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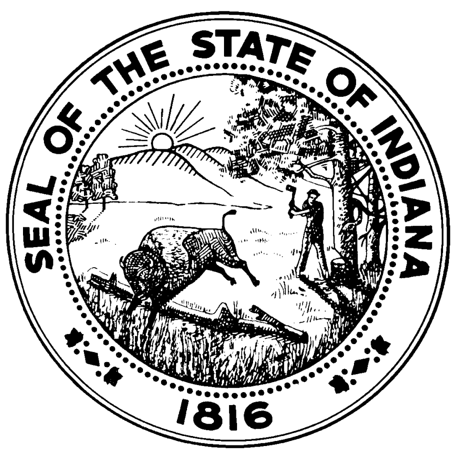
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT

OF

INDIANA STATE TEACHERS' RETIREMENT FUND

July 1, 2006 to June 30, 2007



FILED
04/28/2008

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AGENCY OFFICIALS

Office	Official	Term
Executive Director	Cristy Wheeler	07-01-06 to 02-01-08
	Steven Russo	02-02-08 to 06-30-08
President of the Board	Don Bennett	07-01-06 to 09-24-07
	David Adams	09-25-07 to 08-31-08

STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

STATE BOARD OF ACCOUNTS

December 20, 2007

MANAGEMENT'S DISCUSSION & ANALYSIS

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

FINANCIAL HIGHLIGHTS

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

1) Financial Statements

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

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

2) Notes to the Financial Statements

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

3) Required Supplementary Information

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

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

FINANCIAL ANALYSIS

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

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

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

NET ASSETS
($ in thousands)

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

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

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

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

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

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

CHANGES IN NET ASSETS
($ in thousands)

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

ADDITIONS

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

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

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

DEDUCTIONS

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

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

HISTORICAL TRENDS

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

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

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

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

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

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

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

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

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

Note I. Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

L. Reserves and Designations

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

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

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

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

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

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

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

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

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

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

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

Note II. Fund Description

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

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

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

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

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

Regular Retirement (No Reduction Factor For Age)

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

Mandatory Retirement Age - none.

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

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

Early Retirement (Age Reduction Factor Used)

Eligibility - Age 50 with 15 or more years service.

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

Deferred Retirement (Vested Benefit)

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

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

Regular Disability

Eligibility – 5 years of service.

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

Disability Retirement (No Reduction Factor For Age)

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

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

Duty Death Before Retirement

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

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

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

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

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

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

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

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

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

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

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

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

Note III. Employer Contributions Required and Employer Contributions Made

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

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

Note IV. Deposit and Investment Risk Disclosures

The Fund's Investment policy states the following:

> "The Fund was established to provide retirement, disability, death, and termination benefits to present and former members of the Fund and their beneficiaries who meet the statutory requirements for such benefits. The Fund must be operated for the exclusive benefit of members and their beneficiaries, pursuant to Indiana law and the Internal Revenue Code. The Fund is required by Indiana law to meet all rules applicable to a qualified plan under Section 401 of the Internal Revenue Code, in order to provide the ensuing tax advantages to its members. In addition, the Fund is a trust, exempt from taxation under Section 501 of the Internal Revenue Code. The Fund is also governed by Indiana statutes and administrative rules. See IC 5-10.2 and IC 21-6.1."
>
> "Whereas, the general assembly also believes that a prudent diversification of investments by public retirement funds is an essential element of a stringent investment standard for such funds and is critical for the future; and"
>
> "Whereas, the general assembly finds that numerous actuarial studies of retirement funds in Indiana and other states have demonstrated that, due to the long term nature of the investment made by public retirement funds, diversification of such investments in a responsible manner reduces risk, increases income, and improves security for such funds, while a lack of diversification results in reduced income and increased risk to the retirement funds, while creating a substantial additional burden for the taxpayers who ultimately bear the burden of providing the assets for such funds in the absence of sufficient investment income; and"
>
> "Whereas, the general assembly desires to pass a diversification rule patterned after the stringent federal law applicable to private plans, which will provide that the trustees of each fund must diversify the investments of their fund so as to minimize the risk of large losses."

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

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

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

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

Interest Rate Risk

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

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

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

Custodial Credit Risk

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

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

Deposit Risks

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

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

Credit Risk

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

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

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

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

Concentration of Credit Risk

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

Foreign Currency Risk

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

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

Securities Lending

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

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

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

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

Derivative Financial Instruments

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

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

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

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

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

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

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

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

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

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

Note V. Partnership Investments

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

Note VI. Deferred Compensation Plan

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

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

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

Note VII. Contingent Liabilities

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

Note VIII. Risk Management

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

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

Note IX. Employee Fund Membership

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

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

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

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

SCHEDULE OF FUNDING PROGRESS

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

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

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

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

NOTES TO REQUIRED SUPPLEMENTAL SCHEDULES

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

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

INVESTMENT INCOME CONTROLS

We found that the accounting and monitoring procedures applied by the Teachers' Retirement Fund for the investment transactions and investment income were incomplete. The investment income was not reconciled to the bank. Throughout the fiscal year, the accounting process is designed to record and verify cash transactions initiated by the state, such as deposits and wire transfers to the benefit checking account. The accounting and reconciliations performed are not fully designed to identify errors or irregularities that could occur in other investment asset transactions. Accounting and monitoring procedures should be improved for the investment transactions and investment income in order to ensure that any errors or irregularities are detected and resolved in a timely manner.

We found variances between the custodian bank and fund records for foreign currency, real estate, and investment income. These occurred from custodian bank adjustments that were recorded subsequent to fiscal year end, which were not specifically communicated to fund accounting. At the time of our discovery in December 2007, the fund records remained in error and the processes in place had not detected that a bank error which overstated foreign currency by $13,280,120 in June 2007 had occurred. The real estate variance was due to an updated bank valuation. The investment income variance was caused by these transaction changes. When the variances were brought to the attention of the fund management, accounting adjustments were recorded.

Indiana Code 5-10.4-3-6(b) includes the following two requirements:

"The board shall do all the following: . . .

(3) Establish records and accounts, which:

(A) provide the necessary information for an actuary's examination; and

(B) are sanctioned by the state board of accounts. . . .

(9) Provide for the installation in the general office of a complete system of:

(A) books;

(B) accounts, including reserve accounts; and

(C) records; to give effect to all the requirements of this article and to ensure the proper operation of the fund."

Also, Indiana Code 5-10.4-3-7 states that:

"The board shall annually analyze the fund's:

(1) income and expenditures;

(2) actuarial condition;

(3) reserve accounts;

(4) investments; and

(5) such other data as necessary to interpret the fund's condition and the board's administration of the fund;

for internal control purposes."

INDIANA STATE TEACHERS' RETIREMENT FUND
EXIT CONFERENCE

The contents of this report were discussed on March 10, 2008, with Steven Russo, Executive Director; and David Adams, President of the Board. The official response has been made a part of this report and may be found on page 26.

April 15, 2008

OFFICIAL AUDIT RESPONSE

Ms. Mary Rankin
Indiana State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, IN 46204-2765

Dear Ms. Rankin:

This is in response to the Audit Results and Comments prepared by the State Board of Accounts (SBOA) which covers the audit period of July 1, 2006 to June 30, 2007. The results of the audit were presented to the Teachers' Retirement Fund (TRF) on March 10, 2008. The work and effort expended by SBOA is very much appreciated.

TRF is pleased to have received an unqualified opinion. Member and employers can be confident that TRF is accounting for its funds in an accurate manner and to standards generally accepted in the United States of America. In this audit, the SBOA identified a single weakness with respect to Investment Income Controls. Immediately after becoming aware of the weakness, TRF identified the root cause and implemented corrective actions to strengthen its Investment Income controls. Timing of bank reconciliations and cut-offs for investment changes have been identified with the custodian to ensure TRF has accounted for the final investment numbers on the financial statements, including any corrections made. As noted by the SBOA in its report, this weakness was corrected prior to the closing of the audited financial statements.

TRF will continue to work with SBOA on developing and improving internal controls in order to ensure errors are detected and resolved in a timely manner. Once again, I want to thank SBOA for their courtesy and assistance in working with TRF.

Sincerely,

Steve Russo
Executive Director