



# Indiana State Teachers' Retirement Fund

## 2002 Annual Report



*One looks back with appreciation to the brilliant teachers,  
but with gratitude to those who touched our human feeling.  
The curriculum is so much necessary raw material, but  
warmth is the vital element for the growing plant and for  
the soul of the child.*

*~Carl Jung*

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# Indiana State Teachers' Retirement Fund

FRANK O'BANNON, Governor  
WILLIAM E. CHRISTOPHER, Ph.D., Executive Director

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February 24, 2003

The Honorable Governor Frank O'Bannon  
Governor of Indiana  
Capitol Building  
Indianapolis, Indiana 46204

Home Page: <http://www.in.gov/trf>  
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Dear Governor O'Bannon:

We are pleased to present the 2002 Indiana State Teachers' Retirement Fund Annual Report. What follows is a synopsis of the 2002 and 2001 fiscal years highlighting the essential changes in the Fund.

	<u>30-Jun-02</u>	<u>30-Jun-01</u>	Increase (Decrease)
Number of Active Members	75,383	75,648	(265)
Number of Vested Inactive Members	5,319	4,595	(724)
Number of Non-Vested Inactive Members	28,843	34,597	(5,754)
Number of Retirees and Beneficiaries	34,754	33,783	971
Annual Payout to Retirees and Beneficiaries	\$ 594.7 Million	\$580.2 Million	\$ 14.5 Million
Net Assets Held in Trust for Pension Benefits	\$5,772.8 Million	\$ 5,810.8 Million	(\$ 38.0 Million)
<b>Rate of Invested Earnings Distribution</b>			
<i>Guaranteed Fund</i>	7.50%	7.75%	(0.25)%
<i>Bond Fund</i>	5.54%	11.08%	(5.54)%
<i>S &amp; P 500</i>	(17.96)%	(14.71)%	(3.25)%
<i>Small Cap</i>	(4.46)%	7.58%	(12.04)%
<i>International</i>	(11.98)%	(24.13)%	12.15%
<b>Unfunded Accrual Date Liability</b>			
<b>CLOSED PLAN</b>			
<i>Retired Lives</i>	\$1,609.9 Million	\$1,426.8 Million	\$ 183.1 Million
<i>Active and Inactive Members</i>	\$6,332.5 Million	\$5,905.5 Million	\$ 427.0 Million
<b>NEW PLAN</b>			
<i>Retired Lives</i>	\$ (.318) Million	\$ (1.0) Million	\$ .7 Million
<i>Active and Inactive Members</i>	\$ 545.9 Million	\$ 381.8 Million	\$ 164.1 Million
<b>TOTAL</b>	<b><u>\$8,487.9 Million</u></b>	<b><u>\$7,713.1 Million</u></b>	<b><u>\$ 774.8 Million</u></b>

Please note that Member annuity reserve accounts are fully funded and available to the member at time of withdrawal, retirement, or to the designated beneficiary in the event of members' death. Under the CLOSED PLAN, State of Indiana pays the employer share as it comes due during the members' retirement.

Our detailed report includes Financial Statements, with the auditor's report from the State Board of Accounts; Statistical Tables; Actuarial Report and Investment Summary.

The financial security of the Indiana State Teachers' Retirement Fund is very important as over 115,000 members count on us to manage one of their largest assets. The Board of Trustees and the staff take this responsibility seriously. Our goals continue to be to ensure the long-term stability of the Fund and provide the highest level of service.

Respectfully submitted,

Matthew B. Murphy, III, President  
Katherine K. Humphries, Vice President  
Garrett L. Harbron, Secretary  
James M. Bennett, Trustee  
Douglas M. Kinser, Trustee

William E. Christopher, Executive Director

# Mission Statement

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.



# Core Values

The Indiana State Teachers' Retirement Fund, as an organization, holds the following core values in all of its working relationships:

- ◆ professionalism, respect, and compassion in dealing with others;
- ◆ diversity, both of ideas and people;
- ◆ open communication, collaboration, and cooperation;
- ◆ integrity and the avoidance of conflicts of interest;
- ◆ courtesy and timeliness;
- ◆ accountability;
- ◆ innovation and flexibility; and
- ◆ commitment to and focus on our mission

**Frank O'Bannon**  
GOVERNOR

**Matthew B. Murphy, III**  
President  
(Director of Business Development,  
Mays Chemical Company)

**Katherine K. Humphreys**

**Garrett L. Harbron**  
Secretary  
(Retired Member of the Fund)

**James M. Bennett**  
Trustee  
(President, J.M. Bennett &  
Associates)

**Douglas M. Kinser**  
Trustee  
(Hall, Render, Killian, Heath &  
Lyman, P.C.)

**William E. Christopher, Ph.D.**  
Executive Director

Internal Auditor  
**David W. Yeater**

General Counsel  
Legal Division  
**Thomas N. Davidson, J.D.**

Director  
Members' Service Center  
**Lynette Farrell**

Deputy Director/  
Director of Operations  
**Victoriano E. Untalan, Jr., CPA**

Deputy Director/Chief  
Investment Officer  
**Robert Newland**

Asst. CIO Officer/  
Guaranteed Fund  
**Charles P. Barnes**

Administration Division  
**Suzanne Sellers**

Benefits Division  
**Shelley J. Horner, CPA**

Accounting Division  
**J. Thomas Abbett, CPA**

Information Division  
**Douglas V. Parson**

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# Financial Statements





# STATE OF INDIANA

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## 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, 2002. 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.

As discussed in Note 1 to the financial statements, the Indiana State Teachers' Retirement Fund Board of Trustees has adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended, for the year ended June 30, 2002.

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 Board of Trustees as of June 30, 2002, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory Section, Investment Section, and Actuarial Section, are presented for purposes of additional analysis and are not a required part of the basic financial statements and have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

October 31, 2002

## INDIANA STATE TEACHERS' RETIREMENT FUND MANAGEMENT'S DISCUSSION AND 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, 2002. 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 \$5.7 billion as of June 30, 2002.
- The net assets of TRF decreased by \$88 million, or 1.5% from the prior year. The decrease was primarily due to adverse equity markets, resulting in lower investment values.
- The TRF rate of return on investments for the year was negative 2.4% on a market value basis, compared to last year's positive 2.1%, due primarily to the continued downturn in world equity markets.
- As of June 30, 2001, the date of the most recent actuarial valuation, the Pre-96 plan (Closed Plan) is actuarially funded at 42.2%, which is more than the 42.0% funded level as of June 30, 2000. The 96 plan (New Plan) is actuarially funded at 54.0%, which is more than the 52.2% funded level as of June 30, 2000. 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: (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 years ended June 30, 2002 and 2001. 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.

INDIANA STATE TEACHERS' RETIREMENT FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)

FINANCIAL ANALYSIS

Total assets of TRF were \$6.8 billion as of June 30, 2002, compared with \$6.6 billion as of June 30, 2001. The increase in total assets was primarily due to investments purchased at year end that had not settled and been paid for until the beginning of the next fiscal year.

Total liabilities were \$1.1 billion as of June 30, 2002, compared with \$.8 billion as of June 30, 2001. The increase in total liabilities was due to a increase in investments purchased at year end that did not settle until the next fiscal year.

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

NET ASSETS (\$ in thousands)	<u>June 30, 2002</u>	<u>June 30, 2001</u>	<u>% Change</u>
Assets:			
Cash and Cash Equivalents	\$ 743,438	\$ 331,333	124.4%
Securities Lending Collateral	553,452	586,199	(5.6%)
Receivables	272,155	201,417	35.1%
Investments	5,265,798	5,502,486	(4.3%)
Other Assets	<u>46</u>	<u>13</u>	253.8%
 Total Assets	 <u>6,834,889</u>	 <u>6,621,448</u>	 3.2%
Liabilities:			
Securities Lending Collateral	553,452	586,199	(5.6%)
Other Current Liabilities	558,587	224,309	149.0%
Long-Term Liabilities	<u>98</u>	<u>180</u>	(45.6%)
 Total Liabilities	 <u>1,112,137</u>	 <u>810,688</u>	 37.2%
 Total Net Assets	 <u>\$ 5,722,752</u>	 <u>\$ 5,810,760</u>	 (1.5%)

As the above table shows, plan net assets were \$5.7 billion as of June 30, 2002, a decrease of \$88 million, or 1.5%, compared to the prior year, driven by the decrease 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.

	<u>June 30, 2002</u>	<u>June 30, 2002</u>	<u>June 30, 2001</u>
	Actual	Target	Actual
Fixed Income	46.3%	40.0%	57.4%
Large Cap Equity	26.6%	24.5%	22.9%
Mid Cap Equity	5.9%	5.25%	5.3%
Small Cap Equity	4.4%	5.25%	6.4%
International Equity	16.7%	15.0%	8.0%
Private Equity	0.1%	5.0%	0.0%
Real Estate	<u>0.0%</u>	<u>5.0%</u>	<u>0.0%</u>
 Total	 <u>100%</u>	 <u>100%</u>	 <u>100%</u>

INDIANA STATE TEACHERS' RETIREMENT FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)

The change in weightings between asset classes was driven by new target allocations, which were adopted by TRF during the year ended June 30, 2002. As a result, investment manager searches were initiated. Upon completion of the manager searches and contract negotiations, new allocations for Private Equity and Real Estate will be funded, bringing the investments closer to the targeted allocations. At June 30, 2002, the 5% target for Real Estate was invested in Fixed Income and will be drawn from there as suitable real estate investments are made. The remaining Private Equity target allocation of 4.9% will be drawn from the Large Cap Equity investments.

A summary of the changes in net assets during the years ended June 30, 2002 and 2001 is presented below:

CHANGES IN NET ASSETS (\$ in thousands)

	<u>FY Ended</u> <u>June 30, 2002</u>	<u>FY Ended</u> <u>June 30, 2001</u>	<u>% Change</u>
Additions:			
Member Contributions	\$ 107,052	\$ 104,523	2.4%
Employer Contributions	541,083	537,892	0.6%
Contributions to Pension Stabilization Fund:			
From State Lottery	30,000	30,000	0.0%
From the State of Indiana	-	125,000	N/A
Net Investment (Loss) Income	(158,320)	25,733	(715.2%)
Transfers From Public Employees' Fund	1,254	2,379	(47.3%)
Other	<u>2,153</u>	<u>5,433</u>	<u>(60.4%)</u>
 Total Additions	 <u>523,222</u>	 <u>830,960</u>	 37.0%
Deductions:			
Benefits	594,718	580,170	2.5%
Refunds	6,450	8,754	(26.3%)
Transfers to Public Employees' Fund	1,251	2,057	(39.2%)
Capital Projects	1,239	2,029	(38.9%)
Administrative Expenses	6,793	4,775	42.3%
Claims on Outdated Benefit Checks	<u>778</u>	<u>-</u>	N/A
 Total Deductions	 <u>611,229</u>	 <u>597,785</u>	 2.2%
 Increase (Decrease) in Net Assets	 <u>\$ (88,007)</u>	 <u>\$ 233,175</u>	 <u>(137.7%)</u>

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, 2002, totaled \$107.0 million. This represents an increase of \$2.5 million or 2.4% compared to the prior year. Employer contributions were \$541.1 million, an increase of \$3.2 million or 0.6%.

The State of Indiana made a special contribution to the Pension Stabilization Fund in the prior fiscal year of \$125.0 million. This contribution was not made during the fiscal year ending June 30, 2002.

INDIANA STATE TEACHERS' RETIREMENT FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)

TRF recognized a net investment loss of \$158.3 million for the year ended June 30, 2002, compared to a net investment gain of \$25.7 million in the prior year. The higher investment losses were primarily due to the continued adverse equity markets, which resulted in a loss of 17.4% on TRF's domestic large cap equity investments. This compares to a loss of 18.0% for the S&P 500 index during the year. Domestic Mid Cap equities had a loss of 8.45% as compared to a loss of 4.73% for the S&P 400 Mid Cap index during the fiscal year. Domestic Small Cap equities had a loss of 3.99%, as compared to a loss of 8.57% for the Russell 2000 index during the fiscal year. International equities had a loss of 11.77%, as compared to a loss of 9.23% for the EAFE index during the fiscal year. Investment losses on equities were partially offset by TRF's fixed income portfolio, which achieved a total return of 5.29% for the year ended June 30, 2002. The total rate of return on TRF's investments was a negative 2.38% compared to a positive 2.1% 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, 2002, benefits amounted to \$594.7 million, an increase of \$14.5 million or 2.5% 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 \$6.4 million, which represents a decrease of 26.3% over the prior year.

Administrative expenses were \$6.8 million, an increase of \$2.0 million compared to the prior year. The fiscal year ending June 30, 2002, amount includes a one-time cost of \$2.6 million for data processing system development. The fiscal year ending June 30, 2001, included a one-time cost of \$1 million for Y2K programming charges.

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:

	<u>July 1, 2001</u>	<u>July 1, 2000</u>
Pre-96 Plan (Closed Plan)	42.2%	42.0%
96 Plan (New Plan)	54.0%	52.2%

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  
June 30, 2002

Assets

Cash and Cash Equivalents	<u>\$ 743,438,282</u>
Securities Lending Collateral	<u>553,452,342</u>
Receivables:	
Employer Contributions	27,981,632
Due From PERF	4,217,073
Member Contributions	28,270,489
Due From Lottery Commission	7,500,000
Securities Sold	166,877,930
Investments Interest	<u>37,308,246</u>
Total Receivables	<u>272,155,370</u>
Investments:	
U.S. Treasury and Agency Obligations	1,555,781,310
Corporate Bonds and Notes	1,446,005,967
Foreign Bonds	12,718,800
Equity Securities	2,251,031,816
Real Estate	<u>260,000</u>
Total Investments	<u>5,265,797,893</u>
Furniture and Equipment (Original Cost of \$411,959 Net of \$365,873 Accumulated Depreciation)	<u>46,086</u>
Insurance Premium Paid in Advance	<u>27</u>
Total Assets	<u>6,834,890,000</u>
 <u>Liabilities</u>	
Accrued Benefits Payable	3,243,947
Accrued Salaries Payable (See Note 1)	131,433
Accrued Liability for Compensated Absences - Current	119,816
Accounts Payable	4,137,451
Due To PERF	6,460,896
Securities Lending Collateral	553,452,342
Payables for Securities Purchased	<u>544,492,904</u>
Total Current Liabilities	<u>1,112,038,789</u>
Accrued Liability for Compensated Absences - Long-Term	<u>98,031</u>
Total Liabilities	<u>1,112,136,820</u>
Net Assets Held in Trust for Pension Benefits (See Schedule of Funding Progress, Page 23)	<u>\$ 5,722,753,180</u>

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

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INDIANA STATE TEACHERS' RETIREMENT FUND  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
Year Ended June 30, 2002

Additions:	
Contributions	
Member Contributions	\$ 107,051,946
Employer Contributions	541,082,604
Employer Contributions - Pension Stabilization	<u>30,000,000</u>
Total Contributions	<u>678,134,550</u>
Investments	
Net Appreciation (Depreciation) in Fair Value	(383,396,789)
Interest Income	215,666,179
Dividend Income	19,924,600
Securities Lending Income	13,817,498
Less Investment Expense	
Investment Fees	(12,090,707)
Securities Lending Fees	<u>(12,240,479)</u>
Net Investment Income	<u>(158,319,698)</u>
Other Additions	
Transfers From Other Retirement Funds	1,253,717
Annuity and Disability Refunds	1,287,032
Outdated Benefit Checks	864,581
Reimbursement of Administrative Expense	<u>1,931</u>
Total Other Additions	<u>3,407,261</u>
Total Additions	<u>523,222,113</u>
Deductions:	
Annuity and Disability Benefits	594,717,533
Voluntary and Death Withdrawals	6,449,874
Claims on Outdated Benefit Checks	777,953
Administrative Expenses	6,780,919
Capital Projects	1,238,838
Depreciation Expenses	12,745
Transfers to Other Retirement Funds	<u>1,250,635</u>
Total Deductions	<u>611,228,497</u>
Change in Net Assets Held in Trust for Pension Benefits	(88,006,384)
Net Assets Beginning of Year	<u>5,810,759,564</u>
Net Assets End of Year	<u><u>\$ 5,722,753,180</u></u>

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



INDIANA STATE TEACHERS' RETIREMENT FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002

Note 1. 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.

In June of 1999, the GASB issued Statement No. 34 (the "Statement") Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. This Statement establishes financial reporting standards for state and local governments. The requirements of this Statement are effective for periods beginning after June 15, 2001, in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. This Statement has no impact on TRF's net assets, but does require certain changes to the presentation of the financial statements and additional disclosures. With these financial statements, TRF is implementing these changes and accordingly, has included Management's Discussion and Analysis as required by the Statement.

- 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.

INDIANA STATE TEACHERS' RETIREMENT FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

- G. Method Used to Value Investments - Investments of defined benefit plans are 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. Equipment - Equipment with a cost of \$5,000 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.
- I. Contributions Receivable - The contributions receivable was determined by using actual contributions received in July for days paid in the quarter ended June 30, 2002.
- J. 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.
- K. Reserves and Designations

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

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 \$1,786,817,879 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 the fund's actuary, as of the date of the last valuation.

INDIANA STATE TEACHERS' RETIREMENT FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

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

Member Reserve	Employer Reserve	Benefits In Force	Undistributed Income	Unreserved Fund Balance
<u>\$ 2,637,014,113</u>	<u>\$289,162,091</u>	<u>\$ 2,618,345,964</u>	<u>\$180,572,866</u>	<u>\$ (7,713,066,409)</u>

- 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.

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, 2002, the number of participating school unit employers was:

Public School Units	317
Higher Education Units	4
State of Indiana Agencies	33
Associations	<u>3</u>
Total	<u>357</u>

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, 2001, Indiana State Teachers' Retirement Fund membership consisted of:

INDIANA STATE TEACHERS' RETIREMENT FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Retirees and Beneficiaries Currently Receiving Benefits	33,783
Active Plan Members	75,648
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	<u>4,595</u>
 Total	 <u><u>114,026</u></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.

Early Retirement (Age Reduction Factor Used)

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

Deferred Retirement (Vested Benefit)

Eligibility - Ten years of service. Benefit 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.

INDIANA STATE TEACHERS' RETIREMENT FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

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. 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 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 fifteen 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 stipulates 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 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.

INDIANA STATE TEACHERS' RETIREMENT FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

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, 2001, employer actuarially required contributions were \$572,226,197 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, 2002, totaled \$570,348,911 which was 17.2% of covered payroll.

Note 4. Cash, Investments and Securities Lending

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

Category 1 includes investments that are insured or registered or for which securities are held by the State or its agent in the State'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 the State'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 the State's name.

State statutes and 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 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 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 the Fund 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.

INDIANA STATE TEACHERS' RETIREMENT FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

	Category			Market Value
	1	2	3	
Equity Securities:				
Not on Securities Loan	\$ 2,142,293,187	\$ -	\$ -	\$ 2,142,293,187
On Securities Loan	-	82,253	-	82,253
Corporate Bonds:				
Not on Securities Loan	1,446,005,967	-	-	1,446,005,967
On Securities Loan	-	126,272,231	-	126,272,231
Foreign Bonds	12,718,800	-	-	12,718,800
U.S. Treasury and Agency Obligations:				
Not on Securities Loan	1,012,129,208	-	-	1,012,129,208
On Securities Loan	-	117,965,884	-	117,965,884
Investments on Securities Loan:				
Repurchase Agreements	427,180,111	-	-	427,180,111
<b>Total Investments Categorized</b>	<b><u>\$ 5,040,327,273</u></b>	<b><u>\$244,320,368</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 5,284,647,641</u></b>

<u>Investments - Not Categorized</u>	<u>Market Value</u>
Investments Held by Broker-Dealers Under Securities Loans With Cash Collateral	
Equity Securities	\$ 108,656,376
U.S. Treasury and Agency Obligations	<u>425,686,218</u>
<b>Total Investments Not Categorized</b>	<b><u>\$ 534,342,594</u></b>

Note 5 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.

INDIANA STATE TEACHERS' RETIREMENT FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 6. 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 7. 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 8. Employee Fund Membership

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



INDIANA STATE TEACHERS' RETIREMENT FUND  
 REQUIRED SUPPLEMENTAL SCHEDULES  
 June 30, 2002

SCHEDULE OF FUNDING PROGRESS

(Dollar Amounts in Millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06-30-96	\$ 3,263	\$ 10,331	\$ 7,068	31.58%	\$ 2,879	245.50%
06-30-97	3,750	11,044	7,294	33.96%	2,985	244.36%
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%

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS  
 AND OTHER CONTRIBUTING ENTITIES

Valuation Date June 30	Annual Required Contribution	Percentage Contributed
1996	\$ 508,940,065	106%
1997	508,259,679	92%
1998	524,815,537	117%
1999	547,532,673	118%
2000	537,789,669	128%
2001	572,226,197	99%

INDIANA STATE TEACHERS' RETIREMENT FUND  
 REQUIRED SUPPLEMENTAL SCHEDULES  
 June 30, 2002  
 (Continued)

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, 2001
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Pay Closed
Amortization Period	38 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increases*	5.5%-10.6%
* Includes Wage Inflation at	5.50%
Cost of Living Adjustments	Unscheduled, Periodic Increases

# Statistical Tables



**SCHEDULE OF ADMINISTRATIVE EXPENSES**

	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>Personal Services:</b>				
Trustees Per Diem	\$11,648.00	\$11,200.00	\$8,624	\$6,270
Staff Salaries	1,622,317.99	1,296,418.15	1,210,178	1,072,924
Social Security	114,958.85	86,061.58	73,368	72,169
Retirement	155,764.10	103,681.94	90,173	87,625
Insurance	321,096.06	200,618.02	161,332	144,976
Personnel Reclassification/Additional Staffing	0	50,519.04	0	0
Temporary Services	<u>0</u>	<u>47,822.37</u>	<u>82,304</u>	<u>117,596</u>
<b>Total Personal Services</b>	<b><u>2,225,785.00</u></b>	<b><u>\$1,796,321.11</u></b>	<b><u>\$1,625,979</u></b>	<b><u>\$1,501,560</u></b>
<b>Professional &amp; Technical Services:</b>				
Actuarial	154,170.00	\$53,965.00	\$85,790	\$105,680
Data Processing	3,154,300.91	723,793.30	872,953	518,050
Y2K Services	0	1,001,700.00	0	0
Data Processing Consultant	0	0	0	862
Audit	46,895.00	27,200.00	28,127	23,827
Strategic Planning Consulting	0	8,177.00	0	0
Benchmarking	25,000.00	25,000.00	0	0
Compensation Classification Consulting		7,500.00		
Revised Internal Operations Procedures Manual Development		0	0	0
Legal Services	100,694.51	115,630.29	65,289	87,602
Medical Examinations	135.00	420.00	220	340
Pension Death Record Comparison	<u>7,685.00</u>	<u>7,657.00</u>	<u>5,044</u>	<u>5,125</u>
<b>Total Prof. &amp; Tech. Services</b>	<b><u>3,488,880.42</u></b>	<b><u>\$1,971,042.59</u></b>	<b><u>\$1,057,422</u></b>	<b><u>\$741,486</u></b>
<b>Communication:</b>				
Printing	251,826.14	\$242,719.05	\$6,510	\$32,938
Telephone	89,637.55	69,936.50	81,386	35,613
Postage	334,961.57	346,421.40	572,653	587,979
Travel	<u>46,361.91</u>	<u>29,245.34</u>	<u>26,491</u>	<u>12,180</u>
<b>Total Communication</b>	<b><u>\$722,787.17</u></b>	<b><u>\$688,322.29</u></b>	<b><u>\$687,040</u></b>	<b><u>\$668,710</u></b>
<b>Miscellaneous:</b>				
Administrative Legal Services	6,675.20	5,115.43	2,723	4,178
Equipment Leasing	7,933.39	19,609.44	19,296	
Unemployment	0	0	4,105	768
Membership and Training	36,942.10	35,208.72	31,562	14,842
Supplies	80,681.28	41,535.57	34,786	31,625
Maintenance	6,140.76	2,600.99	6,999	7,547
Bonding	1,734.04	1,736.00	1,491	1,736
Depreciation	0	9,561.00	65,156	156,445
Office Rent	203,359.64	179,551.82	155,745	
Advertising	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Miscellaneous</b>	<b><u>\$343,466.41</u></b>	<b><u>\$285,357.97</u></b>	<b><u>\$321,863</u></b>	<b><u>\$266,639</u></b>
<b>Total Administrative Expenses</b>	<b><u>\$6,780,919.00</u></b>	<b><u>\$4,741,043.96</u></b>	<b><u>\$3,692,305</u></b>	<b><u>\$3,178,395</u></b>

1998	1997	1996	1995	1994	1993
\$6,540	\$2,600	\$2,700	\$2,700	\$2,100	\$2,050
848,851	787,963	732,141	745,068	735,340	618,709
64,823	60,271	55,926	56,780	50,430	46,844
78,498	76,276	66,113	67,043	99,449	54,270
137,240	130,363	121,104	107,820	62,711	79,144
0	0	0	0	0	0
<u>49,550</u>	<u>55,002</u>	<u>35,147</u>	<u>18,423</u>	<u>8,024</u>	<u>0</u>
<u>\$1,185,502</u>	<u>1,112,475</u>	<u>\$1,013,131</u>	<u>\$997,834</u>	<u>\$958,054</u>	<u>\$801,017</u>
\$63,080	\$58,260	\$46,825	\$75,660	\$49,360	\$61,950
444,038	371,825	447,913	381,491	784,628	774,950
0	0	0	0	0	0
0	41,672	74,913	0	0	0
19,823	16,016	16,383	25,898	12,456	16,155
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
83,596	40,546	40,729	69,288	12,797	77,680
700	636	480	940	640	700
<u>5,097</u>	<u>5,056</u>	<u>5,019</u>	<u>5,100</u>	<u>5,611</u>	<u>6,106</u>
<u>\$616,334</u>	<u>534,011</u>	<u>\$632,262</u>	<u>\$558,377</u>	<u>\$865,492</u>	<u>\$937,541</u>
\$31,863	\$31,763	\$60,770	\$106,479	\$113,318	\$103,569
30,417	26,482	23,856	27,139	20,046	23,198
286,544	378,269	317,912	239,550	208,015	237,315
<u>13,159</u>	<u>6,576</u>	<u>7,241</u>	<u>7,778</u>	<u>8,196</u>	<u>7,132</u>
<u>\$361,983</u>	<u>\$443,090</u>	<u>\$409,779</u>	<u>\$380,946</u>	<u>\$349,575</u>	<u>\$371,214</u>
4,347	2,125	1,607	1,230	1,590	2,672
18,224	2,164	6,303	3,731	1,427	0
9,732	0	0	2,707	0	0
22,574	10,992	8,421	7,316	6,297	10,327
27,055	35,122	24,613	25,153	19,614	16,268
5,345	13,220	7,922	4,884	5,169	6,033
1,292	1,288	1,919	1,055	1,055	1,109
33,737	40,287	38,091	49,765	61,023	73,211
149,274	152,175	151,811	136,881	111,372	111,568
0	0	0	0	0	289
<u>\$271,580</u>	<u>257,373</u>	<u>\$240,687</u>	<u>\$232,722</u>	<u>\$207,547</u>	<u>\$221,477</u>
<b><u>\$2,435,399</u></b>	<b><u>\$2,346,949</u></b>	<b><u>\$2,295,859</u></b>	<b><u>\$2,169,879</u></b>	<b><u>\$2,380,668</u></b>	<b><u>\$2,331,249</u></b>

## SCHEDULE OF INVESTMENT EXPENSES

	2002	2001	2000	1999
<b>Custodial</b>				
National City Corporation	\$1,168,988.31	\$1,064,653.60	\$2,035,330	\$187,281
NBD, N.A.	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Custodial</i>	<u>1,168,988.31</u>	<u>1,064,653.60</u>	<u>2,035,330</u>	<u>187,281</u>
<b>Management</b>				
<b>Fixed Income Managers</b>				
<i>Alliance Capital Mgmt.</i>	753,230.00	514,949.97	385,852	493,196
<i>Alpha Capital Mgmt.</i>	0	0	0	0
<i>Bank One, Indiana</i>	154,129.62	297,598.27	152,148	293,385
<i>Bank of New York</i>	103,866.30	204,008.20	192,167	212,761
<i>Baxter Capital Mgmt.</i>	59,939.84	162,825.95	153,263	157,425
<i>Merchants Capital Mgmt..</i>	0	0	0	0
<i>Reams Asset Mgmt.</i>	1,133,940.00	893,039.00	742,704	459,445
<i>Siex Investment Advisors</i>	57,047.81	61,167.93	59,439	58,781
<i>Tapli, Canida, Habacht</i>	103,624.24	101,196.62	101,274	115,564
<i>Todd Investment Advisor</i>	0	28,291.50	111,607	118,251
<i>NBD Bank</i>	0	0	0	213,727
<b>Equity Managers</b>				
<i>Barclays</i>	88,523.40	80,108.57	204,502	100,899
<i>Rhumblin</i>	74,043.23	54,045.93	23,100	0
<i>J.P Morgan</i>	112,984.75	277,035.95	498,191	120,443
<i>PIMCO</i>	818,625.00	258,965.00	431,554	22,000
<i>Portfolio Advisors</i>	80,000.00	0	0	0
<i>Conseco Capital Management</i>	0	81,595.00	107,476	0
<i>Putnam Investments</i>	344,998.61	320,414.16	164,939	0
<i>Franklin Portfolio Assoc.</i>	171,965.61	151,183.34	70,936	0
<i>Valenzuela Capital Partners</i>	319,661.00	301,000.03	166,309	0
<i>Ariel</i>	729,606.21	759,114.65	379,620	220,843
<i>Brandywine</i>	808,571.91	779,087.50	383,645	234,271
<i>AELTUS</i>	734,869.00	769,974.00	817,179	218,259
<i>TCW</i>	623,444.20	851,048.86	1,160,483	429,752
<i>Earnest Partners LLC</i>	127,845.00	38,441.00	0	0
<i>GE Asset Management</i>	159,353.00	44,924.00	0	0
<i>Institutional Capital Corp</i>	166,290.27	46,500.00	0	0
<i>Pacific Financial Research, INC.</i>	214,592.00	53,859.00	0	0
<i>Enhanced Investment Technologies, INC</i>	167,424.02	37,667.90	0	0
<i>Holt-Smith &amp; Yates Advisors</i>	190,389.00	48,865.00	0	0
<i>Forefront Capital Advisors LLC</i>	87,202.60	33,429.61	0	0
<i>Dresdner RCM Global Advisors</i>	179,461.00	43,132.10	0	0
<i>Alliance</i>	137,358.00	115,954.77	101,434	0
<i>Bank of Ireland</i>	852,775.17	694,234.99	601,073	285,356
<i>DRESDNER</i>	<u>769,432.00</u>	<u>624,813.10</u>	<u>624,020</u>	<u>332,556</u>
<i>Total Management</i>	<u>10,325,192.79</u>	<u>8,728,471.90</u>	<u>7,632,914</u>	<u>4,086,914</u>
<b>Consultant - Callan Associates</b>	<u>226,833.37</u>	<u>204,292.47</u>	<u>203,000</u>	<u>193,000</u>
<b>Fiduciary Audit</b>	<u>231,998.09</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Other Charges</b>	<u>137,694.46</u>	<u>125,796.15</u>	<u>22,504</u>	<u>18,112</u>
<b>Total Investment Expenses</b>	<u><u>\$12,090,707.02</u></u>	<u><u>\$10,123,214.12</u></u>	<u><u>\$9,893,748</u></u>	<u><u>\$4,485,307</u></u>



**Number of Payees Receiving Benefits  
Fiscal Year Ending - June 30**

<b>Gross Benefit Amount</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>	<b>1993</b>
0.01 - 100.00	289	291	304	350	359	367	378	379	374	386
100.01 - 200.00	1,010	1,047	1,097	1,278	1,320	1,439	1,558	1,674	1,796	1,903
200.01 - 300.00	1,506	1,561	1,617	1,877	1,935	2,055	2,203	2,308	2,430	2,555
300.01 - 400.00	1,648	1,701	1,790	2,011	2,119	2,232	2,400	2,541	2,677	2,854
400.01 - 500.00	1,740	1,793	1,871	2,052	2,127	2,262	2,424	2,549	2,682	2,804
500.01 - 600.00	1,804	1,859	1,895	2,083	2,160	2,287	2,384	2,482	2,604	2,723
600.01 - 700.00	1,855	1,908	2,010	2,049	2,114	2,175	2,246	2,291	2,347	2,379
700.01 - 800.00	1,771	1,818	1,856	1,944	1,977	2,051	2,113	2,157	2,148	2,185
800.01 - 900.00	1,741	1,769	1,826	1,838	1,862	1,930	1,971	1,986	1,978	1,979
900.01 - 1,000.00	1,850	1,866	1,878	1,870	1,873	1,845	1,841	1,769	1,755	1,678
1,000.01 - 1,100.00	1,969	1,942	1,953	1,840	1,801	1,731	1,644	1,575	1,462	1,386
1,100.01 - 1,200.00	1,957	1,928	1,904	1,776	1,684	1,524	1,418	1,303	1,153	1,036
1,200.01 - 1,300.00	1,945	1,885	1,764	1,570	1,480	1,378	1,284	1,157	1,040	956
1,300.01 - 1,400.00	1,867	1,794	1,694	1,503	1,393	1,254	1,134	1,005	852	718
1,400.01 - 1,500.00	1,784	1,638	1,500	1,310	1,185	1,076	963	821	671	570
1,500.01 - 1,600.00	1,658	1,527	1,387	1,167	1,043	885	779	658	557	451
1,600.01 - 1,700.00	1,391	1,264	1,159	991	879	742	638	525	461	388
1,700.01 - 1,800.00	1,167	1,090	977	859	770	698	595	507	427	330
1,800.01 - 1,900.00	1,061	986	915	787	709	615	525	439	349	258
1,900.01 - 2,000.00	941	851	736	639	579	503	396	324	241	194
2,000.01 - 2,100.00	779	715	617	519	458	403	345	296	224	163
2,100.01 - 2,200.00	630	582	521	453	381	333	265	187	138	91
2,200.01 - 2,300.00	532	469	414	326	294	225	157	116	91	69
2,300.01 - 2,400.00	423	386	310	247	208	181	144	97	65	48
2,400.01 - 2,500.00	314	271	232	198	172	136	92	69	55	36
2,500.01 - 2,600.00	263	220	169	133	120	81	61	44	31	19
2,600.01 - 2,700.00	180	156	127	104	93	62	50	34	32	15
2,700.01 - 2,800.00	153	127	96	72	62	62	28	16	10	8
2,800.01 - 2,900.00	109	90	72	52	41	38	25	25	15	9
2,900.01 - 3,000.00	79	64	52	48	40	30	18	12	6	1
3,000.01 - 3,100.00	52	40	30	25	24	19	17	6	0	1
3,100.01 - 3,200.00	34	32	31	22	22	10	4	4	3	2
3,200.01 - 3,300.00	31	27	19	11	9	8	5	4	3	1
3,300.01 - 3,400.00	25	24	10	13	9	7	7	4	4	2
3,400.01 - 3,500.00	17	13	14	8	7	6	8	5	1	1
3,500.01 - 3,600.00	18	15	11	15	15	7	3	0	1	0
3,600.01 - 3,700.00	13	12	5	2	1	2	1	1	0	0
3,700.01 - 3,800.00	7	3	4	3	1	0	1	1	0	1
3,800.01 - 3,900.00	9	5	3	1	0	1	1	1	1	0
3,900.01 - 4,000.00	6	4	5	2	2	2	2	0	0	0
4,000.01 - or more	24	15	9	7	4	3	2	0	0	0
<b><u>Total</u></b>	<b><u>34,652</u></b>	<b><u>33,788</u></b>	<b><u>32,884</u></b>	<b><u>32,055</u></b>	<b><u>31,332</u></b>	<b><u>30,665</u></b>	<b><u>30,130</u></b>	<b><u>29,372</u></b>	<b><u>28,684</u></b>	<b><u>28,200</u></b>



## Number of Approved Benefit Payments

### Fiscal Year Ending - June 30

Type of Payment	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Retirement (Including Disability/Survivorship)	2,011	1,946	1,801	1,828	1,692	1,593	1,748	1,654	1,464	1,169
Regular Disability	1	4	6	3	8	8	3	3	4	6
Voluntary Withdrawals	1,427	7,007	7,896	1,855	1,357	1,186	1,272	1,384	3,722	1,269
Death Withdrawals	93	137	94	115	97	101	138	122	132	116

## Rate of Investment Earnings Distribution

### Fiscal Year Ending - June 30

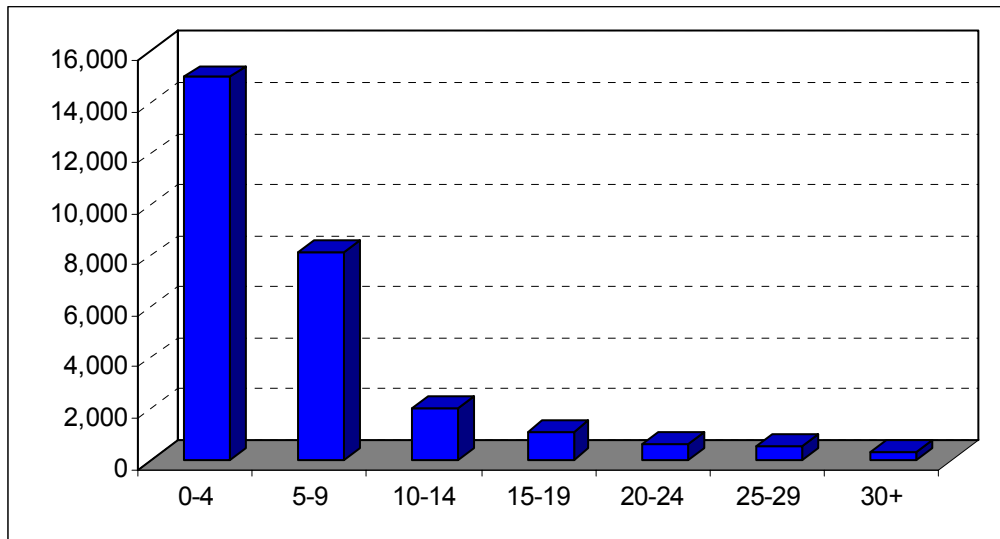
Investment Options	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Guaranteed Fund	7.50%	7.75%	7.75%	8.00%	8.00%	8.50%	9.00%	9.00%	9.00%	10.00%
Bond Fund	5.54%	11.08%	5.99%	4.49%	10.05%	7.13%	4.30%	11.19%	(0.84)%	12.34%
Money-Market*	n/a	n/a	n/a	n/a	6.06%	6.03%	5.90%	6.43%	3.35%	4.62%
S & P 500 Index	(17.96)%	(14.71)%	7.21%	36.37%	**					
Small Cap	(4.46)%	7.58%	38.65%	34.66%	**					
International	(11.98)%	(24.13)%	26.27%	29.74%	**					

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

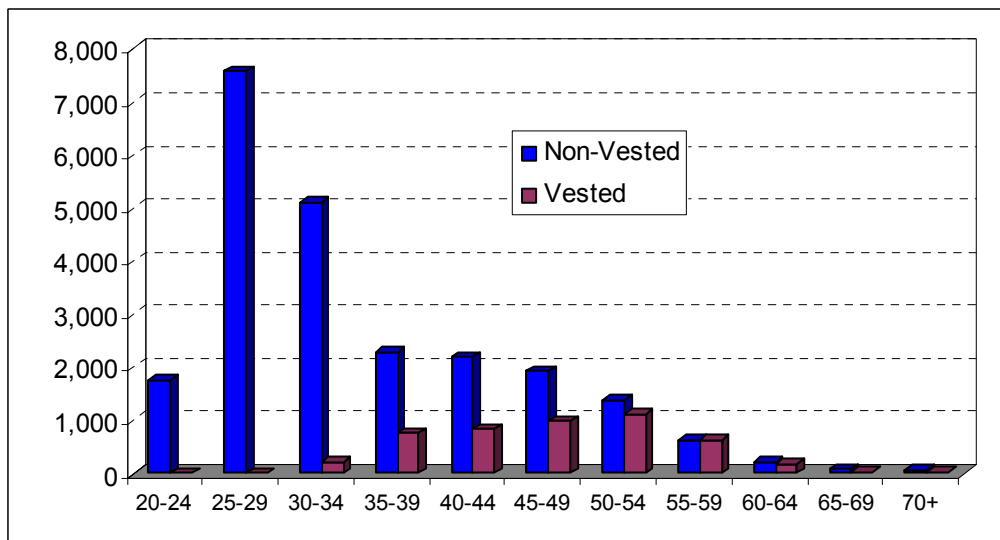
\*\*From inception of 10/01/99 through 06/30/00.

## NEW PLAN ACTIVE MEMBERS

*By Years of Service: As of June 30, 2002*



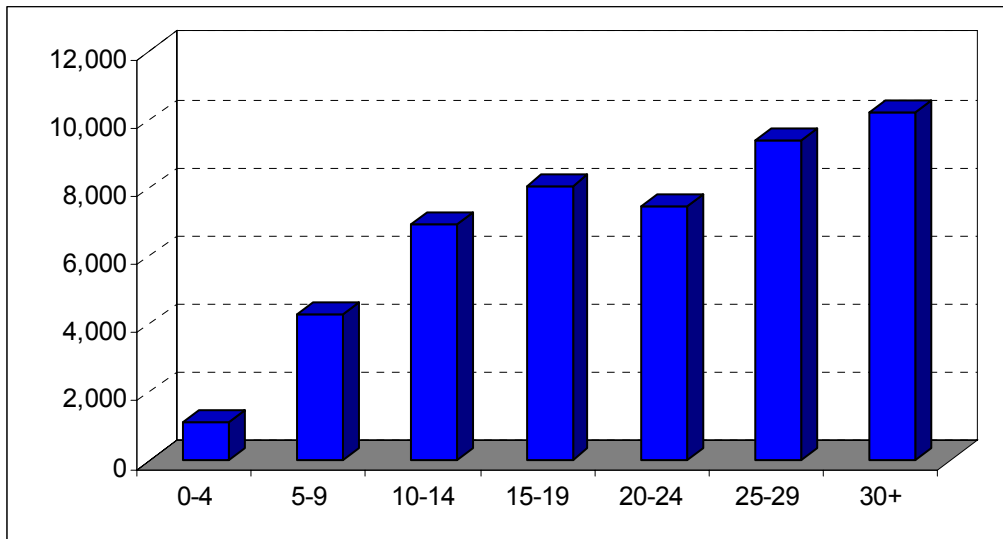
*By Age: As of June 30, 2002*



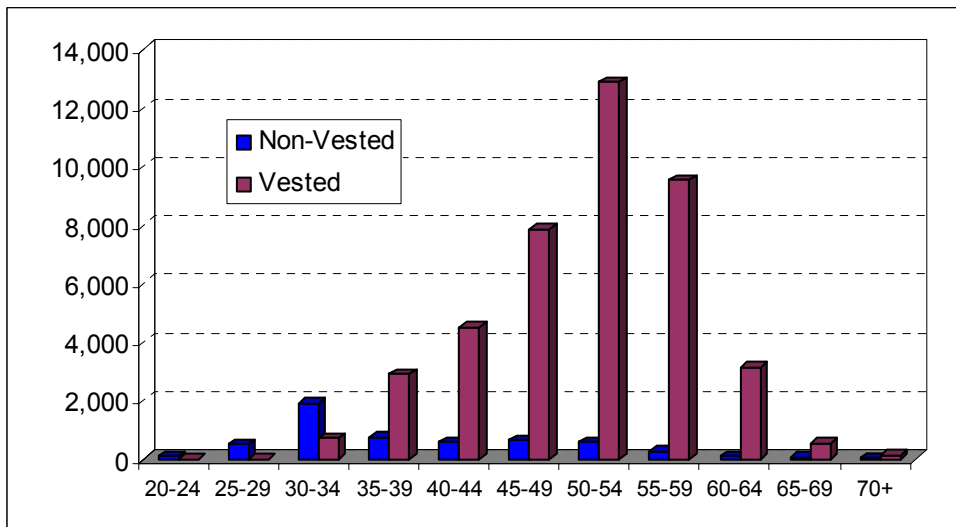
Total Non-Vested:	23,163
Total Vested:	<u>4,710</u>
Total Active New Plan Members:	27,873

## CLOSED PLAN ACTIVE MEMBERS

*By Years of Service: As of June 30, 2002*



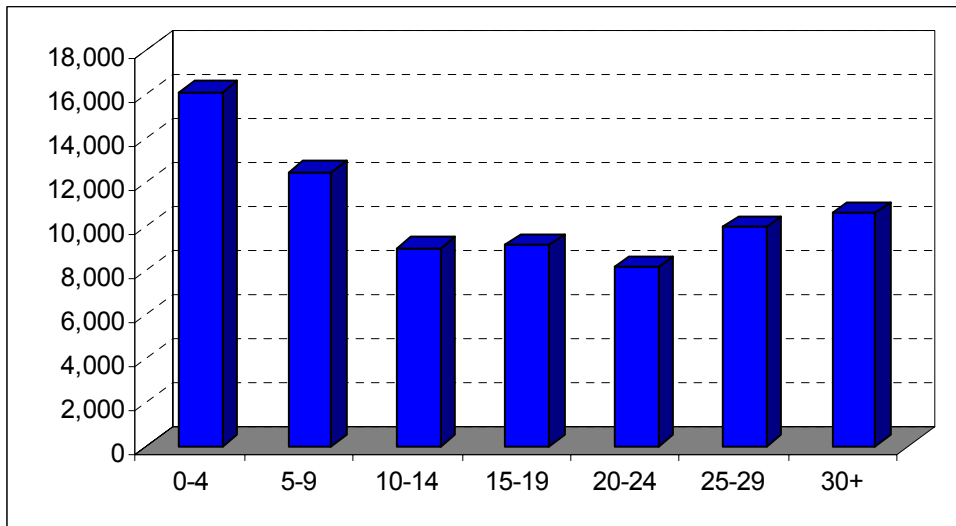
*By Age: As of June 30, 2002*



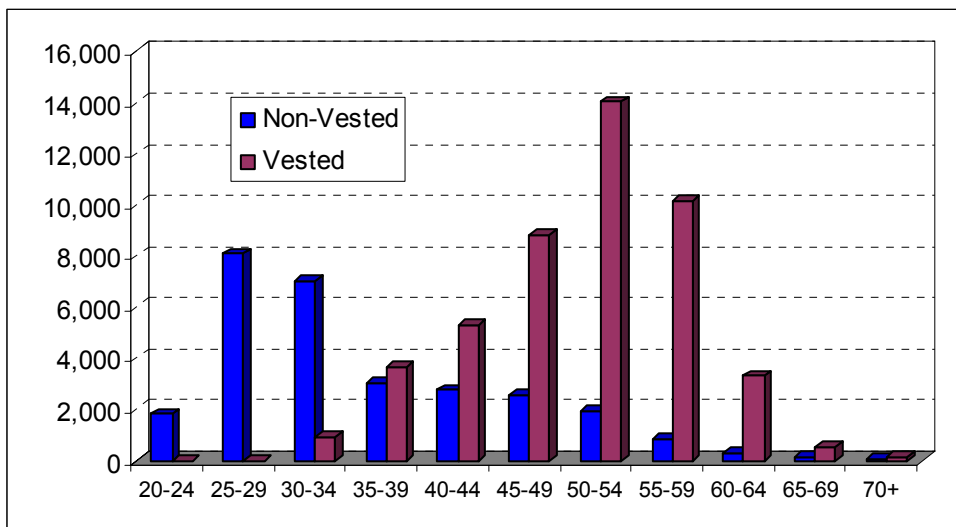
Total Non-Vested:	5,381
Total Vested:	<u>42,129</u>
Total Active Closed Plan Members:	47,510

## TOTAL ACTIVE MEMBERS

*By Years of Service: As of June 30, 2002*



*By Age: As of June 30, 2002*



Total Non-Vested:	28,544
Total Vested:	<u>46,839</u>
Total Active Plan Members:	75,383

# Actuarial Report





**GABRIEL, ROEDER, SMITH & COMPANY**  
Consultants & Actuaries

One Towne Square • Suite 800 • Southfield, Michigan 48076 • 248-799-9000 • 800-521-0498 • fax 248-799-9020

January 31, 2003

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 which 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 as of June 30, 2002, is illustrated 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, 2002.

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.

January 31, 2003

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, 2002 valuation was based upon assumptions that were adopted by the Board following a study of experience covering the July 1, 1991- June 30, 1996 period. We are currently preparing an Experience Study for the 5-year period ending June 30, 2002.

As of June 30, 2002, ISTRF is 41% funded in the Closed Plan and 53% funded in the New Plan, indicating approximately the same financial position as in the prior year. Unfortunately, the recent poor performance of investment markets (a phenomenon that is affecting most retirement systems in the country) has affected ISTRF negatively in the last few years.

**Based upon the results of the June 30, 2002 valuation, we are pleased to report to the Board of Trustees that the Indiana State Teacher Retirement Fund is working towards its basic financial objective. The current funding position of the New Plan can be maintained provided that employer contributions are made at the actuarially computed level and that investment income is earned at the assumed rate.**

**A return to more normal investment markets is important for ISTRF as well as for virtually every retirement system in the country.**

Respectfully Submitted,

**GABRIEL, ROEDER, SMITH & COMPANY**



Judith A. Kermans, EA, MAAA



Brian F. Dunn, ASA, EA, MAAA

**ACTUARIAL REPORT – ANNUAL REPORT 2002**  
**SUMMARY OF VALUATION RESULTS**  
**JUNE 30, 2002**

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**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*

<b>Amounts as of June 30, 2002</b>	<b>Closed Plan</b>	<b>New Plan</b>	<b>Total</b>
Computed actuarial accrued liability	\$13,497,778,031	\$1,166,883,205	\$14,664,661,236
Funding Value of Assets	5,555,352,257	621,222,272	6,176,574,529
Unfunded Actuarial Accrued Liability	\$ 7,942,425,774	\$545,660,933	\$ 8,488,086,707



**ACTUARIAL REPORT – ANNUAL REPORT 2002**  
**SUMMARY OF VALUATION RESULTS (CONTINUED)**  
**JUNE 30, 2002**

**II. Computed Employer Contribution Rates – June 30, 2002**

	<b>Employer Contributions As %s of Active Payroll For Fiscal Year 2003-2004</b>	
Contributions for	<b>Closed Plan 37-Year Amortization of UAAL</b>	<b>New Plan 37-Year Amortization of UAAL</b>
Normal Cost:		
Age and Service Pensions	7.03%	7.19%
Disability and Death-in-Service	0.36%	0.34%
Totals	7.39%	7.53%
Unfunded Actuarial Accrued Liability (UAAL):		
Retired Members and Beneficiaries	2.23%	0.00%
Active and Inactive Vested Members	8.74%	1.97%
Totals	10.97%	1.97%
<b>Computed Employer Contribution Rates</b>	<b>18.36%</b>	<b>9.50%</b>
<b>\$ Contribution Based on Computed Rates</b>	<b>\$ 532,000,000</b>	<b>\$ 106,000,000</b>
<b>2003-2004 Expected Employer Contribution</b>		
<b>Amount Based on Budgeted Rates</b>	<b>\$ 448,000,000</b>	<b>\$ 101,000,000</b>

**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 2003-2004 fiscal year. This amount expressed as a percentage of valuation payroll is 17%.
- 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 UAAL contribution rates shown above were calculated as a level percentage of payroll assuming a constant population size for each Plan. This allows the contribution rates for the two Plans to be considered on a comparable basis. The dollar contribution based on computed rates is a projection to the 2003-2004 fiscal year at the 5.5% payroll growth rate assumption and is provided for illustration. In reality, the Closed Plan is shrinking in size and the payroll will grow more slowly than 5.5%. The New Plan is growing as Closed Plan members terminate active employment and their replacements become New Plan members. The New Plan payroll will grow more rapidly than 5.5%. The UAAL contribution rate for the Closed Plan calculated as a level percentage of the declining Closed Plan payroll would be higher than is shown. Conversely, the UAAL contribution rate for the New Plan calculated as a level percentage of the increasing Closed Plan payroll would be somewhat lower than is shown.
- The existence of Unfunded Actuarial Accrued Liability in the New Plan is primarily attributable to members with prior service. Additional liabilities transferred from the Closed Plan as a result of prior service would likely require additional funding.

**ACTUARIAL REPORT – ANNUAL REPORT 2002**  
**SUMMARY OF VALUATION RESULTS (CONTINUED)**  
**JUNE 30, 2002**

**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 plan's present assets 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***

**Computed Actuarial Accrued Liability**

June 30	(3) Present Members (Employer Financed Portion) (\$ in Millions)			Valuation Assets	Portion of Accrued Liability Covered by Assets		
	(1) Member Contr.	(2) Retired Lives	(3)		(1)	(2)	(3)
1981	\$ 423	\$ 885	\$ 1,649	\$ 601	100%	20%	0%
1983(a)	544	1,043	1,751	765	100	21	0
1985	713	1,198	2,112	1,073	100	30	0
1987	932	1,406	2,499	1,401	100	33	0
1989#	1,132	1,624	3,449	1,707	100	35	0
1991	1,373	1,853	3,956	2,161	100	43	0
1992(a)	1,521	2,059	4,369	2,376	100	42	0
1993	1,665	2,290	4,553	2,592	100	41	0
1994	1,812	2,483	4,792	2,808	100	40	0
1995	1,930	2,716	5,029	2,984	100	39	0
1996	2,070	2,968	5,245	3,242	100	39	0
1997(a)	2,188	3,234	5,447	3,678	100	46	0
1998	2,374	3,479	5,629	4,130	100	50	0
1999	2,500	3,659	6,014	4,731	100	61	0
2000	2,699	3,890	5,819	5,210	100	65	0
2001	2,669	4,121	5,905	5,363	100	65	0
2002(a)	2,754	4,412	6,332	5,555	100	63	0

# Legislated plan amendments.

(a) Actuarial assumptions or methods revised.

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

<b>June 30</b>	<b>Computed Actuarial Accrued Liability</b>			<b>Valuation Assets</b>	<b>Portion of Accrued Liability Covered by Assets</b>		
	<b>(1) Member Contr.</b>	<b>(2) Retired Lives</b>	<b>(3) Present Members (Employer Financed Portion) (\$ in Millions)</b>		<b>(1)</b>	<b>(2)</b>	<b>(3)</b>
1996	\$ 14	\$ 0.3	\$ 33	\$ 21	100%	100%	21%
1997(a)	46	0.4	130	72	100	100	20
1998	74	2.6	222	136	100	100	27
1999	126	3.9	369	240	100	100	30
2000	195	9.8	502	368	100	100	33
2001	211	12.1	605	447	100	100	37
2002(a)	291	17.3	858	621	100	100	36

*(a) Actuarial assumptions or methods revised.*

The excess of accrued liability over valuation assets reflects the inclusion of new hires with prior service credit.

**ACTUARIAL REPORT – ANNUAL REPORT 2002**  
**SUMMARY OF VALUATION RESULTS**  
**(CONTINUED)**  
**JUNE 30, 2002**

**IV. Valuation Data**

The June 30, 2002 actuarial valuation was based on the following data:

	<b>Retired Members and Beneficiaries</b>		<b>Inactive Members</b>	
	<b>Number</b>	<b>Annual Allowances</b>	<b>Vested</b>	<b>Non-Vested</b>
Closed Plan	34,646	\$480,689,995	4,757	11,314
New Plan	<u>108</u>	<u>1,662,264</u>	<u>562</u>	<u>17,529</u>
Totals	34,754	\$482,352,259	5,319	28,843

**Active Members**

	<b>Number</b>	<b>Annual Payroll</b>	<b>Averages*</b>	
			<b>Age</b>	<b>Service</b>
Closed Plan	47,510	\$2,604,955,746	49.4 years	21.5 years
New Plan	<u>27,873</u>	<u>1,004,514,690</u>	36.7 years	6.1 years
Totals	75,383	\$3,609,470,436		

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

**Financial Information**  
**(Market Value Basis)**

<b>Reserve Allocation</b>	<b>Closed Plan</b>	<b>New Plan</b>	<b>Totals</b>
<b>Member Reserves:</b>			
Active and Inactive	\$ 2,551,239,549	\$ 270,056,637	\$ 2,821,296,186
Retired	<u>565,804,709</u>	<u>1,640,952</u>	<u>567,445,661</u>
Total Member Reserves	\$ 3,117,044,258	\$ 271,697,589	\$ 3,388,741,847
<b>Employer Reserves:</b>			
Active	\$ 0	\$ 289,162,091	\$ 289,162,091
Retired			
Pension Stabilization Fund	\$ 1,786,817,879	\$ 0	\$ 1,786,817,879
Other	<u>243,312,830</u>	<u>14,718,533</u>	<u>258,031,363</u>
Total	\$ 2,030,130,709	\$ 14,718,533	\$ 2,044,849,242
Total Employer Reserves	2,030,130,709	303,880,624	2,334,011,333
Total Reserves	\$ 5,147,174,967	\$ 575,578,213	\$ 5,722,753,180

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

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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, 2002
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization method	Level Percent of Pay Closed
Amortization period	37 Years
Asset valuation method	4-year smoothed market value with corridor
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases*	5.5%-10.6%
*Includes inflation at	5.50%
Cost-of-living adjustments	Unscheduled, periodic increases

Membership of the plan consisted of the following at June 30, 2002, the date of the latest actuarial valuation:

	<u>Closed Plan</u>	<u>New Plan</u>	<u>Totals</u>
Retired members and beneficiaries receiving benefits	34,646	108	34,754
Terminated plan members entitled to but not yet receiving benefits			
Vested	4,757	562	5,319
Non-Vested	11,314	17,529	28,843
Active plan members	47,510	27,873	75,383
Totals	98,227	46,072	144,299

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

*Closed Plan*

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Schedule of Funding Progress			Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
		Actuarial Accrued Liability (AAL) -- Entry-Age -- (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)		
1992*	\$2,376,039,915	\$ 7,949,159,660	\$5,573,119,745	29.9 %	\$2,416,262,885	230.7 %
1993	2,592,320,494	8,508,035,949	5,915,715,455	30.5	2,536,164,646	233.3
1994	2,808,649,929	9,087,583,424	6,278,933,495	30.9	2,614,914,517	240.1
1995	2,983,579,054	9,674,536,606	6,690,957,552	30.8	2,728,810,964	245.2
1996	3,242,032,156	10,283,174,065	7,041,141,909	31.5	2,805,823,234	250.9
1997*	3,678,102,810	10,868,423,166	7,190,320,356	33.8	2,739,435,972	262.5
1998	4,130,388,693	11,481,766,668	7,351,377,975	36.0	2,699,182,719	272.4
1999	4,730,666,420	12,172,501,450	7,441,835,030	38.9	2,755,489,026	270.1
2000	5,209,889,286	12,409,275,218	7,199,385,932	42.0	2,561,532,743	281.1
2001	5,363,497,813	12,695,787,691	7,332,289,878	42.2	2,564,451,154	285.9
2002*	5,555,352,257	13,497,778,031	7,942,425,774	41.2	2,604,955,746	304.9

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

*Schedule of Employer Contributions*

Fiscal Year	Valuation Date June 30	Contribution Rates as Percents of Valuation Payroll	Annual Required Contribution	Percentage Contributed
1993-1994	1992	16.32%	\$416,022,498	59.0%
1994-1995	1993	16.31	436,399,180	61.0
1995-1996	1994	16.56	456,846,570	63.0
1996-1997	1995	16.74	481,927,124	65.0
1997-1998	1996	16.96	502,040,298	N/A
1998-1999	1997	16.77	484,670,600	N/A
1999-2000	1998	17.10	486,946,058	N/A
2000-2001	1999	17.02	494,778,365	N/A
2001-2002	2000	17.55	474,274,191	N/A
2002-2003	2001	17.85	496,033,881	N/A
2003-2004	2002	18.36	532,326,328	N/A

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

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*New Plan*

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Schedule of Funding Progress			Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
		Actuarial Accrued Liability (AAL) -- Entry-Age -- (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)		
1996	\$ 20,587,223	\$ 47,614,251	\$ 27,027,028	43.2%	\$ 72,506,252	37.3%
1997*	72,035,629	176,236,990	104,201,361	40.9	245,167,941	42.5
1998	135,923,370	298,407,427	162,484,057	45.5	395,757,887	41.1
1999	240,053,914	498,422,993	258,369,079	48.2	538,837,104	48.0
2000	368,157,499	705,790,225	337,632,726	52.2	631,071,749	53.5
2001	447,261,751	828,038,282	380,776,531	54.0	754,425,873	50.5
2002*	621,222,272	1,166,883,205	545,660,933	53.2	1,004,514,690	54.3

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

*Schedule of Employer Contributions*

Fiscal Year	Year Ended June 30	Contribution Rates as Percents of Valuation Payroll	Annual Required Contribution	Percentage Contributed
1997-1998	1996	9.02%	\$ 6,899,767	N/A
1998-1999	1997	9.12	23,589,079	N/A
1999-2000	1998	9.07	37,869,479	N/A
2000-2001	1999	9.28	52,754,308	N/A
2001-2002	2000	9.54	63,515,478	N/A
2002-2003	2001	9.32	76,192,316	N/A
2003-2004	2002	9.50	106,214,746	N/A

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# Investments





### Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2002, with the distribution as of March 31, 2002.

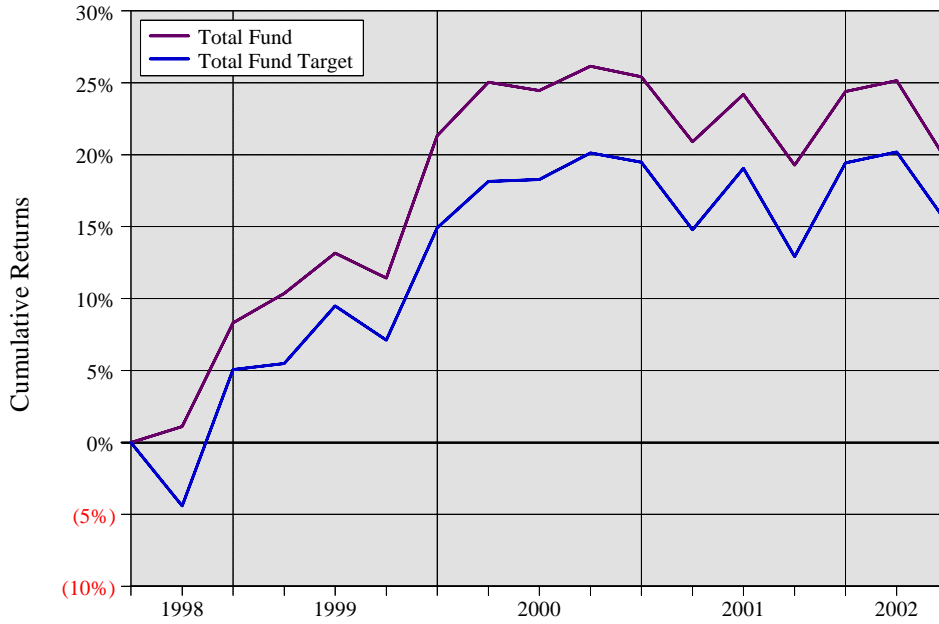
#### Asset Distribution Across Investment Managers

	June 30, 2002		March 31, 2002	
	Market Value	Percent	Market Value	Percent
<b>Domestic Equity</b>	<b>\$1,967,083,881</b>	<b>34.71%</b>	<b>\$2,226,449,486</b>	<b>37.91%</b>
<b>Large Cap Equity</b>	<b>\$1,331,295,059</b>	<b>23.49%</b>	<b>\$1,532,958,421</b>	<b>26.10%</b>
<b>Passive</b>				
Barclays Global Investors	670,138,177	11.83%	773,660,961	13.17%
Rhumbline	186,869,676	3.30%	215,624,487	3.67%
<b>Enhanced</b>				
J.P. Morgan	-	-	452,512	0.01%
PIMCO	265,091,665	4.68%	304,260,816	5.18%
<b>Growth</b>				
Dresdner	31,303,152	0.55%	37,198,972	0.63%
ForeFront	-	-	11,363	0.00%
INTECH	37,103,106	0.65%	41,948,504	0.71%
H-S&Y	33,479,500	0.59%	39,241,339	0.67%
<b>Value</b>				
Earnest	19,693,370	0.35%	22,611,299	0.38%
GEAM	30,275,500	0.53%	34,141,684	0.58%
ICAP	26,266,471	0.46%	29,239,273	0.50%
PFR	31,074,442	0.55%	34,567,211	0.59%
<b>Mid Cap Equity</b>	<b>\$177,198,830</b>	<b>3.13%</b>	<b>\$193,423,198</b>	<b>3.29%</b>
<b>Core</b>				
Franklin Associates	60,140,201	1.06%	64,818,559	1.10%
<b>Growth</b>				
Putnam Investments	58,495,079	1.03%	66,909,790	1.14%
<b>Value</b>				
Valenzuela Capital Partners	58,563,550	1.03%	61,694,849	1.05%
<b>Small Cap Equity</b>	<b>\$458,589,992</b>	<b>8.09%</b>	<b>\$500,067,867</b>	<b>8.51%</b>
<b>Growth</b>				
Aeltus Capital Management	94,727,487	1.67%	108,844,055	1.85%
TCW Group	67,073,781	1.18%	82,787,553	1.41%
<b>Value</b>				
Ariel Capital Management	141,340,723	2.49%	145,840,828	2.48%
Brandywine Capital Mgmt	155,448,001	2.74%	162,595,431	2.77%
<b>International Equity</b>	<b>\$576,055,495</b>	<b>10.17%</b>	<b>\$589,311,297</b>	<b>10.03%</b>
Alliance Capital Mgmt	195,048,809	3.44%	197,644,234	3.37%
Bank of Ireland	196,545,212	3.47%	200,287,658	3.41%
Dresdner RCM Global	184,461,474	3.26%	191,379,405	3.26%
<b>Domestic Fixed-Income</b>	<b>\$3,120,156,219</b>	<b>55.06%</b>	<b>\$3,057,363,199</b>	<b>52.06%</b>
Alliance Capital Mgmt	1,479,259,549	26.10%	1,445,254,561	24.61%
Bank of New York	-	-	103,251	0.00%
Bank One, Indianapolis	-	-	291,787	0.00%
Reams Asset Management	1,469,742,361	25.94%	1,448,962,470	24.67%
Seix Investment Advisors	166,194	0.00%	29,773,186	0.51%
Taplin, Canida & Habacht	61,986,556	1.09%	61,314,393	1.04%
Cash Flow Account	109,001,559	1.92%	71,663,551	1.22%
<b>Alternative Investment</b>	<b>\$3,709,421</b>	<b>0.07%</b>	-	-
Porfolio Advisors	3,709,421	0.07%	-	-
<b>Total Fund</b>	<b>\$5,667,005,016</b>	<b>100.0%</b>	<b>\$5,873,123,982</b>	<b>100.0%</b>

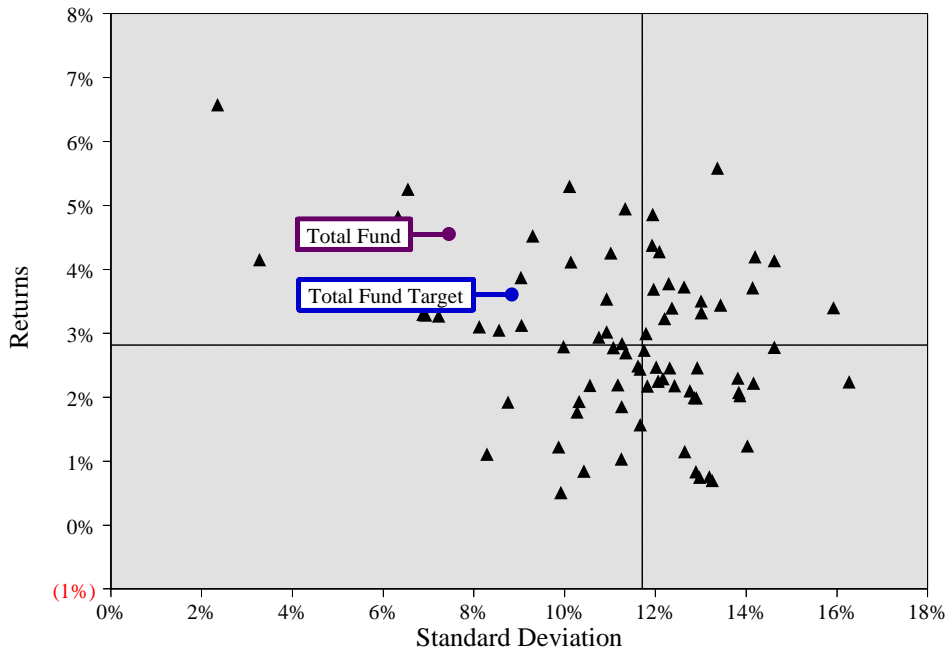
### Cumulative Performance Relative to Target

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



#### Four Year Annualized Risk vs Return



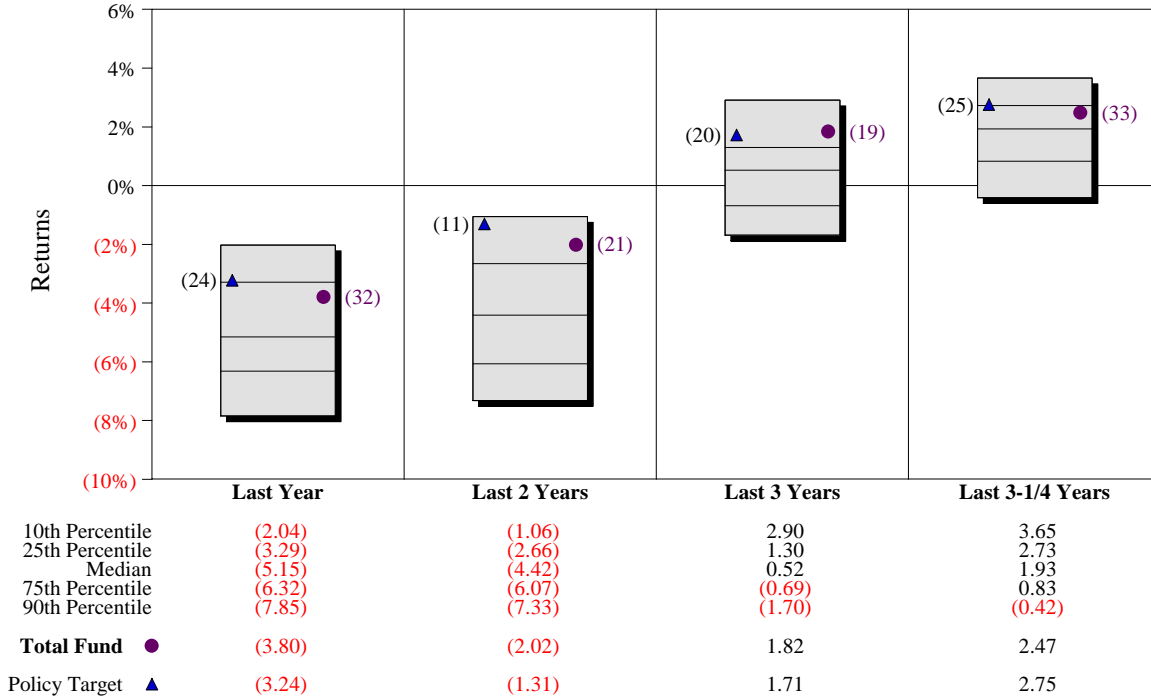
Triangles represent membership of the Public Plan Sponsor Database

\* Current Quarter Target = 40.0% L/B Agg, 25.0% S&P 500, 15.0% MSCI EAFE Index, 5.0% Russell 2000, 5.0% S&P Mid Cap 400, 5.0% Wilshire Real Estate Idx and 5.0% Post Venture Cap Idx.

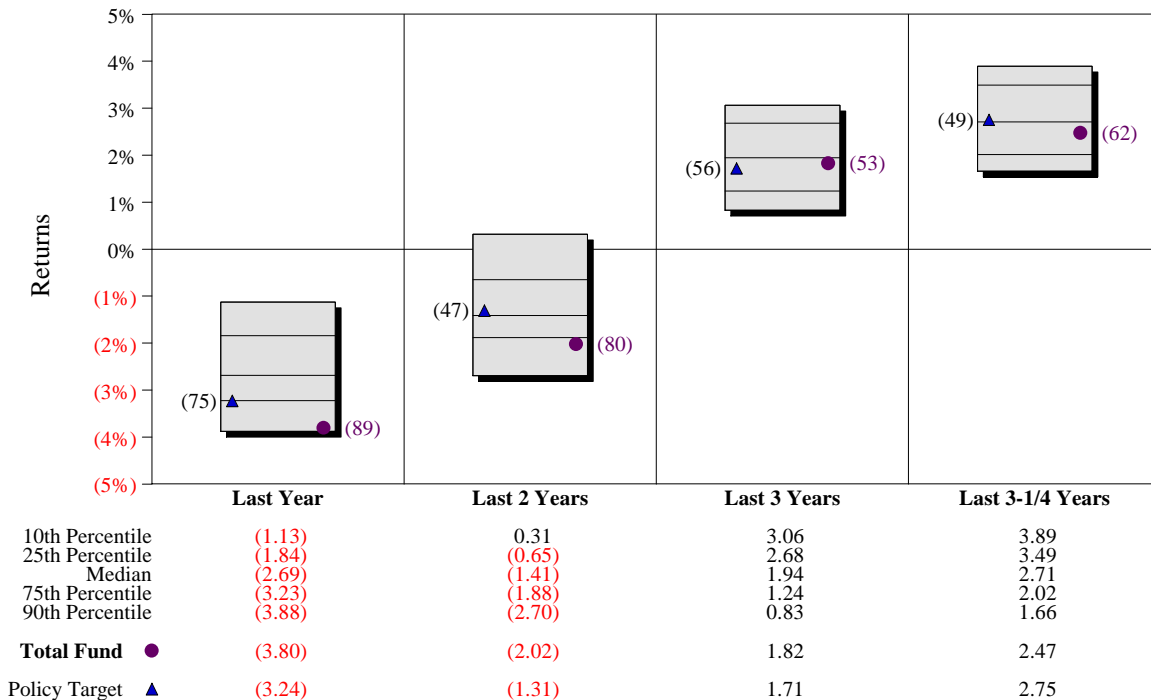
### Total Fund Ranking

The first two charts show the ranking of the Total Fund's performance relative to that of the Public Plan Sponsor Database for periods ended June 30, 2002. 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.

### Public Plan Sponsor Database



### Asset Allocation Adjusted Ranking



\* Current Quarter Target = 40.0% L/B Agg, 25.0% S&P 500, 15.0% MSCI EAFE Index, 5.0% Russell 2000, 5.0% S&P Mid Cap 400, 5.0% Wilshire Real Estate Idx and 5.0% Post Venture Cap Idx.

# TOTAL DOMESTIC EQUITY PERIOD ENDED JUNE 30, 2002

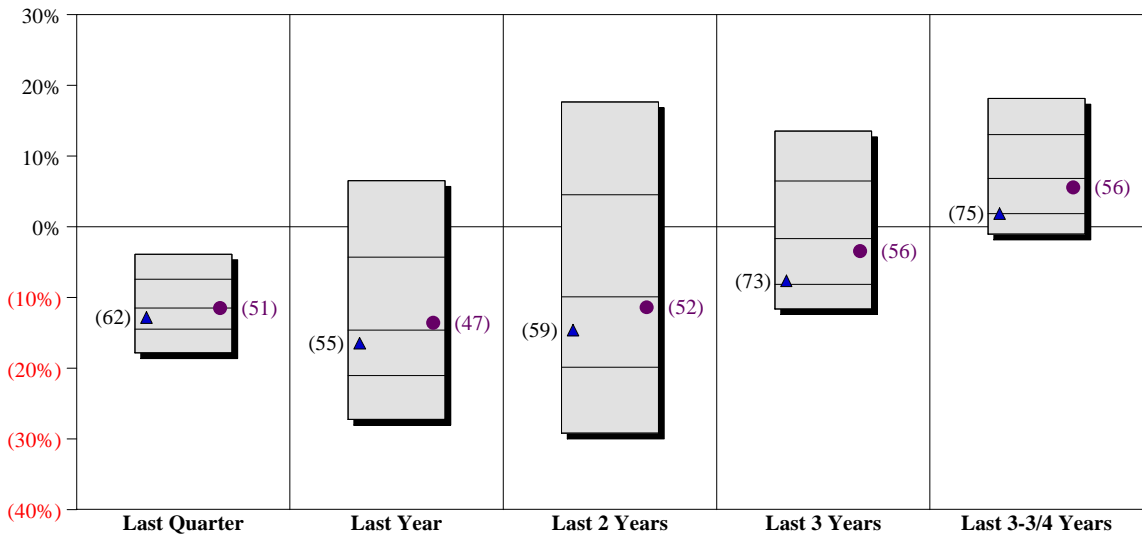
## Investment Philosophy

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

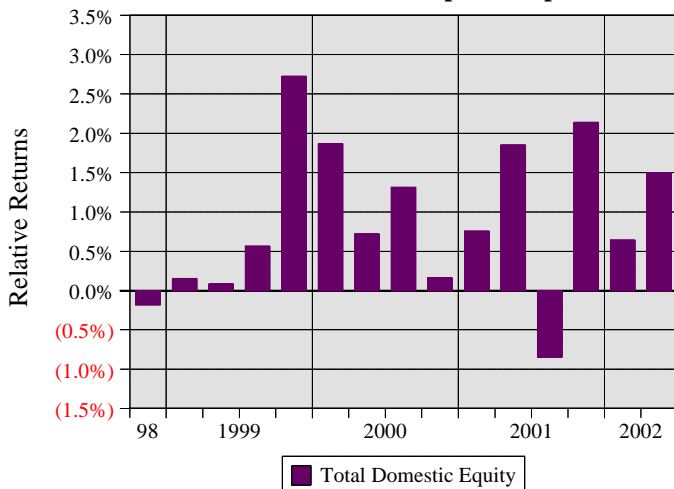
- Total Domestic Equity's portfolio posted a (11.54)% return for the quarter placing it in the 51 percentile of the Total Domestic Equity Database group for the quarter and in the 47 percentile for the last year.
- Total Domestic Equity's portfolio outperformed the S&P Super Composite 1500 by 1.31% for the quarter and outperformed the S&P Super Composite 1500 for the year by 2.88%.

## Performance vs Total Domestic Equity Database

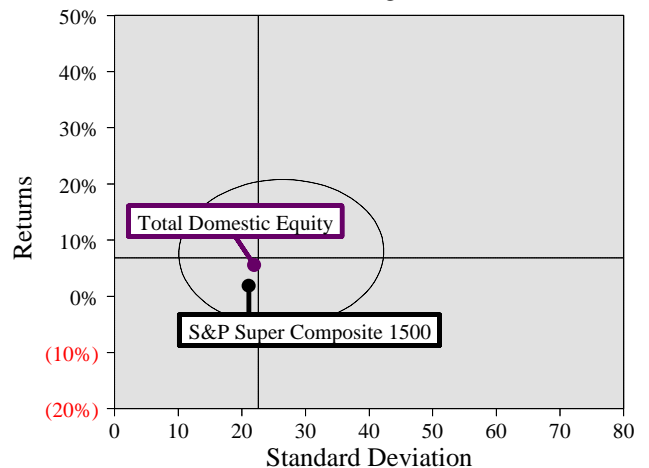


10th Percentile	(3.89)	6.51	17.65	13.50	18.13
25th Percentile	(7.43)	(4.29)	4.56	6.48	13.02
Median	(11.49)	(14.60)	(9.92)	(1.65)	6.84
75th Percentile	(14.50)	(21.03)	(19.89)	(8.16)	1.86
90th Percentile	(17.86)	(27.26)	(29.24)	(11.63)	(1.08)
<b>Total Domestic Equity</b>	● (11.54)	(13.62)	(11.42)	(3.49)	5.52
<b>S&amp;P Super Composite 1500</b>	▲ (12.85)	(16.50)	(14.66)	(7.66)	1.84

## Relative Return vs S&P Super Composite 1500



## Total Domestic Equity Database Annualized Three And Three-Quarter Year Risk vs Return



## TOTAL FIXED-INCOME PERIOD ENDED JUNE 30, 2002

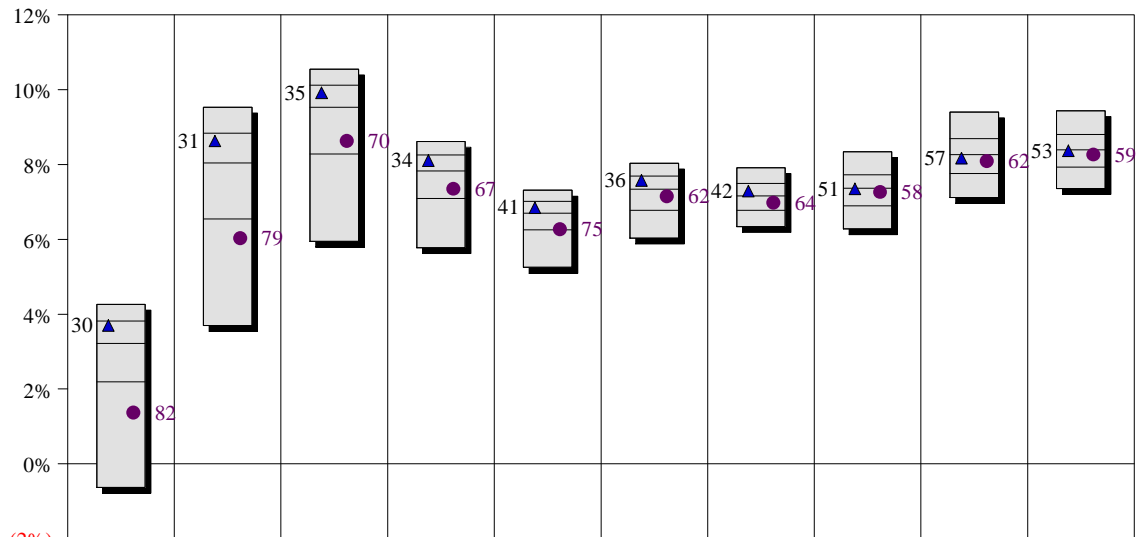
### Investment Philosophy

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

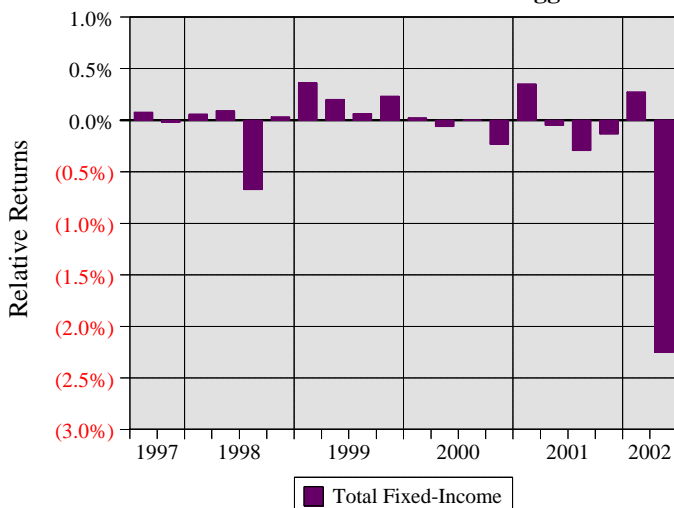
- Total Fixed-Income's portfolio posted a 1.36% return for the quarter placing it in the 82 percentile of the Total Domestic Fixed-Inc Database group for the quarter and in the 79 percentile for the last year.
- Total Fixed-Income's portfolio underperformed the L/B Agg by 2.33% for the quarter and underperformed the L/B Agg for the year by 2.61%.

### Performance vs Total Domestic Fixed-Inc Database

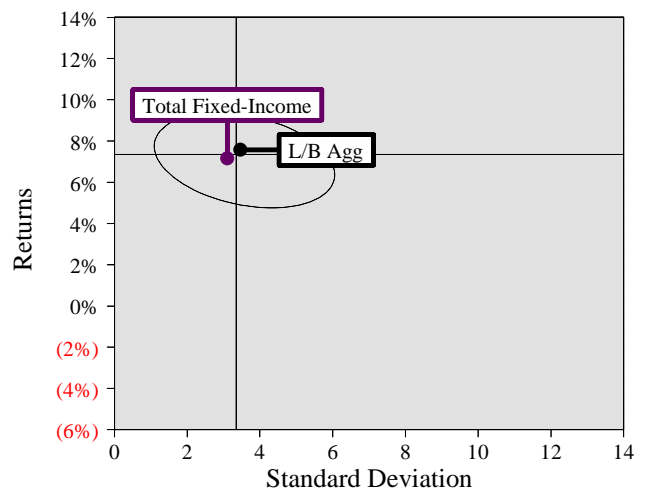


	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 4 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 12 Years	Last 14-1/4 Years
10th Percentile	4.26	9.52	10.54	8.61	7.31	8.03	7.91	8.34	9.40	9.43
25th Percentile	3.82	8.84	10.12	8.26	7.02	7.69	7.50	7.73	8.70	8.80
Median	3.22	8.04	9.53	7.83	6.70	7.34	7.16	7.37	8.27	8.39
75th Percentile	2.19	6.54	8.28	7.09	6.25	6.78	6.78	6.89	7.76	7.93
90th Percentile	(0.64)	3.69	5.94	5.77	5.24	6.03	6.34	6.28	7.11	7.35
<b>Total Fixed-Income</b> ●	1.36	6.02	8.63	7.35	6.26	7.15	6.97	7.26	8.08	8.26
L/B Agg ▲	3.69	8.63	9.91	8.10	6.84	7.57	7.29	7.34	8.16	8.36

### Relative Return vs L/B Agg



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



### Investment Manager Returns

The table below details the rates of return for the plan's investment managers over various time periods ended June 30, 2002. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

#### Returns for Periods Ended June 30, 2002

	Last Quarter	Last Year	Last 3 Years	Last 4 Years	Last 5 Years
<b>Domestic Equity</b>	<b>(11.54%)</b>	<b>(13.62%)</b>	<b>(3.49%)</b>	-	-
<b>Large Cap Equity</b>	<b>(13.14%)</b>	<b>(17.35%)</b>	<b>(9.12%)</b>	-	-
<b>Passive</b>	<b>(13.37%)</b>	<b>(17.92%)</b>	-	-	-
Barclays Global Investors	(13.38%)	(17.96%)	(9.18%)	(2.07%)	3.67%
Rhumblin	(13.33%)	(17.73%)	(10.50%)	(3.02%)	2.90%
<b>Enhanced</b>	<b>(13.03%)</b>	<b>(17.51%)</b>	-	-	-
PIMCO	(13.05%)	(16.38%)	(8.00%)	(1.01%)	4.66%
Standard & Poor's 500	(13.40%)	(17.99%)	(9.18%)	(2.07%)	3.66%
<b>Growth</b>	<b>(13.81%)</b>	<b>(20.56%)</b>	-	-	-
Dresdner	(15.69%)	(27.00%)	-	-	-
INTECH	(11.44%)	(7.80%)	-	-	-
H-S&Y	(14.56%)	(22.76%)	-	-	-
Russell 1000 Growth	(18.67%)	(26.49%)	(16.15%)	(6.93%)	(0.28%)
S&P 500 Growth	(16.26%)	(18.50%)	(13.25%)	(4.36%)	2.45%
<b>Value</b>	<b>(10.84%)</b>	<b>(8.61%)</b>	-	-	-
Earnest	(12.75%)	(18.22%)	-	-	-
GEAM	(11.20%)	(12.52%)	-	-	-
ICAP	(10.00%)	(9.79%)	-	-	-
PFR	(9.93%)	4.80%	-	-	-
Russell 1000 Value	(8.52%)	(8.95%)	(2.92%)	1.58%	6.53%
S&P 500 Value	(10.65%)	(18.09%)	(5.69%)	(0.56%)	4.11%
<b>Mid Cap Equity</b>	<b>(8.27%)</b>	<b>(8.60%)</b>	<b>6.96%</b>	-	-
Franklin Portfolio Assoc.	(7.16%)	0.45%	9.20%	11.03%	14.58%
Putnam Investments	(12.43%)	(20.61%)	2.12%	6.13%	10.43%
Valenzuela Capital	(4.94%)	(4.20%)	1.78%	(0.17%)	4.38%
S&P 400 Mid Cap	(9.31%)	(4.72%)	6.66%	9.20%	12.58%
<b>Small Cap Equity</b>	<b>(7.92%)</b>	<b>(4.26%)</b>	<b>11.27%</b>	-	-
<b>Growth</b>	<b>(15.39%)</b>	<b>(29.98%)</b>	-	-	-
Aeltus Capital Management	(12.83%)	(14.83%)	0.30%	(0.94%)	3.80%
TCW Group	(18.75%)	(45.22%)	(17.23%)	(8.49%)	(1.82%)
Russell 2000 Growth	(15.70%)	(25.00%)	(9.63%)	(5.44%)	(1.98%)
<b>Value</b>	<b>(3.28%)</b>	<b>14.32%</b>	-	-	-
Ariel Capital Management	(2.99%)	11.20%	12.38%	10.25%	14.47%
Brandywine Asset Management	(3.54%)	17.28%	12.63%	-	-
Russell 2000 Value	(2.12%)	8.49%	12.02%	7.30%	9.70%
<b>International Equity</b>	<b>(2.24%)</b>	<b>(11.72%)</b>	<b>(5.65%)</b>	-	-
Alliance Capital Management	(1.31%)	(8.33%)	(6.52%)	-	-
Bank of Ireland	(1.92%)	(9.62%)	(3.35%)	-	-
Dresdner RCM	(3.53%)	(17.51%)	(8.27%)	-	-
MSCI EAFE Index	(2.12%)	(9.49%)	(6.78%)	(3.37%)	(1.55%)
<b>Alternative Investment</b>	<b>0.00%</b>	-	-	-	-
Portfolio Advisors	0.00%	-	-	-	-
Post Venture Cap Index	(25.35%)	(44.29%)	(26.03%)	(11.90%)	(4.88%)

### Investment Manager Returns

The table below details the rates of return for the plan's investment managers over various time periods ended June 30, 2002. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

#### Returns for Periods Ended June 30, 2002

	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 4 Years
<b>Domestic Fixed-Income</b>	<b>1.36%</b>	<b>6.02%</b>	<b>8.63%</b>	<b>7.35%</b>	<b>6.26%</b>
Alliance Capital Mgmt.	1.98%	6.86%	9.28%	7.53%	6.30%
Alliance Capital Index	3.69%	8.62%	9.91%	8.10%	6.84%
Reams Asset Management	0.79%	3.87%	7.96%	7.55%	6.77%
Seix Investment Advisors	2.36%	5.48%	8.37%	7.04%	5.95%
Taplin, Canida & Habacht	0.90%	7.87%	8.78%	6.56%	5.88%
Lehman Brothers Agg.	3.69%	8.63%	9.91%	8.10%	6.84%
Cash Flow Account	0.39%	2.17%	3.91%	4.11%	4.30%
Treasury Bills	0.46%	2.63%	4.25%	4.67%	4.73%
<b>Composite Fund</b>	<b>(3.89%)</b>	<b>(2.60%)</b>	<b>(0.90%)</b>	<b>2.62%</b>	<b>4.92%</b>
Standard & Poor's 500	<b>(13.40%)</b>	<b>(17.99%)</b>	<b>(16.42%)</b>	<b>(9.18%)</b>	<b>(2.07%)</b>
Domestic Equity Database	<b>(11.15%)</b>	<b>(12.65%)</b>	<b>(8.56%)</b>	<b>(0.81%)</b>	2.60%
Domestic Fixed Database	2.46%	7.01%	8.48%	7.10%	6.15%



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**Indiana State Teachers' Retirement Fund**  
**150 W. Market Street, Suite 300**  
**Indianapolis, Indiana 46204-2809**