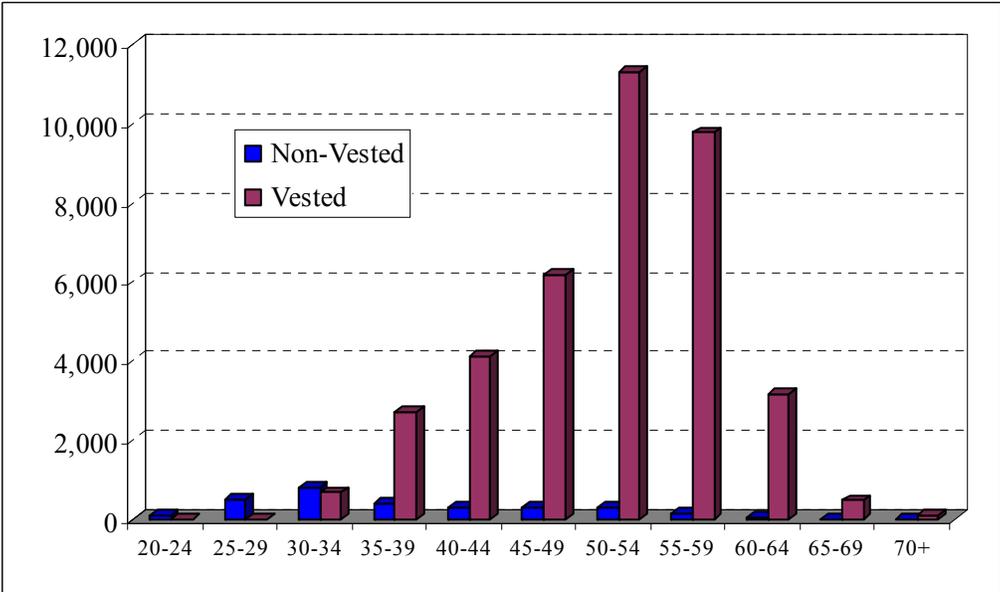
** From inception of 10/1/1999

CLOSED PLAN ACTIVE MEMBERS

By years of service as of June 30, 2004



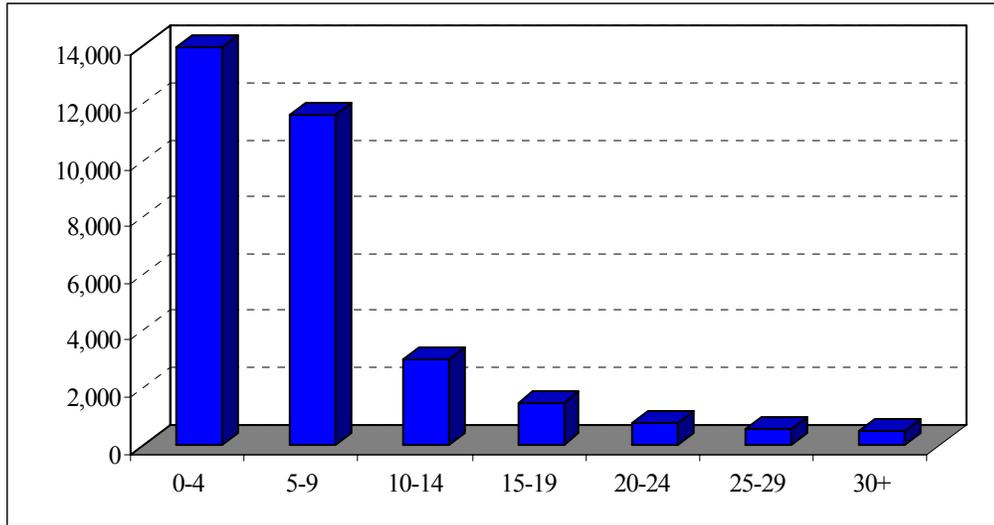
By age as of June 30, 2004



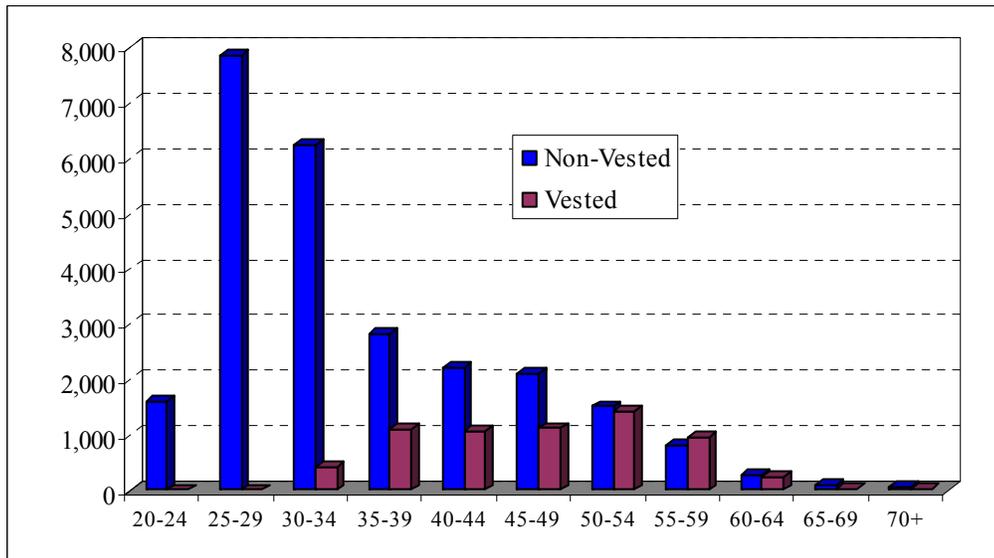
Total Non-Vested: 3,032
 Total Vested: 38,478
 Total Active Closed Plan Members: 41,510

NEW PLAN ACTIVE MEMBERS

By years of service as of June 30, 2004



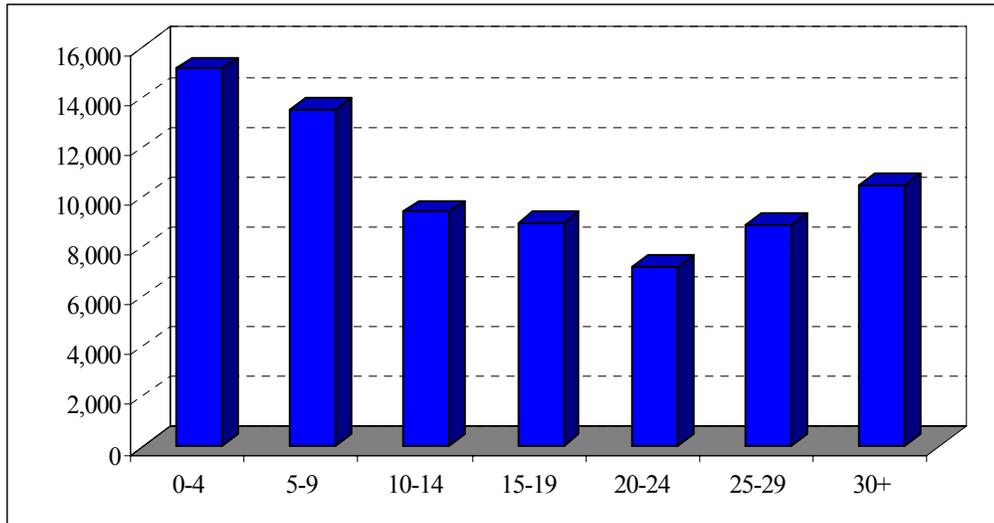
By age as of June 30, 2004



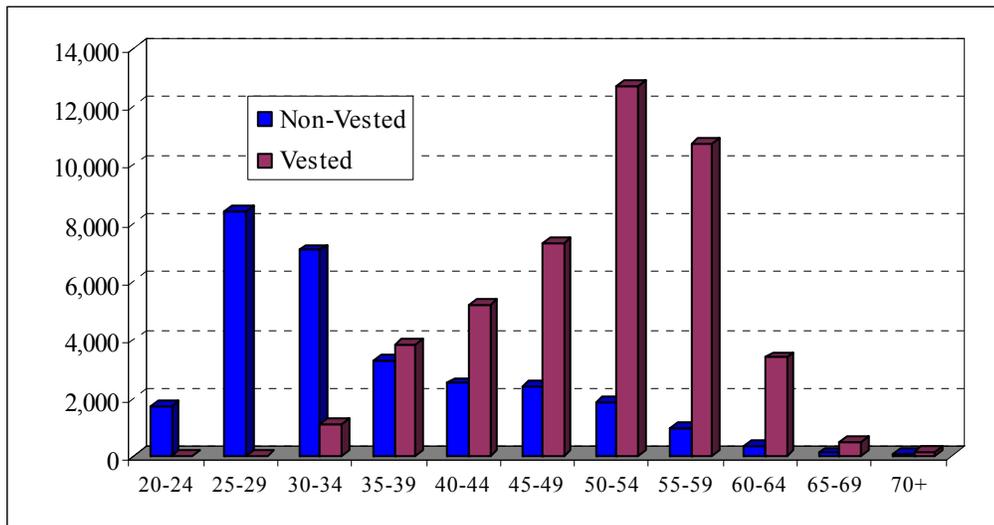
Total Non-Vested:	25,631
Total Vested:	<u>6,369</u>
Total Active New Plan Members:	32,000

TOTAL ACTIVE MEMBERS

By years of service as of June 30, 2004



By age as of June 30, 2004



Total Non-Vested:	28,663
Total Vested:	<u>44,847</u>
Total Active Members:	73,510

FINANCIAL STATEMENTS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the Indiana State Teachers' Retirement Fund as of and for the year ended June 30, 2004. These basic financial statements are the responsibility of the Indiana State Teachers' Retirement Fund Board of Trustees' 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.

The reserves and designations note disclosure for the pension plan administered by the Indiana State Teachers' Retirement Fund Board of Trustees does not disclose the balances of the legally required reserves or their funding status as of June 30, 2004. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

In our opinion, except for the omission of the information discussed in the preceding paragraph, 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 Board of Trustees as of June 30, 2004, and the changes in the plan net assets of the fiduciary funds 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 a required part 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

October 26, 2004

This section presents management's discussion and analysis of the Indiana State Teachers' Retirement Fund's (TRF) financial statements for the year ending June 30, 2004. The MD&A is presented as a narrative overview and analysis in conjunction with the Letter of Transmittal included in the TRF Annual Financial Report. 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 MANAGEMENT'S DISCUSSION & ANALYSIS

- Net assets of TRF were \$6.8 billion as of June 30, 2004.
- Net assets of TRF increased by \$603 million, or 9.9% 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 11.8% on a market value basis, compared to last year's positive 6.2%, due primarily to the strong performance in the world equity markets during the first six months of the fiscal year.
- As of June 30, 2003, the date of the most recent actuarial valuation, the Pre-96 plan (Closed Plan) is actuarially funded at 42.9%, which is more than the 41.2% funded level as of June 30, 2002. The 96 plan (New Plan) is actuarially funded at 59.3%, which is more than the 53.2% funded level as of June 30, 2002. 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.

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 that include TRF's financial statements, notes to the financial statements and required supplementary information.

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 years ending June 30, 2004 and 2003. 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.

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.

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 \$9.0 billion as of June 30, 2004 compared with \$7.2 billion as of June 30, 2003. The increase in total assets was primarily due to an increase in the market value of investments an increase in receivables from investments sold and an increase in Securities Lending Collateral held on June 30, 2004.

Total liabilities of TRF were \$2.2 billion as of June 30, 2004 compared with \$1.0 billion as of June 30, 2003. The increase in total liabilities was due to an increase in investments purchased at year end that did not settle until the next fiscal year and an increase in Securities Lending Collateral held on June 30, 2004.

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

NET ASSETS (\$ in thousands)	June 30, 2004	June 30, 2003	% Change
Assets			
Cash and Cash Equivalents	\$511,385	\$813,084	(37.11%)
Securities Lending Collateral	1,186,186	780,207	52.0%
Receivables	793,345	155,276	410.93%
Investments	6,450,614	5,431,837	18.8%
Other Assets	79	88	(10.2%)
Total Assets	7,180,492	8,941,609	24.5%
Liabilities			
Securities Lending Collateral	1,186,186	780,207	52.0%
Other Current Liabilities	1,001,007	252,106	297.1%
Long-Term Liabilities	125	152	(17.8%)
Total Liabilities	2,187,318	1,032,465	111.9%
Total Net Assets	\$6,754,291	\$6,148,027	9.9%

As the above table shows, plan net assets were \$6.8 billion as of June 30, 2004 an increase of \$606 million, or 9.9%, 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, 2004	June 30, 2004	June 30, 2003
	Actual	Target	Actual
Fixed Income	19.3%	25.0%	42.7%
Large Cap Equity	49.2%	32.0%	30.8%
Mid Cap Equity	4.6%	5.0%	4.0%
Small Cap Equity	7.5%	5.0%	8.1%
International Equity	18.6%	18.0%	13.9%
Hedge Funds	0.0%	5.0%	0.0%
Private Equity	0.8%	5.0%	0.5%
Real Estate	0.0%	5.0%	0.0%
Total	100%	100%	100%

The change in weightings between asset classes was driven by a change in TRF's target investment allocation. Funds will be invested, from Large Cap Equity into Real Estate and Hedge Funds as suitable investments are selected. Also, remaining Private Equity target allocation of 4.2% will be drawn from the Large Cap Equity investments as suitable investment in this asset class are selected.

A summary of the changes in net assets during the years ending June 30, 2004 and 2003 is presented below:

CHANGES IN NET ASSETS

(\$ in thousands)

	FY Ending June 30, 2004	FY Ending June 30, 2003	% Change
Additions			
Member Contributions	\$115,833	\$109,500	5.8%
Employer Contributions	408,180	575,066	(29.0%)
Contributions to Pension Stabilization Fund From State Lottery	30,000	30,000	0.0%
Net Investment (Loss) Income	723,094	344,777	109.7%
Transfers from Public Employees' Fund	2,781	3,847	(27.7%)
Other	1,424	1,354	5.2%
Total Additions	1,281,312	1,064,544	20.4%
Deductions			
Benefits	655,330	615,973	6.4%
Refunds	9,704	7,397	31.2%
Transfers to Public Employees' Fund	2,364	1,774	33.3%
Capital Projects	2,600	3,298	(21.2%)
Administrative Expenses	5,028	3,379	48.8%
Claims on Outdated Benefit Checks	22	(51)	(143.1%)
Total Deductions	675,048	631,770	6.9%
Increase (Decrease) in Net Assets	\$606,264	\$432,774	40.1%

ADDITIONS

Additions needed to fund benefits are accumulated through contributions from members and employers and returns on invested funds. Member contributions for the year ending June 30, 2004 totaled \$115.8 million. This represents an increase of \$6.3 million or 5.8% compared to the prior year. Employer contributions totaled \$408.2 million, a decrease of \$166.8 million or 29.0%. The decrease was due to smaller appropriations made by the State of Indiana.

TRF recognized net investment income of \$723.1 million for the year ending June 30, 2004 compared to net investment income of \$344.7 million in the prior year. The higher investment income was primarily due to the strong equity markets during the first six months of the fiscal year. TRF's domestic large cap equity investments returned a gain of 19.07% for the fiscal year. This compares to a gain of 19.11% for the S&P 500 index during the year. Domestic Mid Cap equities had a gain of 27.65% as compared to a gain of 27.98% for the S & P 400 Mid Cap index during the fiscal year. Domestic Small Cap equities had a gain of 30.32%, as compared to a gain of 31.55% for the Russell 2000 index during the fiscal year. International equities had a gain of 26.80%, as compared to a gain of 32.37% 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 1.80% for the year ending June 30, 2004. This compares to a gain of 0.32% for the Lehman's Brothers Aggregate Index. The total rate of return on TRF's investments was a positive 11.82% compared to a positive 6.17% in the prior year.

DEDUCTIONS

The deductions from TRF's net assets held in trust for pension benefits include primarily retirement, disability, survivor benefits, refunds of contributions to former members and administrative expenses. For the year ending June 30, 2004, benefits amounted to \$655.3 million, an increase of \$39.4 million or 6.4% 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 \$9.7 million, which represents an increase of 31.2% over the prior year.

Administrative expenses were \$5.0 million, an increase of \$1.6 million compared to the prior year. The fiscal year ending June 30, 2003 amount includes a reduction of 1.5 million for data processing system development that was originally expensed as a capital project.

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, 2003	July 1, 2002
Pre – 96 Plan (Closed Plan)	42.9%	41.2%
96 Plan (New Plan)	59.3%	53.2%

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
Year Ending June 30, 2004

Assets

Cash and Cash Equivalents	\$ 511,385,212
Securities Lending Collateral	1,186,186,105
Receivables	
Employer Contributions	23,598,251
Due from PERF	10,260,559
Member Contributions	28,672,912
Securities Sold	701,985,537
Investments Interest	28,828,151
Total Receivables	793,345,409
Investments	
U.S. Treasury and Agency Obligations	996,666,315
Corporate Bonds and Notes	899,076,609
Foreign Bonds	28,801,048
Equity Securities	2,727,287,833
Foreign Equity Securities	777,892,959
Mortgage Securities	766,269,815
Venture Capital & Partnerships	31,582,464
State & Municipal Securities	2,264,701
Debt Securities	220,012,007
Indiana Pension Systems, Inc	500,000
Real Estate	260,000
Total Investments	6,450,613,751
Furniture and Equipment (Original Cost of \$487,343 Net of \$408,309 Accumulated Depreciation)	79,034
Insurance Premium Paid in Advance	27
Total Assets	8,941,609,538

Liabilities

Accrued Benefits Payable	-
Accrued Salaries Payable (See Note 1)	88,841
Accrued Liability for Compensated Absences - Current	172,046
Accounts Payable	2,877,956
Due to PERF	7,447,627
Securities Lending Collateral	1,186,186,105
Payables for Securities Purchased	990,420,824
Total Current Liabilities	2,187,193,399
Accrued Liability for Compensated Absences - Long-Term	124,585
Total Liabilities	2,187,317,985
Net Assets Held in Trust for Pension Benefits (See Schedule of Funding Progress, Page 20)	\$6,754,291,554

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

INDIANA STATE TEACHERS' RETIREMENT FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ending June 30, 2003

Additions

Contributions	
Member Contributions	\$ 115,832,926
Employer Contributions	408,180,343
Employer Contributions - Pension Stabilization	30,000,000
	554,013,268
Investments	
Net Appreciation (Depreciation) in Fair Value	547,774,850
Interest Income	135,319,501
Dividend Income	49,988,443
Securities Lending Income	12,566,565
Less Investment Expense	
Investment Fees	(12,538,435)
Securities Lending Fees	(10,016,828)
	723,094,096
Other Additions	
Transfers from Other Retirement Funds	2,781,420
Annuity and Disability Refunds	1,421,570
Outdated Benefit Checks	-
Reimbursement of Administrative Expense	1,630
	4,204,619
Total Other Additions	4,204,619
	1,281,311,984

Deductions

Annuity and Disability Benefits	655,329,910
Voluntary and Death Withdrawals	9,703,864
Claims on Outdated Benefit Checks	22,006
Administrative Expenses	5,001,915
Capital Projects	2,600,245
Depreciation Expenses	25,622
Transfers to Other Retirement Funds	2,363,876
	675,047,438

Change

Change in Net Assets Held in Trust for Pension Benefits	606,264,546
Net Assets Beginning of Year	6,148,027,008
	6,148,027,008
Net Assets End of Year	\$6,754,291,554
	\$6,754,291,554

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

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1 Summary of Significant Accounting Policies

- A. Reporting Entity - The financial statements presented in this report represent only those funds for which the Indiana State Teachers' Retirement Fund (TRF) has responsibility 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, according to Public Law 119-2000, TRF was no longer a department or agency of the State, but became 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 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. Cash and Cash Equivalents - Cash and Cash Equivalents are defined as short-term highly liquid investments that are both:
1. Readily convertible to known amounts of cash; and
 2. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.
- Generally, only investments with original maturities of three months or less meet this definition.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS

June 30, 2004
(Continued)

- G. 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.
- H. 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.
- I. Equipment - Equipment with a cost of \$5,000 or more is capitalized at the historical 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 ending June 30, 2004.
- 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. 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.
- M. 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 one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment with the State of Indiana. Personal leave days are earned at the rate of one day every four months any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation from service, employees in good standing will be paid for a maximum of thirty unused vacation leave days.

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

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS

June 30, 2004
(Continued)

Note 2 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, 2004, the number of participating school unit employers was:

Public School Units	336
Higher Education Units	4
State of Indiana Agencies	30
Associations	2
 Total	 <u>372</u>

Membership in TRF 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 TRF. 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, 2003, Indiana State Teachers' Retirement Fund membership consisted of:

Retirees and Beneficiaries

Currently Receiving Benefits	36,235
Active Plan Members	73,641
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	<u>5,283</u>
 Total	 <u>115,159</u>

The Indiana State Teachers' Retirement Fund provides retirement benefits, as well as death and disability benefits. Eligibility to retire occurs at age fifty with fifteen or more years of service or at age sixty-five with ten years of service. Annual retirement benefits, disability benefits, and death benefits are computed as follows:

Regular Retirement (No Reduction Factor for Age)

Eligibility - Age sixty-five with ten years service or age sixty with at least fifteen years of service or age fifty-five with age plus years of service equaling at least eighty-five.

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 five years.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS

June 30, 2004
(Continued)

Early Retirement (Age Reduction Factor Used)

Eligibility - Age fifty with fifteen or more year of 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 sixty and sixty-five and five-twelfths of 1% for each month under age sixty.

Deferred Retirement (Vested Benefit)

Eligibility - Ten years of service and benefits commences at age sixty-five or at age fifty if member has fifteen 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 - Five years of service.

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

Disability Retirement (No Reduction Factor for Age)

Eligibility - Five 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 - Fifteen years of service and 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. Unscheduled increases have been made from time to time.

Each member shall, as a condition of employment, contribute to the Fund 3% of their 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 fifteen years or does not meet the surviving spouse requirements, the designated beneficiary or estate is entitled to a lump sum settlement of their contributions plus interest.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS

June 30, 2004
(Continued)

Indiana pension statutes stipulate that each member of TRF 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 TRF.
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 tracks 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 3 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. 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, 2003, employer actuarially required contributions were \$619,186,005 of normal cost, with no amortization of the unfunded actuarial accrued liability and zero provision for expenses. Contributions made by employers for the year ending June 30, 2004, totaled \$438,180,343, which was 12% of covered payroll.

Note 4 Deposits, Investments and Securities Lending

Investments made by the Indiana State Teachers' Retirement Fund, including repurchase agreements are summarized. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories. Note the following:

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS

June 30, 2004
(Continued)

Category 1 includes investments that are insured or registered or for which securities are held by TRF or its agent in TRF's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or its agency in TRF's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in TRF's name.

State statutes and Board of Trustees permit TRF to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. TRF's custodial bank manages the securities lending program and receives securities or cash as collateral. The collateral securities cannot be pledged or sold by TRF unless the borrower defaults but cash collateral may be invested by TRF. Collateral securities and cash are initially pledged at 102% of the market value of the securities lent. 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 TRF or by the borrower, although generally the average term of these loans is one day. Cash collateral is generally invested in securities of a longer term, generally with maturities up to one year and the weighted-average term to maturity of all collateral investments was thirty days.

<u>Category</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Market Value</u>
U.S. Equity Securities				
Not on Securities Loan	\$2,407,741,809	\$ -	\$ -	\$2,407,741,809
On Securities Loan	-	16,609,608	-	16,609,608
Foreign Equity Securities				
Not on Securities Loan	642,725,504	-	-	642,725,504
On Securities Loan	-	9,509,469	-	9,509,469
Corporate Bonds				
Not on Securities Loan	809,063,975	-	-	809,063,975
On Securities Loan				
Foreign Bonds	28,801,048	-	-	28,801,048
U.S. Treasury & Agency Obligations				
Not on Securities Loan	256,423,545	-	-	256,423,545
On Securities Loan	-	98,921,558	-	98,921,558
Mortgage Securities	766,269,815	-	-	766,269,815
Debt Securities	220,012,007	-	-	220,012,007
State & Municipal Securities	<u>2,264,701</u>	-	-	<u>2,264,701</u>
Total Investments Categorized	<u>\$ 5,133,302,404</u>	<u>\$ 125,040,635</u>	<u>\$ -</u>	<u>\$ 5,258,343,040</u>

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS

June 30, 2004
(Continued)

U.S. Treasury & Agency Obligations	\$	641,321,212
U.S. Equity Securities		302,936,416
Foreign Equity Securities		125,657,985
Corporate Bonds		90,012,634
		1,159,928,247
Total		1,159,928,247
Investments held by broker-dealers under		
Securities lending short-term cash		
Collateral investment pool.		1,186,186,105
Other		
Venture Capital & Partnerships		31,582,464
Real Estate		260,000
Membership in Non-Profit Corp.		500,000
		500,000
Total Investments Not Categorized	\$	2,378,456,816

Note 5 Deferred Compensation Plan

The State offers its employees a deferred compensation 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 6 Contingent Liabilities

The Indiana State Teachers' Retirement Fund has no contingent liabilities. 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.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS

June 30, 2004
(Continued)

Note 7 Risk Management

TRF 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 general policy of TRF is not to purchase commercial insurance for the risks of loss to which it is exposed. The Fund does purchase a limited amount of insurance for malfeasance and theft by means of a Special Bond for the Board of Trustees and the Executive Director. TRF also has purchased a General Bond for its other employees. The Fund's healthcare, worker's compensation and unemployment compensation programs are administered in the same manner as that of agencies in the State of Indiana.

Note 8 Employee Fund Membership

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

Note 9 Reserves and Designations

1. Member Reserve: This 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 actuarially 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 \$1,953,065,682 for the Pension Stabilization Fund. The Pension Stabilization Fund was established by IC 21-6.1-2-8.
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.
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 non retired participants, determined by TRF's actuary, as of the date of the last valuation.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS

June 30, 2004
(Continued)

Note 10 Intergovernmental Transfers with the Public Employees' Retirement Fund (PERF)

Transfers of a member's reserves are made between TRF and PERF when, at the time of retirement, a member has service 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.

Note 11 Membership in Non-Profit Corporation

TRF is a member with PERF in Indiana Pension Systems, Inc. (IPSI). IPSI is a tax-exempt nonprofit corporation created to provide information technology services to TRF and PERF. IPSI is governed by a five-member board composed of two TRF appointees, two PERF appointees, and one appointee appointed by either PERF or TRF on a rotating basis. The current board is composed of two TRF appointees and three PERF appointees. The board members serve two-year terms. Once the current rotating director's term expires, TRF will appoint the new director. PERF and TRF each contributed \$500,000 in start-up assistance to IPSI. Upon dissolution of IPSI, the net assets will be distributed equally to TRF and PERF. As of June 30, 2004, IPSI's net assets were \$1,000,000. All IPSI expenditures are paid by IPSI and then billed periodically to TRF and PERF. Because IPSI's only clients are TRF and PERF and all expenditures made by IPSI are billed to TRF and PERF, IPSI is not expected to have any net operating income for any financial reporting period.

INDIANA TEACHERS' RETIREMENT FUND

REQUIRED SUPPLEMENTAL SCHEDULES

June 30, 2004

SCHEDULE OF FUNDING PROGRESS
(Dollar Amounts in Millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ration (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
		Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)			
06-30-98	\$ 4,266	\$ 11,779	\$ 7,513	36.22%	\$ 3,095	242.75%
06-30-99	4,971	12,671	7,700	39.23%	3,294	233.76%
06-30-00	5,578	13,115	7,537	42.53%	3,193	236.05%
06-30-01	5,811	13,524	7,713	42.97%	3,319	232.39%
06-30-02	6,176	14,665	8,489	42.11%	3,609	235.22%
06-30-03	6,554	14,747	8,193	44.44%	3,585	228.54%

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS
AND OTHER CONTRIBUTING ENTITIES

Fiscal Year	Valuation Date June 30	Annual Required Contribution	Percentage Contributed
1998-1999	06-30-97	\$ 508,259,679	122%
1999-2000	06-30-98	524,815,537	123%
2000-2001	06-30-99	547,532,673	126%
2001-2002	06-30-00	537,789,669	106%
2002-2003	06-30-01	572,226,197	106%
2003-2004	06-30-02	638,541,074	69%

INDIANA STATE TEACHERS' RETIREMENT FUND

REQUIRED SUPPLEMENTAL SCHEDULES

June 30, 2004

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, 2003
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Pay Closed
Remaining Amortization Period	36 Years
Asset Valuation Method	4-year Smoothed Market Value with Corridor
Actuarial Assumptions	
Investment Rate of Return	7.50%
Projected Salary Increases*	4.5%-15.5%
*Includes Wage Inflation at	4.50%
Cost of Living Adjustments	Unscheduled, Periodic Increases

ACTUARIAL REPORT



Gabriel, Roeder, Smith & Company

Consultants & Actuaries

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June 1, 2005

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

Dear Board Members:

The basic funding objective of the Indiana State Teachers' Retirement Fund (ISTRF) is to establish and receive contributions when combined with present assets and future investment return will be sufficient to meet the financial obligations of ISTRF to present and future retirees and beneficiaries.

The progress being made toward the realization of the funding objective is shown in the attached Exhibits. The valuation process develops contribution rates that are sufficient to fund the plan's current cost (i.e., the cost assigned by the valuation method to the year of service about to be rendered, called the Normal Cost), as well as the Unfunded Actuarial Accrued Liabilities. The actuarial valuation is performed each year and the most recent valuation was completed based upon census data, asset data and plan provisions as of June 30, 2004.

The Retirement Fund's Executive Director and Administrative Staff provide the Actuary with data for the actuarial valuations. The Actuary relies on the census data after reviewing it for internal and year-to-year consistency. The Actuary summarizes and tabulates population data in order to analyze trends. Asset information is accepted without further audit.

Assets are valued on a market-related basis that recognizes each year's difference between actual and assumed investment return over a closed four-year period. The Funding Value of Assets is then limited by a 20% corridor around the Market Value of Assets. This asset valuation method was first used in the June 30, 2002 valuation.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the Actuary and other professionals. The current assumptions and methods comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board.

Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the actuarially computed contribution rates as needed. The June 30, 2004 valuation was based upon assumptions that were adopted by the Board following a study of experience covering the July 1, 1996 through June 30, 2002 period.

Investment experience for the year ended June 30, 2004 was very favorable. However, under the asset valuation method, market gains and losses are spread over a 4-year period and prior years' investment results were much less favorable. As a result of prior losses which have not yet been fully recognized, the funding value of assets still exceeds the market value by \$50.1 million. If this difference is not offset by future investment gains, there will be continued upward pressure on computed contribution rates.

As of June 30, 2004, ISTRF is 43% funded in the Closed Plan and 63% funded in the New Plan.

Respectfully submitted,

GABRIEL, ROEDER, SMITH & COMPANY


Judith A. Kermans, EA, MAAA


Kenneth G. Alberts

ACTUARIAL REPORT – ANNUAL REPORT 2004
SUMMARY OF VALUATION RESULTS
JUNE 30, 2004

I. Unfunded Actuarial Accrued Liability

The actuarial accrued liability is the present value of benefits the Fund promises to pay in the future based upon service already rendered – a liability has been established (“accrued”) because the service has been rendered, but the resulting monthly cash benefits may not be payable until years in the future. If the actuarial accrued liability at any time exceeds the funding value of the plan’s assets, the difference is called the unfunded actuarial accrued liability.

Actuarial Accrued Liability: Computed and Unfunded

Amounts as of June 30, 2004	Closed Plan	New Plan	Total
Computed Actuarial Accrued Liability	\$ 13,548,525,320	\$ 1,649,400,668	\$ 15,197,925,988
Funding Value of Assets	5,765,667,711	1,038,726,916	6,804,394,627
Unfunded Actuarial Accrued Liability	\$ 7,782,857,609	\$ 610,673,752	\$ 8,393,531,361

Actuarial Report – Annual Report 2004
SUMMARY OF VALUATION RESULTS (CONTINUED)
JUNE 30, 2004

II. Computed Employer Contribution Rates – June 30, 2004	Employer Contributions As %s of Active Payroll For Fiscal Year Ending 2006		
	Closed Plan 30-Year Amortization of UAAL	New Plan 30-Year Amortization of UAAL	Totals 30-Year Amortization of UAAL
	Contributions for		
Normal Cost:			
Age and Service Pensions	5.68%	5.88%	5.74%
Disability and Death-in-Service	0.26%	0.26%	0.26%
Totals	5.94%	6.14%	6.00%
Unfunded Actuarial Accrued Liability (UAAL):			
Retired Members and Beneficiaries	4.64%	0.15%	2.99%
Active and Inactive Vested Members	10.79%	2.10%	8.13%
Totals	15.43%	2.25%	11.12%
Computed Employer Contribution Rates	21.37%	8.39%	17.12%
\$ Contribution Based on Computed Rates	\$ 556,000,000	\$ 116,000,000	\$ 672,000,000
2005-2006 Expected Employer Contribution Amount Based on Budgeted Rates	\$ 530,000,000	\$ 125,000,000	\$ 655,000,000

COMMENTS REGARDING CONTRIBUTION RATES

- The Expected Employer Contribution Amount shown for the Closed Plan is the amount of pension benefits expected to be paid in the 2005-2006 fiscal year. This amount expressed as a percentage of valuation payroll is 22.25%.
- The Expected Employer Contribution Amount shown for the New Plan is the current Board-adopted rate of 9% of payroll multiplied by the projected valuation payroll.
- The dollar contribution based on computed rates is a projection to the 2005-2006 fiscal year at the 4.5% payroll growth rate assumption and is provided for comparison purposes.
- The contribution rates shown above include a change in the assumption regarding lump sum payments included in Average Annual Compensation, as well as a decrease in the amortization period from 35 to 30 years so that the actuarial funding requirements would match the accounting requirements of GASB Statement No. 25. GASB Statement No. 25 requires that a maximum amortization period of 30 years be used for July 1, 2006 and later to determine the Annual Required Contribution (ARC). The changes resulted in a net increase in the total computed employer contribution rate of 0.86% of payroll.

Actuarial Report – Annual Report 2004
SUMMARY OF VALUATION RESULTS (CONTINUED)
JUNE 30, 2004

III. Test of Financial Condition

If the contributions to ISTRF are level in concept and soundly executed, the Fund will *pay all promised benefits when due -- the ultimate indicator of financial soundness.*

One short-term means of checking a fund's progress under its funding program is shown below. In this indicator, the Fund's present assets (cash and investments) are compared with:

- 1) active member contributions on deposit;
- 2) liability for future benefits to present retired members; and
- 3) liability for service already rendered by active members.

In a fund that has been following the discipline of level percent-of-payroll financing, the liability for active member contributions on deposit (Liability 1) and the liability for future benefits to present retired members (Liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liability for service already rendered by active members (Liability 3) will be partially covered by the remainder of present assets. The State's past practice of contributing on a "pay-as-you-go" basis has resulted in Liability 2 being less than 100% funded in the Closed Plan.

Closed Plan
Actuarial Accrued Liability – Percent Funded

June 30	Computed Actuarial Accrued Liability			Valuation Assets	Portion of Accrued Liability Covered by Assets		
	(1) Member Contr.	(2) Retired Members	(3) Present Members (Employer-Financed Portion) (\$ in Millions)		(1)	(2)	(3)
1975#(a)	\$ 216	\$ 451	\$ 903	\$ 312	100%	21%	0%
1977#	265	634	1,246	375	100	17	-
1979#(a)	324	777	1,481	466	100	18	-
1980	373	838	1,632	539	100	18	-
1981	423	885	1,649	601	100	20	-
1983(a)	544	1,043	1,751	765	100	21	-
1985	713	1,198	2,112	1,073	100	30	-
1987	932	1,406	2,499	1,401	100	33	-
1989#	1,132	1,624	3,449	1,707	100	35	-
1991	1,373	1,853	3,956	2,161	100	43	-
1992(a)	1,521	2,059	4,369	2,376	100	42	-
1993	1,665	2,290	4,553	2,592	100	41	-
1994	1,812	2,483	4,792	2,808	100	40	-
1995	1,930	2,716	5,029	2,984	100	39	-
1996	2,070	2,968	5,245	3,242	100	39	-
1997(a)	2,188	3,234	5,447	3,678	100	46	-
1998	2,374	3,479	5,629	4,130	100	50	-
1999	2,500	3,659	6,014	4,731	100	61	-
2000	2,699	3,890	5,819	5,210	100	65	-
2001	2,669	4,121	5,905	5,363	100	65	-
2002(a)	2,754	4,412	6,332	5,555	100	63	-
2003(a)	2,897	4,833	5,626	5,729	100	59	-
2004(a)	2,870	5,116	5,562	5,766	100	57	-

Legislated plan amendments.
(a) Actuarial assumptions or methods revised.

***New Plan
Actuarial Accrued Liability – Percent Funded***

June 30	Computed Actuarial Accrued Liability			Valuation Assets	Portion of Accrued Liability Covered by Assets		
	(1) Member Contr.	(2) Retired Members	(3) Present Members (Employer-Financed Portion) (\$ in Millions)		(1)	(2)	(3)
1996	\$ 14	\$ 0	\$ 33	\$ 21	100%	100%	21%
1997(a)	46	0	130	72	100	100	20
1998	74	3	222	136	100	100	27
1999	126	4	369	240	100	100	30
2000	195	10	502	368	100	100	33
2001	211	12	605	447	100	100	37
2002(a)	291	17	858	621	100	100	36
2003(a)	382	108	903	826	100	100	37
2004(a)	449	149	1,051	1,039	100	100	42

(a) Actuarial assumptions or methods revised.

Actuarial Report – Annual Report 2004
SUMMARY OF VALUATION RESULTS
(CONTINUED)
JUNE 30, 2004

IV. Valuation Data

The June 30, 2004 actuarial valuation was based on the following data:

	Retired Members and Beneficiaries		Inactive Members	
	Number	Annual Allowances	Vested	Non-Vested
Closed Plan	36,271	\$ 546,960,357	4,484	10,658
New Plan	<u>797</u>	<u>14,480,017</u>	<u>776</u>	<u>20,814</u>
Totals	37,068	\$ 561,440,374	5,260	31,472

Active Members

	Number	Annual Payroll	Averages*	
			Age	Service
Closed Plan	41,510	\$ 2,384,480,342	50.1 years	22.2 years
New Plan	<u>32,000</u>	<u>1,267,172,783</u>	37.3 years	6.9 years
Totals	73,510	\$ 3,651,653,125		

* Averages are not used in the valuation process but are shown for general interest.

Financial Information
(Market Value Basis)

Reserve Allocation	Closed Plan	New Plan	Total
Member Reserves:			
Active and Inactive	\$2,849,090,857	\$445,895,816	\$3,294,986,673
Retired	<u>625,682,433</u>	<u>15,315,107</u>	<u>640,997,540</u>
Total Member Reserves	3,474,773,290	461,210,923	3,935,984,213
Employer Reserves:			
Active	0	476,567,270	476,567,270
Retired			
Pension Stabilization Fund	1,953,065,682	0	1,953,065,682
Other	<u>295,374,165</u>	<u>93,300,223</u>	<u>388,674,388</u>
Total	2,248,439,847	93,300,223	2,341,740,070
Total Employer Reserves	2,248,439,847	569,867,493	2,818,307,340
Total Reserves	\$5,723,213,137	\$1,031,078,416	\$6,754,291,553

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, 2004
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization method	Level Percent of Pay Closed
Amortization period	30 Years
Asset valuation method	4-year smoothed market value with corridor
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases*	4.50%-15.50%
Payroll growth rate	4.50%
*Includes inflation at	4.00%
Cost-of-living adjustments	Unscheduled, periodic increases

Membership of the plan consisted of the following at June 30, 2004, the date of the latest actuarial valuation:

	<u>Totals</u>
Retired members and beneficiaries receiving benefits	37,068
Terminated plan members entitled to but not yet receiving benefits	
Vested	5,260
Non-Vested	31,472
Active plan members	<u>73,510</u>
Totals	147,310

**GASB STATEMENTS NO. 25 AND NO. 27
REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Liability (AAL) -- Entry-Age -- (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL 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

* Revised benefits and/or actuarial assumptions and/or methods.

Schedule of Employer Contributions

Fiscal Year	Valuation Date June 30	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
1997-1998	1996	\$508,940,065	\$465,350,488	91.4%
1998-1999	1997	508,259,679	612,349,218	120.5
1999-2000	1998	524,815,537	647,441,260	123.4
2000-2001	1999	547,532,673	689,219,756	125.9
2001-2002	2000	537,789,669	566,226,658	105.3
2002-2003	2001	572,226,197	602,231,775	105.2
2003-2004	2002	638,541,074	N/A	N/A
2004-2005	2003	619,186,005	N/A	N/A
2005-2006	2004	672,555,533	N/A	N/A

INVESTMENT REPORT



INVESTMENT MANAGER ASSET ALLOCATION

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2004, with the distribution as of June 30, 2003.

Asset Distribution across Investment Managers

	June 30, 2004		June 30, 2003	
	Market Value	Percent	Market Value	Percent
Domestic Equity	\$2,756,269,585	41.15%	\$2,219,570,888	36.44%
Large Cap Equity	\$1,951,554,558	29.13%	\$1,547,084,348	25.40%
Passive				
BGI (Equity Index)	774,645,591	11.56%	727,878,123	11.95%
Rhumbline	563,413,411	8.41%	301,810,358	4.96%
Enhanced				
PIMCO	353,449,687	5.28%	297,187,870	4.88%
Growth				
Dresdner	38,127,796	0.57%	33,731,284	0.55%
INTECH	52,278,550	0.78%	41,518,045	0.68%
H-S&Y	40,140,500	0.60%	35,224,069	0.58%
Value				
Earnest	25,982,559	0.39%	21,358,291	0.35%
GEAM	35,770,403	0.53%	30,917,559	0.51%
ICAP	30,876,840	0.46%	25,936,820	0.43%
PFR	36,869,221	0.55%	31,521,929	0.52%
Mid Cap Equity	\$172,901,196	2.58%	\$135,906,227	2.23%
Core				
Franklin Associates	172,901,193	2.58%	84,604,439	1.39%
Growth				
Putnam Investments	3	0.00%	51,301,788	0.84%
Small Cap Equity	\$631,813,831	9.43%	\$536,580,313	8.81%
Growth				
Aeltus Capital Management	173,958,886	2.60%	136,559,442	2.24%
TCW Group	85,999,764	1.28%	66,372,956	1.09%
Value				
Ariel Capital Management	213,306,190	3.18%	187,463,607	3.08%
Brandywine Capital Mgmt	158,548,991	2.37%	146,184,308	2.40%
International Equity	\$786,996,237	11.75%	\$528,640,179	8.68%
Alliance Capital Mgmt	563,599,549	8.41%	183,780,120	3.02%
Bank of Ireland	223,396,688	3.34%	179,260,313	2.94%
Dresdner RCM Global	-	-	165,599,746	2.72%
Domestic Fixed-Income	\$2,642,819,061	39.45%	\$3,324,941,925	54.59%
Alliance Capital Mgmt	1,214,408,080	18.13%	1,590,212,385	26.11%
Reams Asset Management	1,203,763,663	17.97%	1,564,713,830	25.69%
Taplin, Canida & Habacht	219,047,067	3.27%	68,251,508	1.12%
Cash Flow Account	5,600,251	0.08%	101,764,202	1.67%
Alternative Investment	\$32,964,904	0.49%	\$17,625,339	0.29%
Portfolio Advisors	32,964,904	0.49%	17,625,339	0.29%
Total Fund	\$6,698,420,775	100.0%	\$6,090,778,331	100.0%

INVESTMENT MANAGER RETURNS

The table below details the rates of return for the Sponsor's investment managers over various time periods ending June 30, 2004. 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 Ending June 30, 2004

	Market Value \$(Dollars)	Ending Weight	Last Quarter	Last Year	Last 3 Years	Last 4 Years	Last 6 Years
Domestic Equity	\$2,756,269,585	41.15%	1.38%	22.21%	1.80%	(1.06%)	-
Large Cap Equity	\$1,951,554,558	29.13%	1.72%	19.07%	(0.28%)	(4.15%)	-
Passive	\$1,338,059,002	19.98%	1.71%	19.06%	(0.65%)	-	-
Barclays Global Investors	774,645,591	11.56%	1.71%	19.01%	(0.68%)	(4.42%)	1.58%
Rhumblin	563,413,411	8.41%	1.72%	19.15%	(0.55%)	(4.14%)	0.94%
Enhanced	\$353,449,687	5.28%	1.15%	19.32%	0.22%	-	-
PIMCO	353,449,687	5.28%	1.15%	19.32%	0.67%	(3.04%)	2.57%
Standard & Poor's 500	-	-	1.72%	19.11%	(0.70%)	(4.43%)	1.57%
Growth	\$130,546,846	1.95%	3.06%	18.81%	(1.11%)	-	-
Dresdner	38,127,796	0.57%	2.20%	13.67%	(5.55%)	-	-
INTECH	52,278,550	0.78%	4.62%	26.53%	7.45%	-	-
H-S&Y	40,140,500	0.60%	1.90%	14.63%	(4.28%)	-	-
Russell 1000 Growth	-	-	1.94%	17.88%	(3.74%)	(13.14%)	(1.55%)
S&P 500 Growth	-	-	2.69%	16.02%	(1.09%)	(10.08%)	(0.11%)
Value	\$129,499,023	1.93%	1.96%	18.71%	2.30%	-	-
Earnest	25,982,559	0.39%	2.04%	22.36%	1.11%	-	-
GEAM	35,770,403	0.53%	1.15%	16.27%	0.17%	-	-
ICAP	30,876,840	0.46%	0.51%	19.78%	0.87%	-	-
PFR	36,869,221	0.55%	3.97%	17.76%	6.81%	-	-
Russell 1000 Value	-	-	0.88%	21.13%	2.97%	4.76%	4.15%
S&P 500 Value	-	-	0.80%	22.26%	(0.57%)	1.49%	2.70%
Mid Cap Equity	\$172,901,196	2.58%	(0.74%)	27.65%	3.45%	3.48%	-
Franklin Portfolio Assoc.	172,901,193	2.58%	(0.74%)	29.78%	9.48%	9.08%	12.11%
S&P 400 Mid Cap	-	-	0.97%	27.98%	6.58%	7.15%	10.36%
Small Cap Equity	\$631,813,831	9.43%	0.95%	30.32%	7.38%	6.30%	-
Growth	\$259,958,650	3.88%	(1.73%)	29.05%	(4.03%)	(11.68%)	-
Aeltus Capital Management	173,958,886	2.60%	(3.09%)	28.27%	2.01%	(3.37%)	3.09%
TCW Group	85,999,764	1.28%	1.14%	30.65%	(10.63%)	(19.73%)	(1.50%)
Russell 2000 Growth	-	-	0.09%	31.55%	(0.22%)	(6.58%)	0.96%
Value	\$371,855,181	5.55%	2.91%	31.46%	14.41%	20.20%	-
Ariel Capital Management	213,306,190	3.18%	5.07%	32.02%	14.08%	17.63%	11.99%
Brandywine Asset Management	158,548,991	2.37%	0.15%	30.60%	14.95%	23.02%	-
Russell 2000 Value	-	-	0.85%	35.17%	12.15%	16.55%	9.50%
International Equity	\$786,996,237	11.75%	0.29%	26.80%	0.90%	(6.13%)	-
Alliance Capital Management	563,599,549	8.41%	0.44%	32.26%	4.50%	(3.49%)	-
Bank of Ireland	223,396,688	3.34%	(0.02%)	25.02%	0.67%	(4.80%)	-
MSCI EAFE Index	-	-	0.22%	32.37%	3.87%	(3.81%)	1.28%
Alternative Investment	\$32,964,904	0.49%	3.17%	7.28%	-	-	-
Portfolio Advisors	32,964,904	0.49%	3.17%	7.28%	-	-	-
Post Venture Cap Index	-	-	0.04%	32.37%	(4.05%)	(17.77%)	(0.76%)
Composite Fund	\$6,698,420,775	100.00%	(0.46%)	11.82%	4.96%	3.91%	6.25%

INVESTMENT MANAGER RETURNS

The table below details the rates of return for the Sponsor's investment managers over various time periods ending June 30, 2004. 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 Ending June 30, 2004

	Market Value \$(Dollars)	Ending Weight	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 4 Years
Domestic Fixed-Income	\$2,642,819,061	39.45%	(2.12%)	1.80%	6.86%	6.58%	7.74%
Alliance Capital Mgmt.	1,214,408,080	18.13%	(2.27%)	1.22%	7.23%	7.11%	8.25%
Alliance Capital Index	-	-	(2.44%)	0.32%	5.24%	6.36%	7.55%
Reams Asset Management	1,203,763,663	17.97%	(2.06%)	2.24%	6.63%	5.70%	7.29%
Taplin, Canida & Habacht	219,047,067	3.27%	(1.73%)	3.44%	8.83%	8.51%	8.80%
Lehman Brothers Agg.	-	-	(2.44%)	0.32%	5.24%	6.36%	7.55%
Cash Flow Account	5,600,251	0.08%	2.30%	5.76%	4.24%	3.54%	4.07%
Treasury Bills	-	-	0.24%	0.98%	1.25%	1.71%	2.74%
Composite Fund	\$6,698,420,775	100.00%	(0.46%)	11.82%	8.96%	4.96%	3.91%
Standard & Poor's 500	-	-	1.72%	19.11%	9.28%	(0.70%)	(4.43%)
Domestic Equity Database	-	-	1.40%	25.24%	12.14%	3.18%	1.13%
Domestic Fixed Database	-	-	(1.95%)	1.83%	6.33%	6.55%	7.40%



TOTAL DOMESTIC EQUITY PERIOD ENDING JUNE 30, 2004

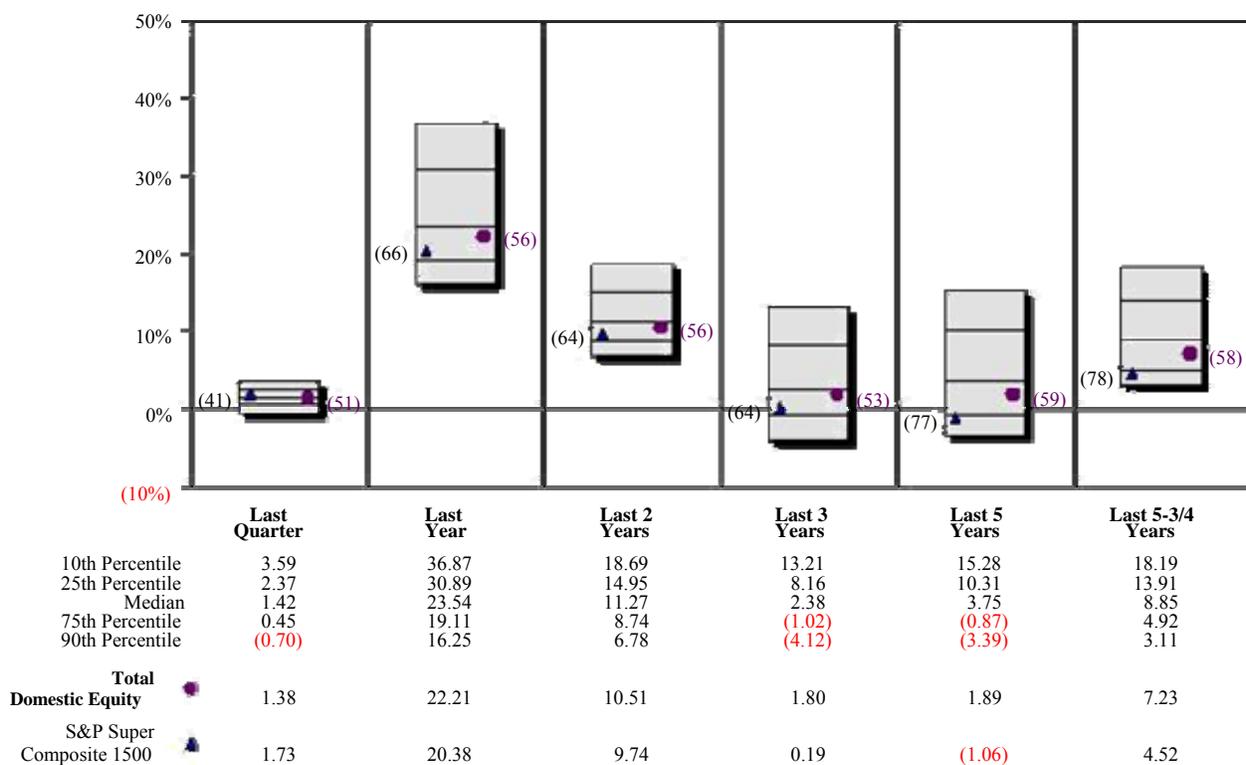
Investment Philosophy

The Total Equity Database is a broad collection of actively managed separate account domestic equity products. Equity funds concentrate their investments in common stocks and convertible securities. Funds included maintain well-diversified portfolios.

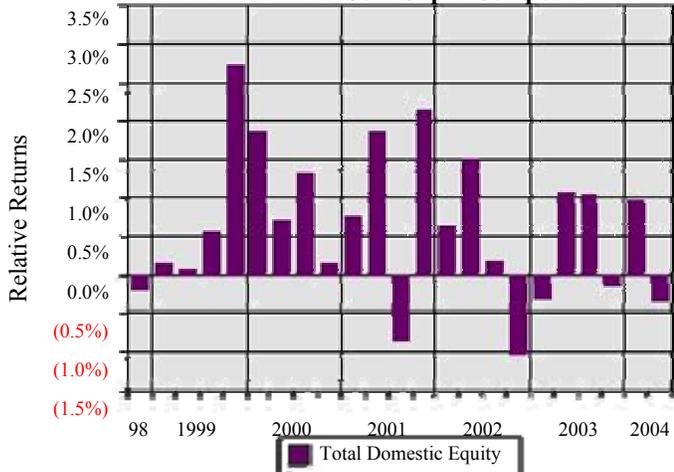
Quarterly Summary and Highlights

- Total Domestic Equity's portfolio posted a 1.38% return for the quarter placing it in the 51 percentile of the CAI Total Domestic Equity Database group for the quarter and in the 56 percentile for the last year.
- Total Domestic Equity's portfolio underperformed the S&P Super Composite 1500 by 0.35% for the quarter and outperformed the S&P Super Composite 1500 for the year by 1.82%.

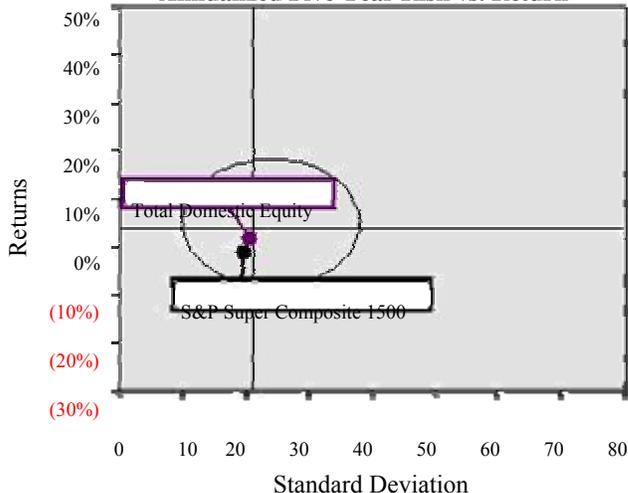
Performance vs. CAI Total Domestic Equity Database



Relative Return vs. S&P Super Composite 1500



CAI Total Domestic Equity Database Annualized Five Year Risk vs. Return





TOTAL FIXED-INCOME PERIOD ENDING JUNE 30, 2004

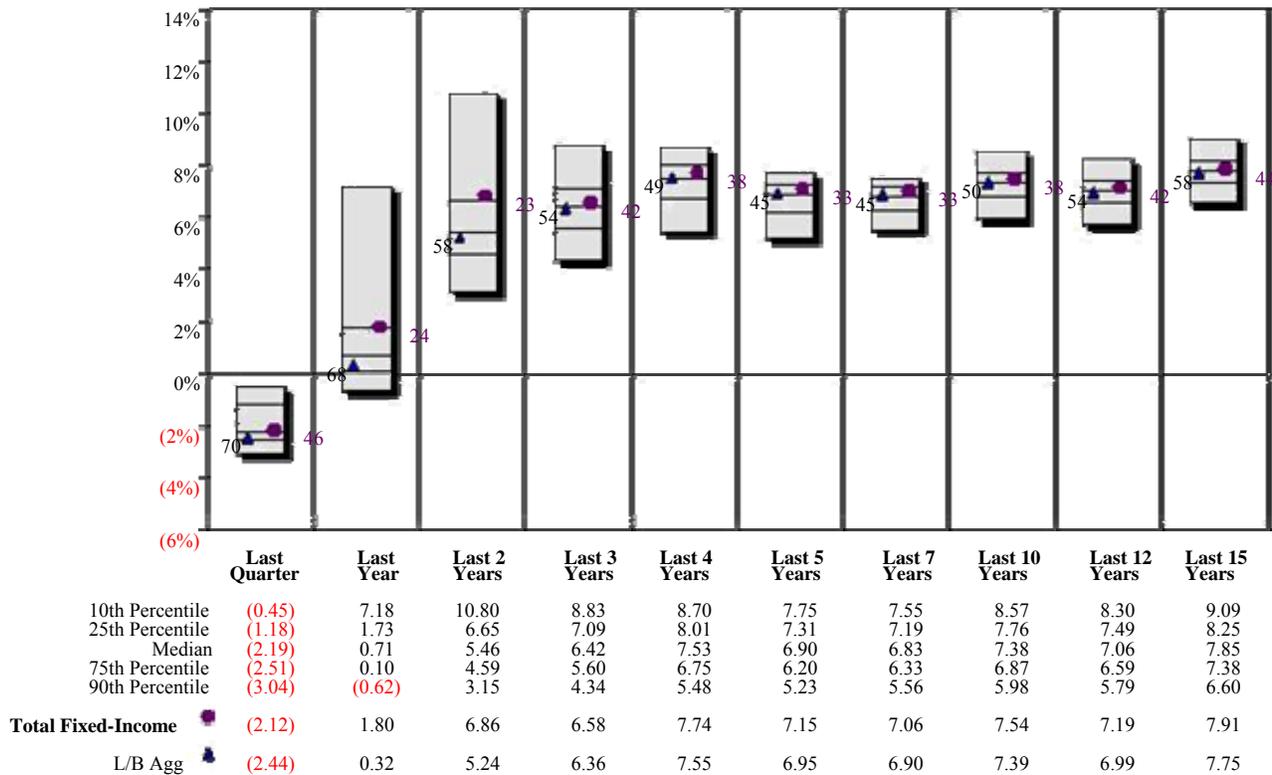
Investment Philosophy

The Total Fixed-Income Database is a broad collection of separate account domestic fixed-income products. Fixed-Income funds concentrate their investments in bonds, preferred stocks, and money market securities.

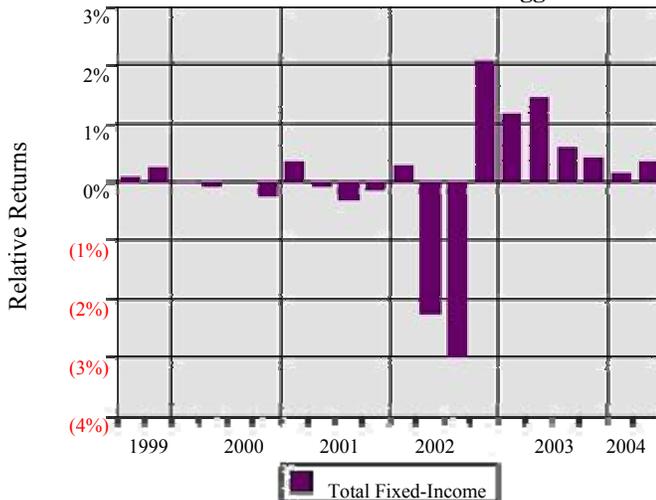
Quarterly Summary and Highlights

- Total Fixed-Income's portfolio posted a (2.12) % return for the quarter placing it in the 46 percentile of the CAI Total Domestic Fixed-Inc Database group for the quarter and in the 24 percentile for the last year.
- Total Fixed-Income's portfolio outperformed the L/B Agg by 0.32% for the quarter and outperformed the L/B Agg for the year by 1.48%.

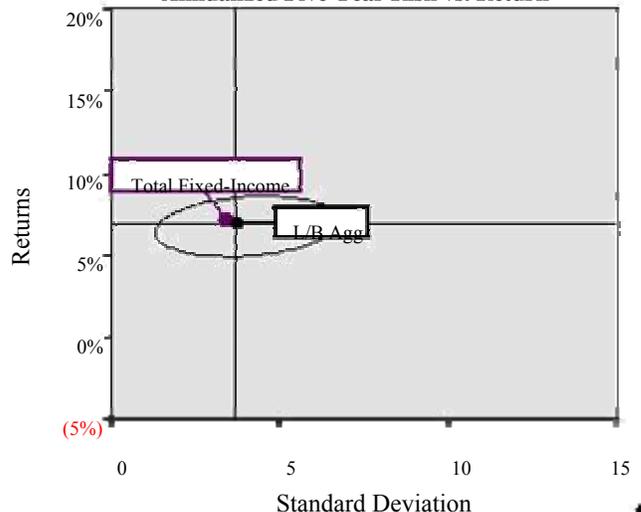
Performance vs. CAI Total Domestic Fixed-Inc Database



Relative Return vs. L/B Agg



CAI Total Domestic Fixed-Inc Database Annualized Five Year Risk vs. Return

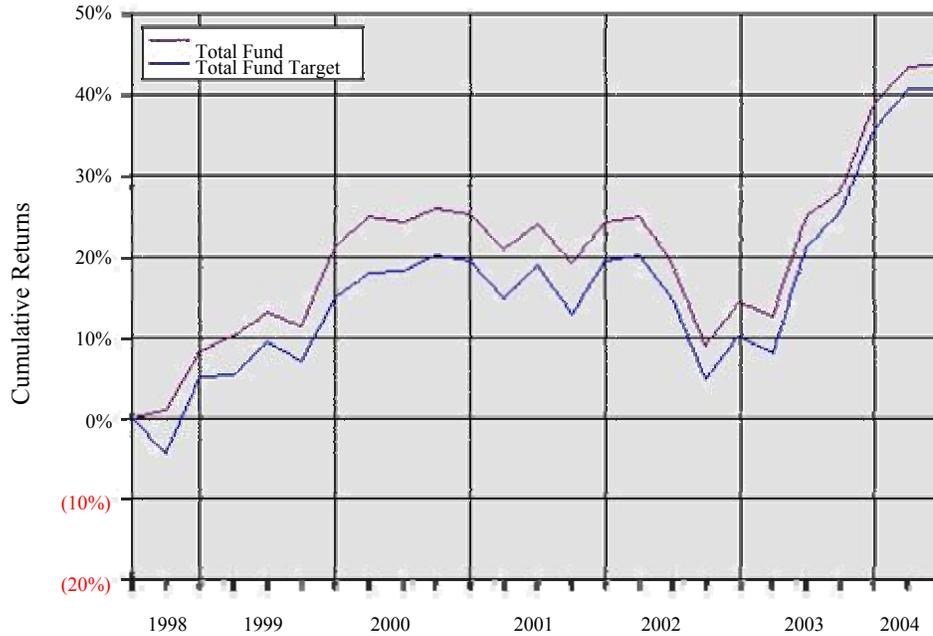




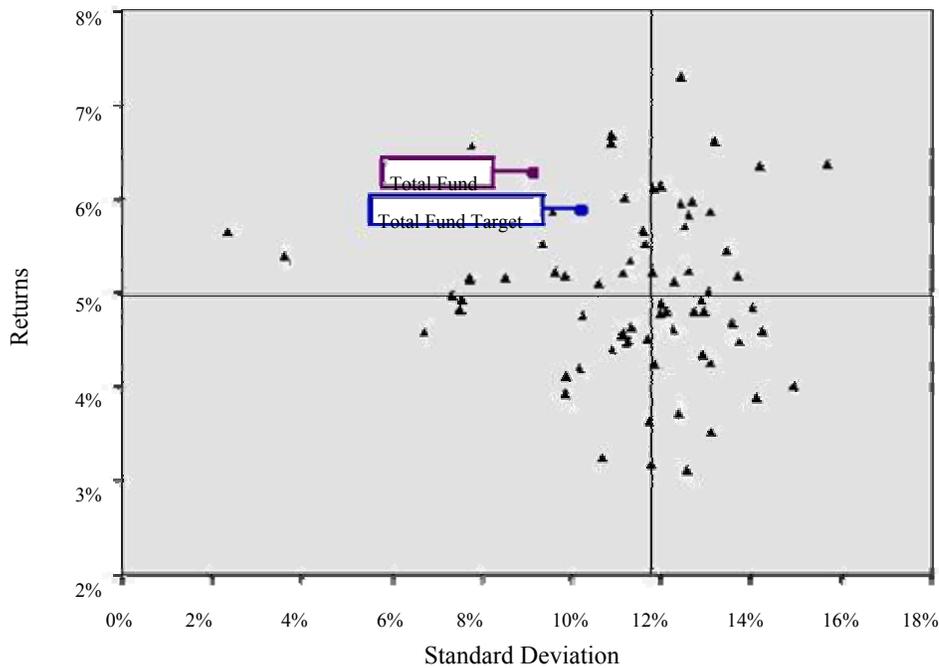
CUMULATIVE PERFORMANCE RELATIVE TO TARGET

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 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 plans in the Public Plan Sponsor Database.

Cumulative Returns Actual vs. Target



Six Year Annualized Risk vs. Return



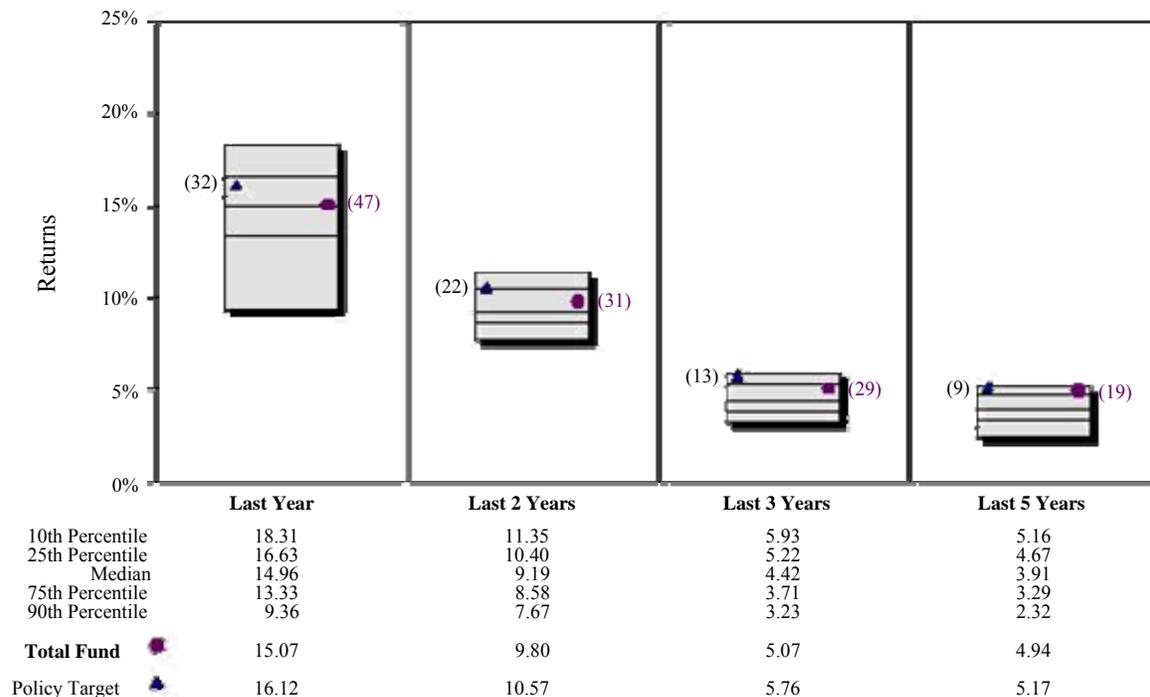
Triangles represent membership of the CAI Public Fund Sponsor Database

* Current Quarter Target = 32.0% S&P 500, 25.0% L/B Agg, 18.0% MSCI EAFE Index, 5.0% Russell 2000, 5.0% S&P Mid Cap 400, 5.0% Dow Jones Wilshire RESI, 5.0% Post Venture Cap Idx and 5.0% 90 Day T-Bill + 5 %.

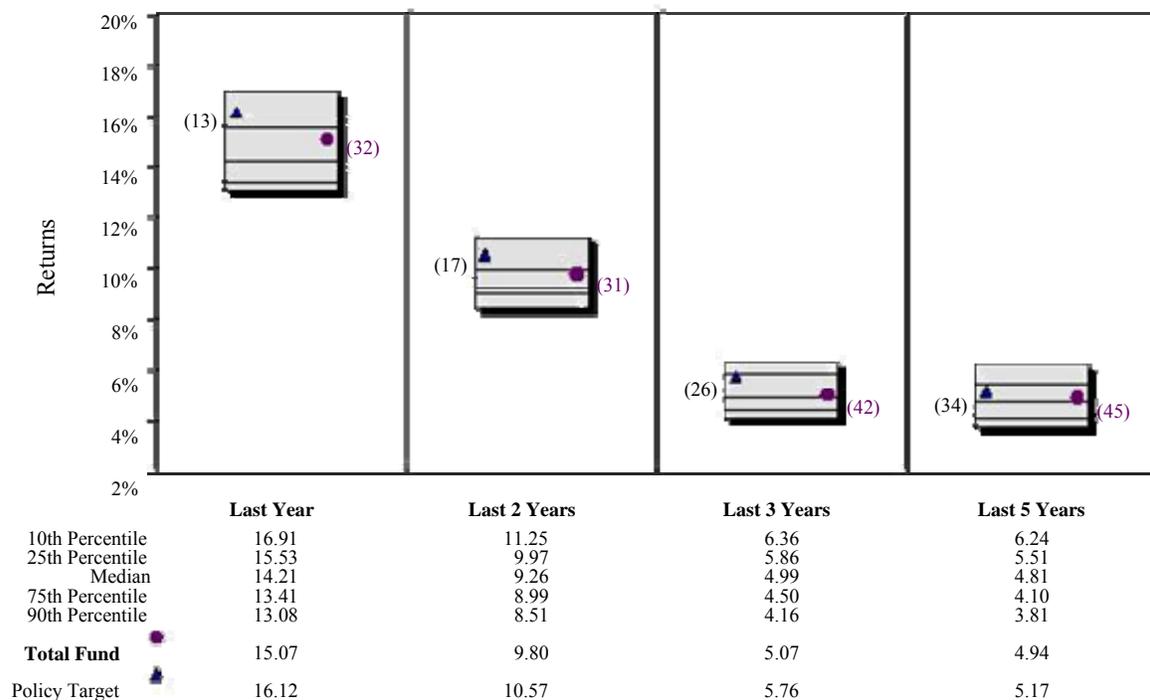
TOTAL FUND RANKING

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 ending June 30, 2004. 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



Asset Allocation Adjusted Ranking



* Current Quarter Target = 32.0% S&P 500, 25.0% L/B Agg, 18.0% MSCI EAFE Index, 5.0% Russell 2000, 5.0% S&P Mid Cap 400, 5.0% Dow Jones Wilshire RESI, 5.0% Post Venture Cap Idx and 5.0% 90 Day T-Bill + 5 %.



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