

Indiana State Teachers' Retirement Fund

2003 Annual Report



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



Indiana State Teachers' Retirement Fund

JOSEPH E. KERNAN, Governor
WILLIAM E. CHRISTOPHER, Ph.D., Executive Director

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March 5, 2004

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The Honorable Governor Joseph Kernan
Governor of Indiana
Capitol Building
Indianapolis, Indiana 46204

Dear Governor Kernan:

We are pleased to present the 2003 Indiana State Teachers' Retirement Fund Annual Report. What follows is a synopsis of the 2002 and 2003 fiscal years highlighting the essential changes in the Fund.

	<u>30-June-03</u>	<u>30-Jun-02</u>	<u>Increase (Decrease)</u>
Number of Active Members	73,641	75,383	(1742)
Number of Vested Inactive Members	5,283	5,319	(36)
Number of Non-Vested Inactive Members	30,403	28,843	1560
Number of Retirees and Beneficiaries	36,235	34,754	1481
Annual Payout to Retirees and Beneficiaries	\$616 Million	\$594.7 Million	\$21.3 Million
Net Assets Held in Trust for Pension Benefits	\$6148.0 Million	\$5,772.8 Million	\$375.2 Million
Rate of Invested Earnings Distribution			
Guaranteed Fund	7.00%	7.50%	(.50%)
Bond Fund	13.85%	5.54%	8.31%
S & P 500	.31%	(17.96%)	18.27%
Small Cap	(1.33%)	(4.46%)	3.13%
International	(7.15%)	(11.98%)	4.83%
Unfunded Accrual Date Liability			
CLOSED PLAN			
Retired Lives	\$2,000.8 Million	\$1,609.9 Million	\$390.9 Million
Active and Inactive Members	\$5,625.5 Million	\$6,332.5 Million	\$(707.0) Million
NEW PLAN			
Retired Lives	\$82.7 Million	\$(.318) Million	\$83.018 Million
Active and Inactive Members	<u>\$483.9 Million</u>	<u>\$545.9 Million</u>	<u>\$(62.0) Million</u>
TOTAL	<u>\$8,193.0 Million</u>	<u>\$8,487.9 Million</u>	<u>\$(294.9) Million</u>

Please note: Member annuity reserve accounts are fully funded and available to the member at the time of withdrawal, retirement, or to the designated beneficiary in the event of members' death. Under the closed plan, the 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 an Investment Summary.

The financial security of the Indiana State Teachers' Retirement Fund is very important. Over 145,000 member's count on TRF to manage one of their largest assets. The Board of Trustees and the staff take this responsibility very seriously. We are dedicated to ensuring the long-term stability of the Fund while providing the highest level of service.

Respectfully submitted,


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


William E. Christopher, Ph.D.
Executive Director

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

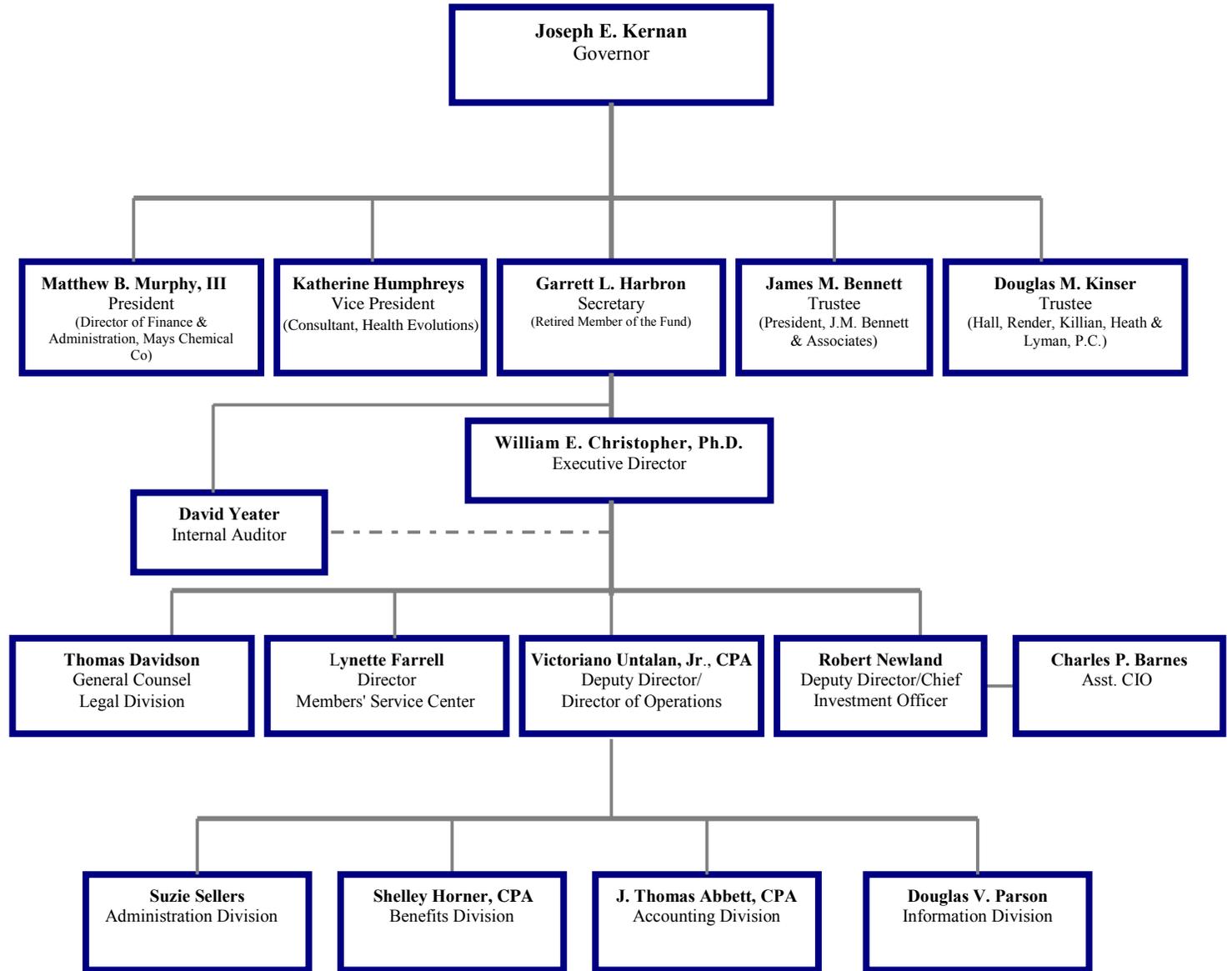


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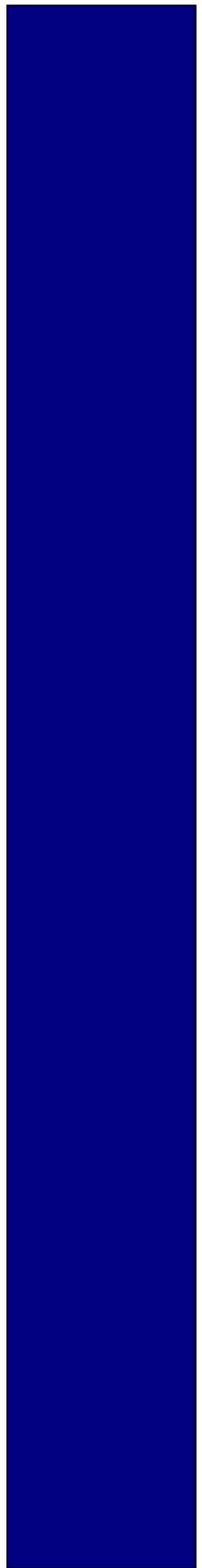
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FINANCIAL STATEMENTS





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INDEPENDENT AUDITOR'S 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 ending June 30, 2003. 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.

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, 2003, 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 inquiries 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, Statistical Section, Actuarial Section, and Investment 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, 2003

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

This section presents management's discussion and analysis of the Indiana State Teachers' Retirement Fund (TRF) financial statements for the year ending June 30, 2003. The MD&A is presented as a narrative overview and analysis in conjunction with the Letter of Transmittal included in the TRF Annual Financial Report. The MD&A should also be read in conjunction with the financial statements, the notes to the financial statements, and the supplementary information.

FINANCIAL HIGHLIGHTS

- The net assets of TRF were \$6.1 billion as of June 30, 2003.
- The net assets of TRF increased by \$425 million, or 7.4% 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 6.2% on a market value basis, compared to last year's negative 2.4%, due primarily to the rebound in the world equity markets during the last six months of the fiscal year.
- As of June 30, 2002, the date of the most recent actuarial valuation, the Pre-96 plan(Closed Plan) is actuarially funded at 41.2%, which is less than the 42.2% funded level as of June 30, 2001. The 96 plan(New Plan) is actuarially funded at 53.2%, which is less than the 54.0% funded level as of June 30, 2001. 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 ending June 30, 2003 and 2002. 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 \$7.2 billion as of June 30, 2003 compared with \$6.8 billion as of June 30, 2002. The increase in total assets was primarily due to an increase in the market value of investments and an increase in Securities Lending Collateral held on June 30, 2003.

Total liabilities were \$1.0 billion as of June 30, 2003 compared with \$1.1 billion as of June 30, 2002. The decrease in total liabilities was due to a decrease in investments purchased at years' 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, 2003</u>	<u>June 30, 2002</u>	<u>% Change</u>
Assets			
Cash and Cash Equivalents	\$813,084	\$743,438	9.4%
Securities Lending Collateral	780,207	553,452	41.0%
Receivables	155,276	272,155	(43.0%)
Investments	5,431,837	5,265,798	3.2%
Other Assets	<u>88</u>	<u>46</u>	91.3%
Total Assets	<u>7,180,492</u>	<u>6,834,889</u>	5.1%
Liabilities			
Securities Lending Collateral	780,207	553,452	41.0%
Other Current Liabilities	252,106	558,587	(54.9%)
Long-Term Liabilities	<u>152</u>	<u>98</u>	55.1%
Total Liabilities	<u>1,032,465</u>	<u>1,112,137</u>	(7.2%)
Total Net Assets	<u>\$6,148,027</u>	<u>\$5,722,752</u>	7.4%

As the above table shows, plan net assets were \$6.1 billion as of June 30, 2003 an increase of \$425 million, or 7.4%, 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:

	<u>June 30, 2003</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
	<u>Actual</u>	<u>Target</u>	<u>Actual</u>
Fixed Income	42.7%	40.0%	46.3%
Large Cap Equity	30.8%	24.5%	26.6%
Mid Cap Equity	4.0%	5.25%	5.9%
Small Cap Equity	8.1%	5.25%	4.4%
International Equity	13.9%	15.0%	16.7%
Private Equity	0.5%	5.0%	0.1%
Real Estate	0.0%	5.0%	0.0%
Total	100%	100%	100%

The change in weightings between asset classes was driven by moving the funds designated for the 5% Real Estate Investment from Fixed Income to Large Cap Equity. These funds will be invested in Real Estate as suitable real estate investments are selected. Also remaining Private Equity target allocation of 4.5% will be drawn from the Large Cap Equity investments as suitable investment in this asset class are selected.

A summary of the changes in net assets during the years ending June 30, 2003 and 2002 is presented below:

CHANGES IN NET ASSETS
(\$ in thousands)

	<u>FY Ended June 30, 2003</u>	<u>FY Ended June 30, 2002</u>	<u>% Change</u>
Additions			
Member Contributions	\$109,500	\$107,052	2.3%
Employer Contributions	575,066	541,083	6.3%
Contributions to Pension Stabilization Fund:			
From State Lottery	30,000	30,000	0.0
From the State of Indiana	0	0	N/A
Net Investment (Loss) Income	344,777	(158,320)	317.8%
Transfers from Public Employees' Fund	3,847	1,254	206.8%
Other	<u>1,354</u>	<u>2,153</u>	(37.1%)
Total Additions	<u>1,064,544</u>	<u>523,222</u>	103.5
Deductions			
Benefits	615,973	594,718	3.6%
Refunds	7,397	6,450	14.7%
Transfers to Public Employees' Fund	1,774	1,251	41.8%
Capital Projects	3,298	1,239	166.2%
Administrative Expenses	3,379	6,793	(50.3%)
Claims on Outdated Benefit Checks	<u>(51)</u>	<u>778</u>	(106.6%)
Total Deductions	<u>631,770</u>	<u>611,229</u>	3.4%
Increase (Decrease) in Net Assets	<u>\$432,774</u>	<u>\$(88,007)</u>	591.7%

ADDITIONS

Additions needed to fund benefits are accumulated through contributions from members and employers and returns on invested funds. Member contributions for the year ending June 30, 2003 totaled \$109.5 million. This represents an increase of \$2.4 million or 2.3% compared to the prior year. Employer contributions were \$575.0 million, an increase of \$34.0 million or 6.3%.

TRF recognized a net investment income of \$344.7 million for the year ending June 30, 2003 compared to a net investment loss of \$158.3 million in the prior year. The higher investment income was primarily due to the strong fixed income markets and the rebound in equity markets during the last six months of the fiscal year. TRF's domestic large cap equity investments returned a gain 0.76% for the fiscal year. This compares to a gain of 0.25% for the S&P 500 index during the year. Domestic Mid Cap equities had a loss of 5.10% as compared to a loss of 0.71% for the S & P 400 Mid Cap index during the fiscal year. Domestic Small Cap equities had a loss of 0.76%, as compared to a loss of 1.64% for the Russell 2000 index during the fiscal year. International equities had a loss of 8.23%, as compared to a loss of 6.46% for the EAFE index during the fiscal year. Investment losses on equities were offset by TRF's fixed income portfolio, which achieved a total return of 12.17% for the year ending June 30, 2003. This compares to a gain of 10.40% for the Lehman's Brothers Aggregate Index. The total rate of return on TRF's investments was a positive 6.17% compared to a negative 2.38% in the prior year.

DEDUCTIONS

The deductions from TRF's net assets held in trust for pension benefits primarily include retirement, disability, survivor benefits, refunds of contributions to former members, and administrative expenses. For the year ending June 30, 2003, benefits amounted to \$616.0 million, an increase of \$21.0 million or 3.6% 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 \$7.4 million, which represents an increase of 14.7% over the prior year.

Administrative expenses were \$3.4 million, a decrease of \$3.4 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.

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, 2002	July 1, 2001
Pre -96 Plan (Closed Plan)	41.2%	42.2%
96 Plan (New Plan)	53.2%	54.0%

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

INDIANA STATE TEACHERS' RETIREMENT FUND
STATEMENT OF FIDUCIARY NET ASSETS
Year Ending June 30, 2003

Assets

Cash and Cash Equivalents	\$ 813,083,966
Securities Lending Collateral	<u>780,206,749</u>
Receivables	
Employer Contributions	28,325,516
Due From PERF	7,479,139
Member Contributions	27,891,493
Securities Sold	60,095,219
Investments Interest	<u>31,484,239</u>
Total Receivables	<u>155,275,606</u>
Investments	
U.S. Treasury and Agency Obligations	775,247,603
Corporate Bonds and Notes	1,193,587,424
Foreign Bonds	2,671,689
Equity Securities	1,893,072,794
Foreign Equity Securities	490,830,414
Mortgage Securities	1,056,637,088
Venture Capital and Partnerships	16,224,040
State and Municipal Securities	3,305,837
Real Estate	<u>260,000</u>
Total Investments	<u>5,431,836,889</u>
Furniture and Equipment (Original Cost of \$471,530 Net of \$382,687 Accumulated Depreciation)	<u>88,843</u>
Insurance Premium Paid in Advance	<u>27</u>
Total Assets	<u>7,180,492,080</u>
 <u>Liabilities</u>	
Accrued Benefits Payable	-
Accrued Salaries Payable (See Note 1)	141,476
Accrued Liability for Compensated Absences - Current	114,614
Accounts Payable	3,142,161
Due To PERF	5,825,229
Securities Lending Collateral	780,206,749
Payables for Securities Purchased	<u>242,882,913</u>
Total Current Liabilities	<u>1,032,313,142</u>
Accrued Liability for Compensated Absences - Long-Term	<u>151,930</u>
Total Liabilities	<u>1,032,465,072</u>
Net Assets Held in Trust for Pension Benefits (See Schedule of Funding Progress, Page 17)	<u>\$ 6,148,027,008</u>

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

INDIANA STATE TEACHERS' RETIREMENT FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ending June 30, 2003

Additions	
Contributions	
Member Contributions	\$ 109,500,298
Employer Contributions	575,065,732
Employer Contributions - Pension Stabilization	<u>30,000,000</u>
Total Contributions	<u>714,566,030</u>
Investments	
Net Appreciation (Depreciation) in Fair Value	142,330,854
Interest Income	174,585,194
Dividend Income	38,389,659
Securities Lending Income	6,504,216
Less Investment Expense	
Investment Fees	(11,782,712)
Securities Lending Fees	<u>(5,249,877)</u>
Net Investment Income	<u>344,777,334</u>
Other Additions	
Transfers From Other Retirement Funds	3,846,621
Annuity and Disability Refunds	1,058,198
Outdated Benefit Checks	-
Reimbursement of Administrative Expense	<u>295,580</u>
Total Other Additions	<u>5,200,399</u>
Total Additions	<u>1,064,543,763</u>
Deductions	
Annuity and Disability Benefits	615,973,041
Voluntary and Death Withdrawals	7,396,641
Claims on Outdated Benefit Checks	(51,147)
Administrative Expenses	3,363,335
Capital Projects	3,297,613
Depreciation Expenses	16,814
Transfers to Other Retirement Funds	<u>1,773,638</u>
Total Deductions	<u>631,769,935</u>
Change in Net Assets Held in Trust for Pension Benefits	432,773,828
Net Assets Beginning of Year (As Restated)	<u>5,715,253,180</u>
Net Assets End of Year	<u>\$ 6,148,027,008</u>

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

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
Year Ending June 30, 2003

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 represent 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 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 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:

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
Year Ending June30, 2003
(Continued)

U.S. Treasury and Agency obligations, U.S. Government securities, common stock, international equity, corporate bonds, notes and debentures, re-purchase agreements secured by U.S. Treasury obligations, mortgage securities, commercial paper, and banker's acceptances. See Note 4 for more details.

- 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. 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 ending 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. 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's end.
- L. Compensated Absences - TRF's full-time employees are permitted to accumulate earned vacation and sick pay benefits to be used in accordance with personnel guidelines. 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. Personal leave days are earned at the rate of one day every four months and 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. As of June 30, 2002, the number of participating school unit employers was:

INDIANA STATE TEACHERS' RETIREMENT FUND
 NOTES TO FINANCIAL STATEMENTS
 Year Ending June 30, 2003
 (Continued)

Public School Units	327
Higher Education Units	4
State of Indiana Agencies	30
Associations	<u>2</u>
 Total	 <u><u>363</u></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 the 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, 2002, Indiana State Teachers' Retirement Fund membership consisted of:

Retirees and Beneficiaries	
Currently Receiving Benefits	34,754
Active Plan Members	75,383
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	<u>5,319</u>
 Total	 <u><u>115,456</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.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
Year Ending June 30, 2003
(Continued)

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.

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. Un-scheduled 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.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
Year Ending June 30, 2003
(Continued)

3. S & P 500 Index Fund - Closely tracks the return on the S & P 500 Index by employing an indexing strategy that invests in the stocks of the S & P 500 Index companies. Market risk is assumed by the member.
4. Small Cap Equity Fund - Consists 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 assessed at market value. When a member retires, dies or suspends membership and withdraws from the fund, the amount credited to the member shall be valued at the market value of the member's investment plus accrued interest on investment less accrued investment expenses.

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

Note 3. Employer Contributions Required and Employer Contributions Made

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

Based on the actuarial valuation at June 30, 2002, employer actuarially required contributions were \$638,541,074 normal cost, with no amortization of the unfunded actuarial accrued liability and zero provision for expenses. Contributions made by employers for the year ending June 30, 2002, totaled \$605,065,732 which was 16.0% of covered payroll.

Note 4. Cash, Investments and Securities Lending

Investments made by the Indiana State Teachers' Retirement Fund, including re-purchase agreements, are summarized below. The investments that are represented by specific identifiable investment securities are classified as credit risks 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.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
Year Ending June 30, 2003
(Continued)

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 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's 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 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.

Note 4. Cash, Investments and Securities Lending

	Category			Market Value
	1	2	3	
U.S. Equity Securities				
Not on Securities Loan	\$ 1,677,687,556	\$	\$	\$ 1,677,687,556
On Securities Loan		2,298,318		2,298,318
Foreign Equity Securities				
Not on Securities Loan	403,814,553			403,814,553
On Securities Loan		1,136,441		1,136,441
Corporate Bonds				
Not on Securities Loan	1,034,117,191			1,034,117,191
On Securities Loan		11,207,419		11,207,419
Foreign Bonds	2,671,689			2,671,689
U.S. Treasury and Agency Obligations				
Not on Securities Loan	296,507,683			296,507,683
On Securities Loan		167,965,927		167,965,927
Mortgage Securities	1,056,637,088			1,056,637,088
State and Municipal Securities	3,305,837			3,305,837
Total Investments Categorized	<u>\$ 4,474,741,597</u>	<u>\$ 182,608,105</u>	<u>\$ -</u>	<u>\$ 4,657,349,702</u>

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
Year Ending June 30, 2003
(Continued)

<u>Investments - Not Categorized</u>	<u>Market Value</u>
Investments Held by Broker-Dealers Under Securities Loans	
U.S. Treasury and Agency Obligations	\$ 310,773,993
U.S. Equity Securities	213,086,921
Foreign Equity Securities	85,879,419
Corporate Bonds	<u>148,262,814</u>
Total	<u>758,003,147</u>
Investments Held by Broker-Dealers Under	
Securities Lending Short-Term Cash	
Collateral Investment Pool	780,206,749
Other	
Venture Capital and Partnerships	<u>16,224,040</u>
Total Investments Not Categorized	<u>\$ 1,554,433,936</u>

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.

Note 6. Contingent Liabilities

The Indiana State Teachers' Retirement Fund is a 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.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
Year Ending June 30, 2003
(Continued)

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.

Note 9. Prior Period Adjustment

The TRF showed \$7,500,000 as due from the Lottery Commission as of June 30, 2002. This receivable does not meet the definition of a receivable since it was not yet due at year-end. Therefore, Net Assets at the Beginning of Year were reduced by \$7,500,000 to reflect the proper amount.

June 30, 2002, Net Assets as Reported	\$	5,722,753,180
Prior Period Adjustment:		
Correction of Error		7,500,000
Balance July 1, 2002, as Restated	\$	5,715,253,180

Note 10. Reserves and Designations

The following are the legally required reserves and other designations:

- A. 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 the Indiana State Teachers' Retirement Fund this reserve is the employee's annuity savings account.
- B. 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.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
Year Ending June 30, 2003
(Continued)

- C. 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.
- D. 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.
- E. 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.

The following are the balances of the reserves and designations:

Member Reserve	Employer Reserve	Benefits In Force	Undistributed Income	Unreserved Fund Balance
\$ 2,715,500,188	\$ 393,736,681	\$ 2,683,187,169	\$ 361,232,850	\$(8,488,086,705)

INDIANA STATE TEACHERS' RETIREMENT FUND
 REQUIRED SUPPLEMENTAL SCHEDULES
 Year Ending June 30, 2003

SCHEDULE OF FUNDING PROGRESS

(Dollar Amounts in Millions)

Indiana State Teachers' Retirement Fund							
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ration (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%	
06-30-02	6,176	14,665	8,489	42.11%	3,609	235.22%	

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%
2002	638,541,074	94%

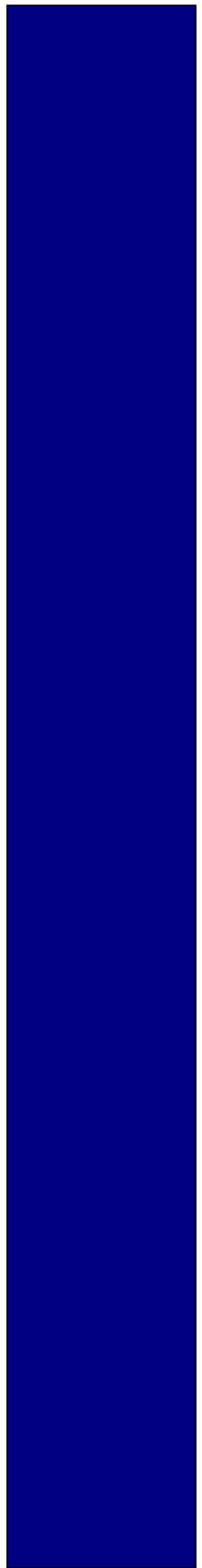
INDIANA STATE TEACHERS' RETIREMENT FUND
REQUIRED SUPPLEMENTAL SCHEDULES
Year Ending June 30, 2003
(Continued)

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, 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 Wage Inflation at	5.50%
Cost of Living Adjustments	Unscheduled, Periodic Increases

STATISTICAL TABLES



SCHEDULE OF ADMINISTRATIVE EXPENSES**2003****2002****2001****2000****PERSONAL SERVICES:**

TRUSTEES PER DIEMS	10,080.00	11,648.00	11,200.00	8,624.00
STAFF SALARIES	2,008,898.88	1,622,317.99	1,296,418.15	1,210,178.00
SOCIAL SECURITY	153,678.64	114,958.85	86,061.58	73,368.00
RETIREMENT	173,597.95	155,764.10	103,681.94	90,173.00
INSURANCE	355,590.09	321,096.06	200,618.02	161,332.00
PERSONNEL RECLASSIFICATION/ADDITIONAL STAFFING	105,305.56	0.00	50,519.04	0.00
TEMPORARY SERVICES	1,563.12	0.00	47,822.37	82,304.00
Total Personal Services	<u>\$2,808,714.24</u>	<u>\$2,225,785.00</u>	<u>\$1,796,321.11</u>	<u>\$1,625,979.00</u>

PROFESSIONAL & TECHNICAL SERVICES:

ACTUARIAL	190,587.00	154,170.00	53,965.00	85,790.00
DATA PROCESSING(MAINTAIN OLD SYSTEM)**	(1,163,041.95)	3,154,300.91	723,793.30	872,953.00
Y2K Processing Consultant	0.00	0.00	1,001,700.00	0.00
AUDIT	37,852.00	46,895.00	27,200.00	28,127.00
STRATEGIC PLANNING CONSULTING	0.00	0.00	8,177.00	0.00
BENCHMARKING	25,000.00	25,000.00	25,000.00	0.00
COMPENSATION CLASSIFICATION CONSULTING	0.00	0.00	7,500.00	0.00
WEBSITE DEVELOPMENT	0.00	0.00	0.00	0.00
PENSION DEATH RECORD COMPARISON	25,862.93	7,685.00	7,657.00	5,044.00
MEDICAL EXAMINATIONS	4,265.25	135.00	420.00	220.00
LEGAL SERVICES	135,081.77	100,694.51	115,630.29	65,289.00
Total Prof. & Tech. Services	<u>(\$744,393.00)</u>	<u>\$3,488,880.42</u>	<u>\$1,971,042.59</u>	<u>\$1,057,422.00</u>

COMMUNICATION:

PRINTING	334,002.26	251,826.14	242,719.05	6,510.00
TELEPHONE	130,270.07	89,637.55	69,936.50	81,386.00
POSTAGE	409,970.97	334,961.57	346,421.40	572,653.00
TRAVEL	45,063.51	46,361.91	29,245.34	26,491.00
Total Communication	<u>\$919,306.81</u>	<u>\$722,787.17</u>	<u>\$688,322.29</u>	<u>\$687,040.00</u>

MISCELLANEOUS:

ADMINISTRATIVE LEGAL SERVICES	8,620.25	6,675.20	5,115.43	2,723.00
EQUIPMENT RENTAL	12,705.00	7,933.39	19,609.44	19,296.00
UNEMPLOYMENT	0.00	0.00	0.00	4,105.00
MEMBERSHIP & TRAINING	72,124.41	36,942.10	35,208.72	31,562.00
OFFICE SUPPLIES	59,110.06	80,681.28	41,535.57	34,786.00
MAINTENANCE	9,544.32	6,140.76	2,600.99	6,999.00
BONDING	2,019.00	1,734.04	1,736.00	1,491.00
DEPRECIATION	0.00	0.00	0.00	65,156.00
OFFICE RENT	215,583.92	203,359.64	179,551.82	155,745.00
Total Miscellaneous	<u>\$379,706.96</u>	<u>\$343,466.41</u>	<u>\$285,357.97</u>	<u>\$321,863.00</u>

TOTAL ADMINISTRATIVE EXPENSES

<u>\$3,363,335.00</u>	<u>\$6,780,919.00</u>	<u>\$4,741,043.96</u>	<u>\$3,692,305.00</u>
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** Actual data processing for 2003 was \$490,868.00. A prior period adjustment of \$1,653,910.00 was made for payables on the new data processing system.

SCHEDULE OF INVESTMENT EXPENSES	2003	2002	2001	2000
CUSTODIAL				
NATIONAL CITY CORPORATION	\$568,431.75	\$1,168,988.31	\$1,064,653.60	\$2,035,330.00
NORTHERN TRUST	<u>50,000.00</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
TOTAL CUSTODIAL	<u>618,431.75</u>	<u>1,168,988.31</u>	<u>1,064,653.60</u>	<u>2,035,330.00</u>
MANAGEMENT				
FIXED INCOME MANAGERS				
ALLIANCE CAPITAL MGMT.	1,077,146.00	753,230.00	514,949.97	385,852.00
BANK ONE, INDIANA	0.00	154,129.62	297,598.27	152,148.00
BANK OF NEW YORK	0.00	103,866.30	204,008.20	192,167.00
BAXTER CAPITAL MGMT.	0.00	59,939.84	162,825.95	153,263.00
REAMS ASSET MGMT.	1,502,478.00	1,133,940.00	893,039.00	742,704.00
SIEX INVESTMENT ADVISORS	0.00	57,047.81	61,167.93	59,439.00
TAPLIN, CANIDA, HABACHT	106,657.31	103,624.24	101,196.62	101,274.00
TODD INVESTMENT ADVISOR	0.00	0.00	28,291.50	111,607.00
EQUITY MANAGERS				
BARCLAYS	132,852.91	88,523.40	80,108.57	204,502.00
RHUMBLINE	90,173.23	74,043.23	54,045.93	23,100.00
J.P MORGAN	0.00	112,984.75	277,035.95	498,191.00
PIMCO	1,188,003.00	818,625.00	258,965.00	431,554.00
PORTFOLIO ADVISORS	345,000.00	80,000.00	0.00	0.00
CONSECO CAPITAL MANAGEMENT	0.00	0.00	81,595.00	107,476.00
PUTNAM INVESTMENTS	296,928.95	344,998.61	320,414.16	164,939.00
FRANKLIN PORTFOLIO ASSOC.	183,929.76	171,965.61	151,183.34	70,936.00
VALENZUELA CAPITAL PARTNERS	135,307.24	319,661.00	301,000.03	166,309.00
ARIEL	713,338.37	729,606.21	759,114.65	379,620.00
BRANDYWINE	677,658.27	808,571.91	779,087.50	383,645.00
AELTUS	808,105.68	734,869.00	769,974.00	817,179.00
TCW	477,907.83	623,444.20	851,048.86	1,160,483.00
EARNEST PARTNERS LLC	118,084.00	127,845.00	38,441.00	0.00
GE ASSET MANAGEMENT	140,931.00	159,353.00	44,924.00	0.00
INSTITUTIONAL CAPITAL CORP	145,024.00	166,290.27	46,500.00	0.00
PACIFIC FINANCIAL RESEARCH, INC	202,443.00	214,592.00	53,859.00	0.00
ENHANCED INVESTMENT TECHNOLOGIES	183,548.53	167,424.02	37,667.90	0.00
HOLT-SMITH & YATES ADVISORS	186,141.00	190,389.00	48,865.00	0.00
FOREFRONT CAPITAL ADVISORS LLC	0.00	87,202.60	33,429.61	0.00
DRESDNER RCM GLOBAL ADVISORS	184,966.00	179,461.00	43,132.10	0.00
ALLIANCE	138,014.00	137,358.00	115,954.77	101,434.00
BANK OF IRELAND	843,586.00	852,775.17	694,234.99	601,073.00
DRESDNER	<u>761,546.00</u>	<u>769,432.00</u>	<u>624,813.10</u>	<u>624,020.00</u>
TOTAL MANAGEMENT	<u>\$10,639,770.08</u>	<u>\$10,325,192.79</u>	<u>\$8,728,471.90</u>	<u>\$7,632,914.00</u>
CONSULTANT - CALLAN ASSOCIATES	330,000.00	226,833.37	204,292.47	203,000.00
FIDUCIARY AUDIT	0.00	231,998.09	0.00	0.00
OTHER CHARGES	<u>194,510.17</u>	<u>137,694.46</u>	<u>125,796.15</u>	<u>22,504.00</u>
TOTAL INVESTMENT EXPENSES	<u>\$11,782,712.00</u>	<u>\$12,090,707.02</u>	<u>\$10,123,214.12</u>	<u>\$9,893,748.00</u>

Number of Payees Receiving Benefits

Fiscal Year Ending - June 30	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Gross Benefit Amount										
0.01 - 100.00	280	289	291	304	350	359	367	378	379	374
100.01 - 200.00	960	1,010	1,047	1,097	1,278	1,320	1,439	1,558	1,674	1,796
200.01 - 300.00	1444	1,506	1,561	1,617	1,877	1,935	2,055	2,203	2,308	2,430
300.01 - 400.00	1587	1,648	1,701	1,790	2,011	2,119	2,232	2,400	2,541	2,677
400.01 - 500.00	1669	1,740	1,793	1,871	2,052	2,127	2,262	2,424	2,549	2,682
500.01 - 600.00	1743	1,804	1,859	1,895	2,083	2,160	2,287	2,384	2,482	2,604
600.01 - 700.00	1797	1,855	1,908	2,010	2,049	2,114	2,175	2,246	2,291	2,347
700.01 - 800.00	1746	1,771	1,818	1,856	1,944	1,977	2,051	2,113	2,157	2,148
800.01 - 900.00	1690	1,741	1,769	1,826	1,838	1,862	1,930	1,971	1,986	1,978
900.01 - 1,000.00	1821	1,850	1,866	1,878	1,870	1,873	1,845	1,841	1,769	1,755
1,000.01 - 1,100.00	1974	1,969	1,942	1,953	1,840	1,801	1,731	1,644	1,575	1,462
1,100.01 - 1,200.00	2004	1,957	1,928	1,904	1,776	1,684	1,524	1,418	1,303	1,153
1,200.01 - 1,300.00	2039	1,945	1,885	1,764	1,570	1,480	1,378	1,284	1,157	1,040
1,300.01 - 1,400.00	1958	1,867	1,794	1,694	1,503	1,393	1,254	1,134	1,005	852
1,400.01 - 1,500.00	1962	1,784	1,638	1,500	1,310	1,185	1,076	963	821	671
1,500.01 - 1,600.00	1874	1,658	1,527	1,387	1,167	1,043	885	779	658	557
1,600.01 - 1,700.00	1595	1,391	1,264	1,159	991	879	742	638	525	461
1,700.01 - 1,800.00	1324	1,167	1,090	977	859	770	698	595	507	427
1,800.01 - 1,900.00	1178	1,061	986	915	787	709	615	525	439	349
1,900.01 - 2,000.00	1089	941	851	736	639	579	503	396	324	241
2,000.01 - 2,100.00	901	779	715	617	519	458	403	345	296	224
2,100.01 - 2,200.00	736	630	582	521	453	381	333	265	187	138
2,200.01 - 2,300.00	614	532	469	414	326	294	225	157	116	91
2,300.01 - 2,400.00	523	423	386	310	247	208	181	144	97	65
2,400.01 - 2,500.00	415	314	271	232	198	172	136	92	69	55
2,500.01 - 2,600.00	298	263	220	169	133	120	81	61	44	31
2,600.01 - 2,700.00	251	180	156	127	104	93	62	50	34	32
2,700.01 - 2,800.00	197	153	127	96	72	62	62	28	16	10
2,800.01 - 2,900.00	156	109	90	72	52	41	38	25	25	15
2,900.01 - 3,000.00	108	79	64	52	48	40	30	18	12	6
3,000.01 - 3,100.00	68	52	40	30	25	24	19	17	6	0
3,100.01 - 3,200.00	52	34	32	31	22	22	10	4	4	3
3,200.01 - 3,300.00	49	31	27	19	11	9	8	5	4	3
3,300.01 - 3,400.00	32	25	24	10	13	9	7	7	4	4
3,400.01 - 3,500.00	29	17	13	14	8	7	6	8	5	1
3,500.01 - 3,600.00	26	18	15	11	15	15	7	3	0	1
3,600.01 - 3,700.00	21	13	12	5	2	1	2	1	1	0
3,700.01 - 3,800.00	13	7	3	4	3	1	0	1	1	0
3,800.01 - 3,900.00	10	9	5	3	1	0	1	1	1	1
3,900.01 - 4,000.00	8	6	4	5	2	2	2	2	0	0
4,000.01 or more	36	24	15	9	7	4	3	2	0	0
Total	36,277	34,652	33,788	32,884	32,055	31,332	30,665	30,130	29,372	28,684

NUMBER OF APPROVED BENEFIT PAYMENT

FISCAL YEAR ENDING - JUNE 30	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Retirement (including disability/survivorship)	2142	2011	1946	1801	1828	1692	1593	1748	1654	1464
Regular Disability	3	1	4	6	3	8	8	3	3	4
Voluntary Withdrawal	1474	1427	7007	7896	1855	1357	1186	1272	1384	3722
Death Withdrawal	90	93	137	94	115	97	101	138	122	132

RATE OF INVESTMENT EARNINGS DISTRIBUTION

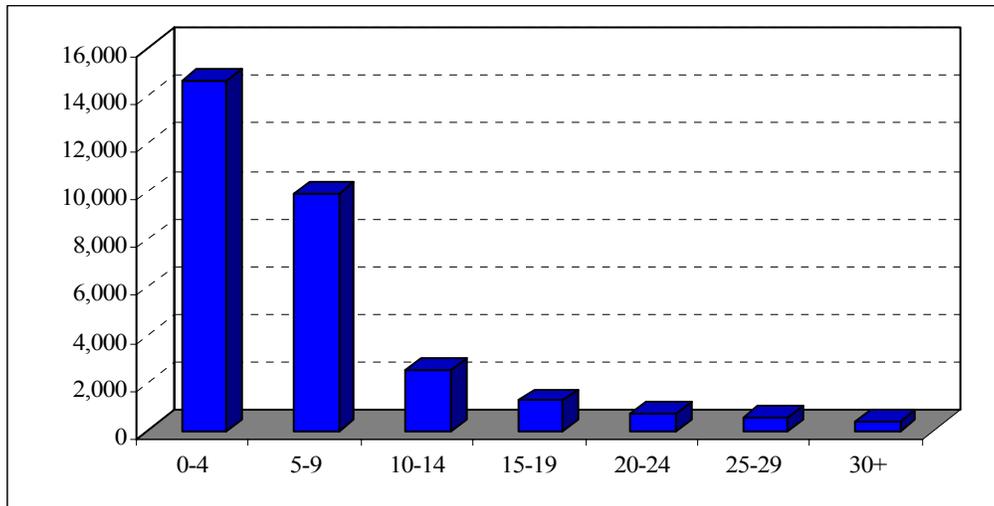
FISCAL YEAR ENDING - JUNE 30	2003	2002	2001	2000	1999*	1998	1997	1996	1995	1994
Guaranteed Fund	7.00%	7.50%	7.75%	7.75%	8.00%	8.00%	8.50%	9.00%	9.00%	9.00%
Bond Fund	13.85%	5.54%	11.08%	5.99%	4.49%	10.05%	7.13%	4.30%	11.19%	(0.84%)
Money-Market*	**	**	**	**	**	6.06%	6.03%	5.90%	6.43%	3.35%
S&P500 Index Fund	0.31%	(17.96%)	(14.71%)	7.21%	36.37%	**	**	**	**	**
Small Cap Equity Fund	(1.33%)	(4.46%)	7.58%	38.65%	34.66%	**	**	**	**	**
International Fund	(7.15%)	(11.98%)	(24.13%)	26.27%	29.74%	**	**	**	**	**

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

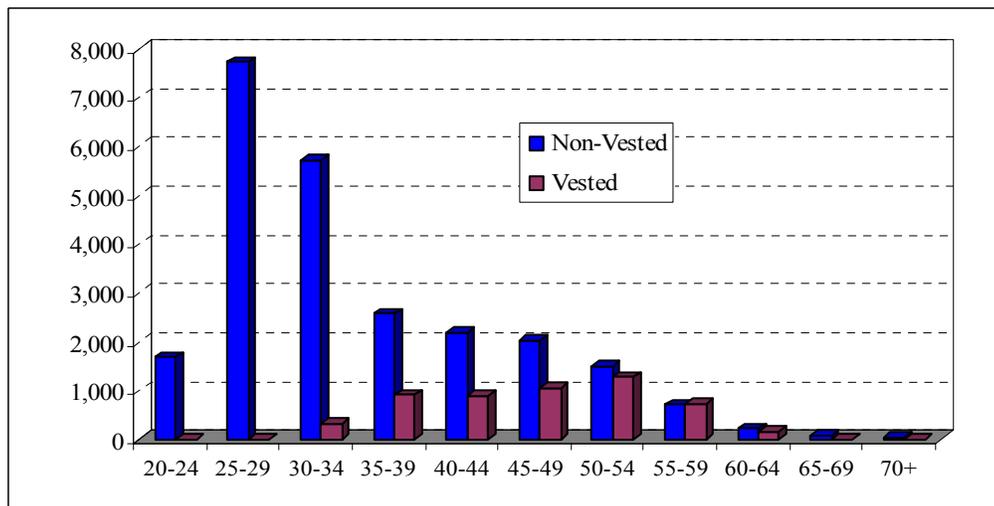
** From inception of 10/1/1999 through 6/30/2000

NEW PLAN ACTIVE MEMBERS

By Years of Service: as of June 30, 2003



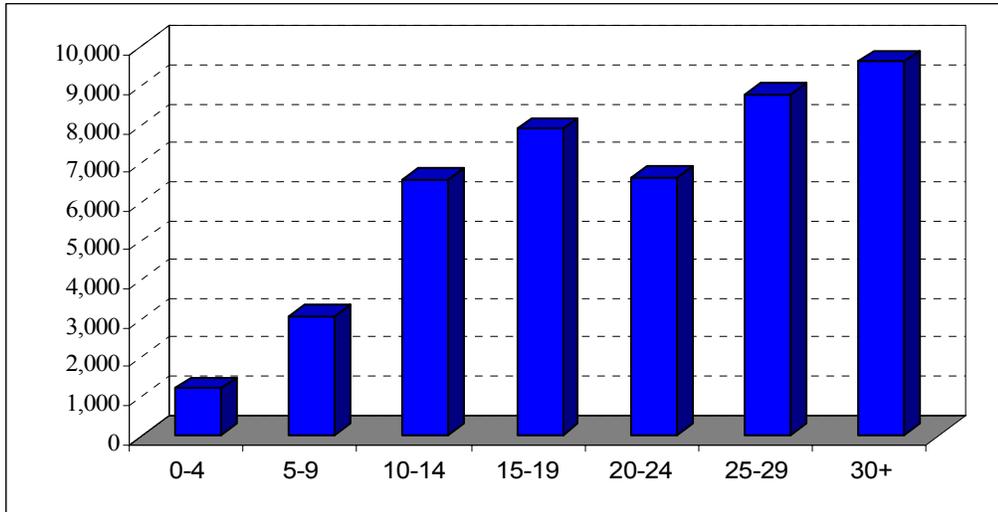
By Age: As of June 30, 2003



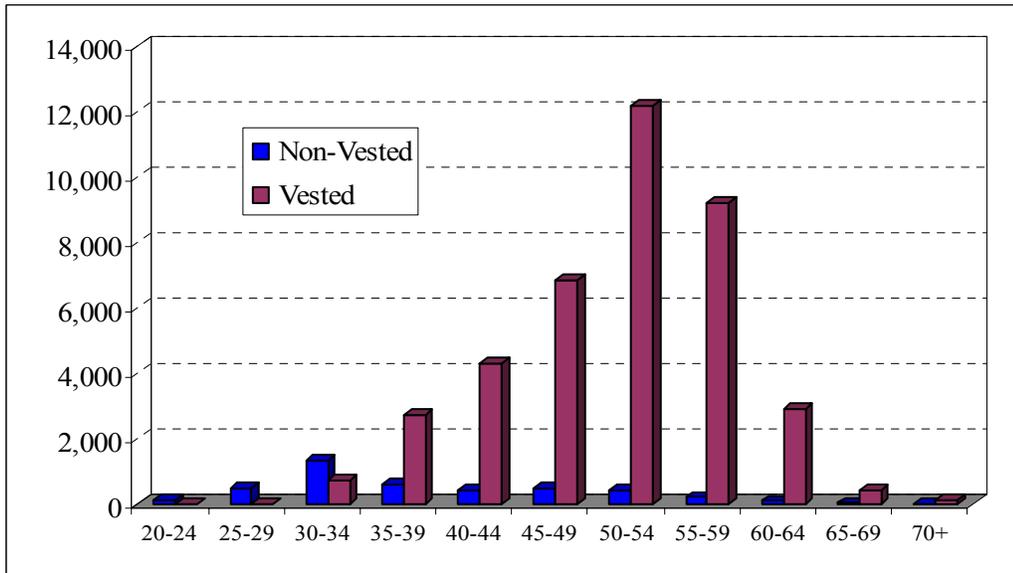
Total Non-Vested:	24,506
Total Vested:	<u>5,430</u>
Total Active New Plan Members:	29,936

CLOSED PLAN ACTIVE MEMBERS

By Years of Service: as of June 30, 2003



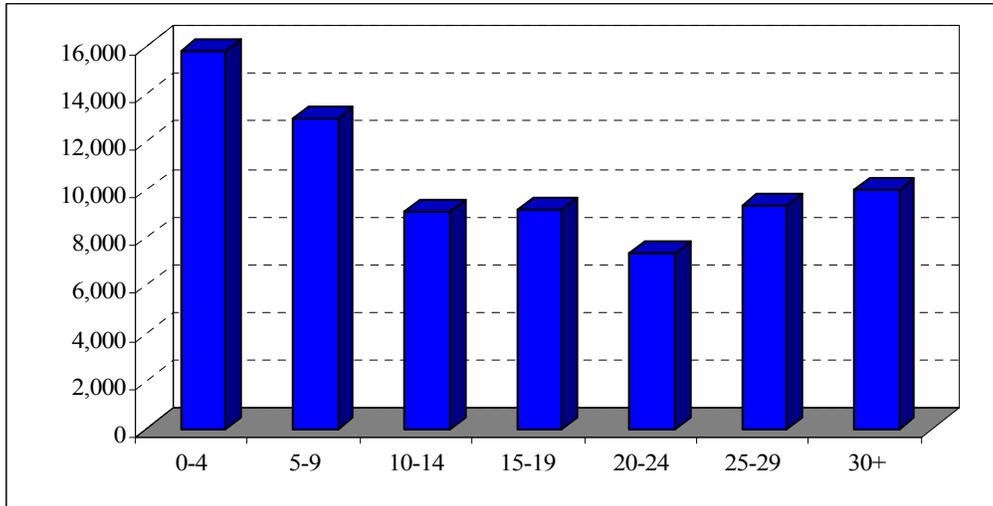
By Age: as of June 30, 2003



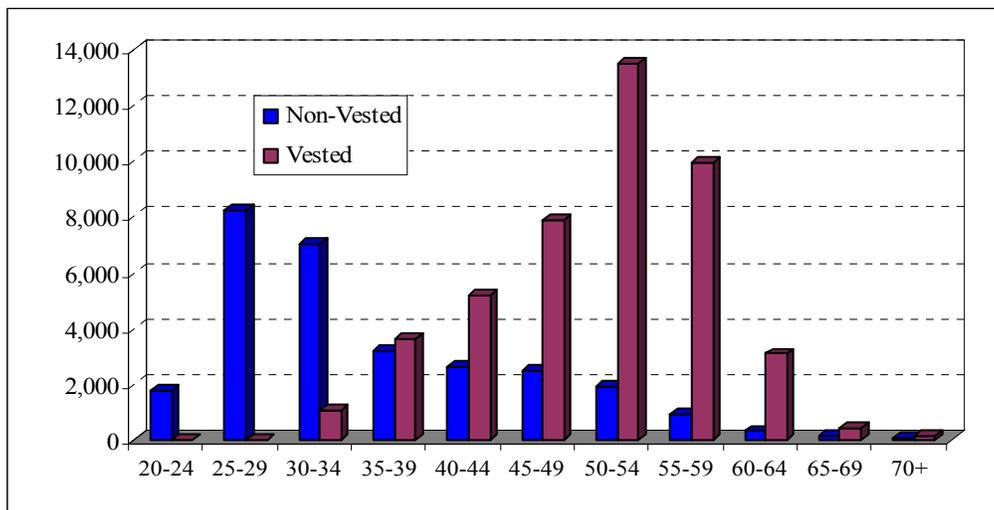
Total Non-Vested:	4,244
Total Vested:	<u>39,461</u>
Total Active Closed Plan Members:	43,705

TOTAL ACTIVE MEMBERS

by Years of Service: as of June 30, 2003

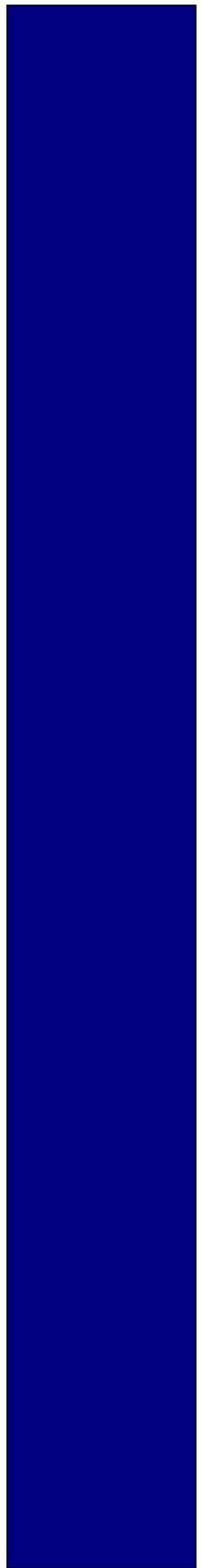


by Age: as of June 30, 2003



Total Non-Vested:	28,750
Total Vested:	<u>44,891</u>
Total Active Members:	73,641

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

March 1, 2004

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, 2003, 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, 2003.

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.

March 1, 2004

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, 2003, valuation was based upon assumptions that were adopted by the Board following a study of experience covering the July 1, 1996- June 30, 2002 period.

Poor investment performance has affected ISTRF (and most governmental retirement systems) negatively for the last several years. Although investment results were better in 2003 than 2002, the system earned less investment return than the assumed rate. When a system earns less investment return than assumed, one result is upward pressure on the computed contribution rates.

As of June 30, 2003, ISTRF is 43% funded in the Closed Plan, 59% funded in the New Plan, and 44% funded in total. This low funded ratio also results in higher employer contributions than would otherwise be the case.

Respectfully submitted,

GABRIEL, ROEDER, SMITH & COMPANY


Judith A. Kermans, EA, MAAA


Kenneth G. Alberts

ACTUARIAL REPORT – ANNUAL REPORT 2003
SUMMARY OF VALUATION RESULTS
JUNE 30, 2003

I. Unfunded Actuarial Accrued Liability

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

Actuarial Accrued Liability: Computed and Unfunded

Amounts as of June 30, 2003	Closed Plan	New Plan	Total
Computed Actuarial Accrued Liability	\$ 13,354,866,440	\$ 1,392,472,616	\$ 14,747,339,056
Funding Value of Assets	5,728,553,155	825,811,772	6,554,364,927
Unfunded Actuarial Accrued Liability	\$ 7,626,313,285	\$ 566,660,844	\$ 8,192,974,129

ACTUARIAL REPORT – ANNUAL REPORT 2003
SUMMARY OF VALUATION RESULTS (CONTINUED)
JUNE 30, 2003

II. Computed Employer Contribution Rates – June 30, 2003

Contributions for	Employer Contributions As %s of Active Payroll For Fiscal Year 2004-2005		
	Closed Plan 36-Year Amortization of UAAL	New Plan 36-Year Amortization of UAAL	Totals 36-Year Amortization of UAAL
Normal Cost:			
Age and Service Pensions	5.73%	5.94%	5.80%
Disability and Death-in-Service	0.26%	0.26%	0.26%
Totals	5.99%	6.20%	6.06%
Unfunded Actuarial Accrued Liability (UAAL):			
Retired Members and Beneficiaries	3.64%	0.32%	2.52%
Active and Inactive Vested Members	9.68%	1.77%	7.38%
Totals	13.32%	2.09%	9.90%
Computed Employer Contribution Rates	19.31%	8.29%	15.96%
\$ Contribution Based on Computed Rates	\$ 516,000,000	\$ 103,000,000	\$ 619,000,000
2004-2005 Expected Employer Contribution Amount Based on Budgeted Rates	\$ 449,000,000	\$ 112,000,000	\$ 561,000,000

COMMENTS REGARDING CONTRIBUTION RATES

- The Expected Employer Contribution Amount shown for the Closed Plan is the amount of pension benefits expected to be paid in the 2004-2005 fiscal year. This amount expressed as a percentage of valuation payroll is 18.34%.
- The Expected Employer Contribution Amount shown for the New Plan is the current Board-adopted rate of 9% of payroll multiplied by the projected valuation payroll.
- The dollar contribution based on computed rates is a projection to the 2004-2005 fiscal year at the 4.5% payroll growth rate assumption and is provided for comparison purposes.

ACTUARIAL REPORT – ANNUAL REPORT 2003
SUMMARY OF VALUATION RESULTS (CONTINUED)
JUNE 30, 2003

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

June 30	Computed Actuarial Accrued Liability			Valuation Assets	Portion of Accrued Liability Covered by Assets		
	(1) Member Contr.	(2) Retired Members	(3) Present Members (Employer-Financed Portion) (\$ in Millions)		(1)	(2)	(3)
1975#(a)	\$ 216	\$ 451	\$ 903	\$ 312	100%	21%	0%
1977#	265	634	1,246	375	100	17	-
1979#(a)	324	777	1,481	466	100	18	-
1980	373	838	1,632	539	100	18	-
1981	423	885	1,649	601	100	20	-
1983(a)	544	1,043	1,751	765	100	21	-
1985	713	1,198	2,112	1,073	100	30	-
1987	932	1,406	2,499	1,401	100	33	-
1989#	1,132	1,624	3,449	1,707	100	35	-
1991	1,373	1,853	3,956	2,161	100	43	-
1992(a)	1,521	2,059	4,369	2,376	100	42	-
1993	1,665	2,290	4,553	2,592	100	41	-
1994	1,812	2,483	4,792	2,808	100	40	-
1995	1,930	2,716	5,029	2,984	100	39	-
1996	2,070	2,968	5,245	3,242	100	39	-
1997(a)	2,188	3,234	5,447	3,678	100	46	-
1998	2,374	3,479	5,629	4,130	100	50	-
1999	2,500	3,659	6,014	4,731	100	61	-
2000	2,699	3,890	5,819	5,210	100	65	-
2001	2,669	4,121	5,905	5,363	100	65	-
2002(a)	2,754	4,412	6,332	5,555	100	63	-
2003	2,897	4,780	5,988	5,729	100	59	-
2003(a)	2,897	4,833	5,626	5,729	100	59	-

Legislated plan amendments.

(a) Actuarial assumptions or methods revised.

New Plan
Actuarial Accrued Liability – Percent Funded

June 30	Computed Actuarial Accrued Liability			Valuation Assets	Portion of Accrued Liability Covered by Assets		
	(1) Member Contr.	(2) Retired Members	(3) Present Members (Employer-Financed Portion)		(1)	(2)	(3)
	(\$ in Millions)						
1996	\$ 14	\$ 0	\$ 33	\$ 21	100%	100%	21%
1997(a)	46	0	130	72	100	100	20
1998	74	3	222	136	100	100	27
1999	126	4	369	240	100	100	30
2000	195	10	502	368	100	100	33
2001	211	12	605	447	100	100	37
2002(a)	291	17	858	621	100	100	36
2003	382	107	1,005	826	100	100	34
2003(a)*	382	108	903	826	100	100	37

(a) Actuarial assumptions or methods revised.

* The calculation of the short condition test takes all of the assets, allocates them on a priority basis, regardless of the actual reserve balances. The priority basis is 1) Member Contributions; 2) Retired Member Liabilities; and 3) Active and Inactive Member Liabilities. This differs from the schedule on page 1 of the valuation report, which determines the funded percentages based on the liabilities compared to the appropriate reserves.

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

ACTUARIAL REPORT – ANNUAL REPORT 2003
SUMMARY OF VALUATION RESULTS
(CONTINUED)
JUNE 30, 2003

IV. Valuation Data

The June 30, 2003 actuarial valuation was based on the following data:

	Retired Members and Beneficiaries		Inactive Members	
	Number	Annual Allowances	Vested	Non-Vested
Closed Plan	35,627	\$ 516,616,930	4,612	10,996
New Plan	<u>608</u>	<u>10,447,457</u>	<u>671</u>	<u>19,407</u>
Totals	36,235	\$ 527,064,387	5,283	30,403

Active Members

	Number	Annual Payroll	Averages*	
			Age	Service
Closed Plan	43,705	\$ 2,448,271,197	49.6 years	21.7 years
New Plan	<u>29,936</u>	<u>1,136,863,716</u>	37.0 years	6.5 years
Totals	73,641	\$ 3,585,134,913		

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

Financial Information
(Market Value Basis)

Reserve Allocation	Closed Plan	New Plan	Total
Member Reserves:			
Active and Inactive	\$2,720,265,115	\$358,338,043	\$3,078,603,158
Retired	<u>544,162,740</u>	<u>10,197,888</u>	<u>554,360,628</u>
Total Member Reserves	3,264,427,855	368,535,931	3,632,963,786
Employer Reserves:			
Active	0	393,736,681	393,736,681
Retired			
Pension Stabilization Fund	1,859,794,504	0	1,859,794,504
Other	<u>255,744,130</u>	<u>13,287,907</u>	<u>269,032,037</u>
Total	2,115,538,634	13,287,907	2,128,826,541
Total Employer Reserves	2,115,538,634	407,024,588	2,522,563,222
Total Reserves	\$5,379,966,489	\$775,560,519	\$6,155,527,008

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

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

Valuation date	June 30, 2003
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization method	Level Percent of Pay Closed
Amortization period	36 Years
Asset valuation method	4-year smoothed market value with corridor
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases*	4.50%-15.50%
Payroll growth rate	4.50%
*Includes inflation at	4.00%
Cost-of-living adjustments	Unscheduled, periodic increases

Membership of the plan consisted of the following at June 30, 2003, the date of the latest actuarial valuation:

	<u>Closed Plan</u>	<u>New Plan</u>	<u>Totals</u>
Retired members and beneficiaries receiving benefits	35,627	608	36,235
Terminated plan members entitled to but not yet receiving benefits			
Vested	4,612	671	5,283
Non-Vested	10,996	19,407	30,403
Active plan members	43,705	29,936	73,641
Totals	94,940	50,622	145,562

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 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
2003*	5,728,553,155	13,354,866,440	7,626,313,285	42.9	2,448,271,197	311.5

* 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
2004-2005	2003	19.31	516,267,015	N/A

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

New Plan

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Schedule of Funding Progress				UAAAL as a % of Covered Payroll [(b) - (a)] / (c)
		Actuarial Accrued Liability (AAL) -- Entry-Age -- (b)	Unfunded AAL (UAAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	
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
2003	825,811,772	1,392,472,616	566,660,844	59.3	1,136,863,716	49.8

* 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
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
2004-2005	2003	8.29	102,918,990	N/A

Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2003, with the distribution as of June 30, 2002.

Asset Distribution Across Investment Managers

	June 30, 2003		June 30, 2002	
	Market Value	Percent	Market Value	Percent
Domestic Equity	\$2,219,570,888	36.44%	\$1,967,083,881	34.71%
Large Cap Equity	\$1,547,084,348	25.40%	\$1,331,295,059	23.49%
Passive				
Barclays Global Investors	727,878,123	11.95%	670,138,177	11.83%
Rhumbline	301,810,358	4.96%	186,869,676	3.30%
Enhanced				
PIMCO	297,187,870	4.88%	265,091,665	4.68%
Growth				
Dresdner	33,731,284	0.55%	31,303,152	0.55%
INTECH	41,518,045	0.68%	37,103,106	0.65%
H-S&Y	35,224,069	0.58%	33,479,500	0.59%
Value				
Earnest	21,358,291	0.35%	19,693,370	0.35%
GEAM	30,917,559	0.51%	30,275,500	0.53%
ICAP	25,936,820	0.43%	26,266,471	0.46%
PFR	31,521,929	0.52%	31,074,442	0.55%
Mid Cap Equity	\$135,906,227	2.23%	\$177,198,830	3.13%
Core				
Franklin Associates	84,604,439	1.39%	60,140,201	1.06%
Growth				
Putnam Investments	51,301,788	0.84%	58,495,079	1.03%
Value				
Valenzuela Capital Partners	-	-	58,563,550	1.03%
Small Cap Equity	\$536,580,313	8.81%	\$458,589,992	8.09%
Growth				
Aeltus Capital Management	136,559,442	2.24%	94,727,487	1.67%
TCW Group	66,372,956	1.09%	67,073,781	1.18%
Value				
Ariel Capital Management	187,463,607	3.08%	141,340,723	2.49%
Brandywine Capital Mgmt	146,184,308	2.40%	155,448,001	2.74%
International Equity	\$528,640,179	8.68%	\$576,055,495	10.17%
Alliance Capital Mgmt	183,780,120	3.02%	195,048,809	3.44%
Bank of Ireland	179,260,313	2.94%	196,545,212	3.47%
Dresdner RCM Global	165,599,746	2.72%	184,461,474	3.26%
Domestic Fixed-Income	\$3,324,941,925	54.59%	\$3,120,156,219	55.06%
Alliance Capital Mgmt	1,590,212,385	26.11%	1,479,259,549	26.10%
Reams Asset Management	1,564,713,830	25.69%	1,469,742,361	25.94%
Seix Investment Advisors	-	-	166,194	0.00%
Taplin, Canida & Habacht	68,251,508	1.12%	61,986,556	1.09%
Cash Flow Account	101,764,202	1.67%	109,001,559	1.92%
Alternative Investment	\$17,625,339	0.29%	\$3,709,421	0.07%
Porfolio Advisors	17,625,339	0.29%	3,709,421	0.07%
Total Fund	\$6,090,778,331	100.0%	\$5,667,005,016	100.0%

Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ending June 30, 2003. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

Returns for Periods Ending June 30, 2003

	Market Value \$(Dollars)	Ending Weight	Last Quarter	Last Year	Last 3 Years	Last 4 Years	Last 6 Years
Domestic Equity	\$2,219,570,888	31.40%	16.94%	(0.07%)	(7.79%)	(2.64%)	-
Large Cap Equity	\$1,547,084,348	21.89%	15.28%	0.76%	(10.84%)	(6.74%)	-
Passive	\$1,029,688,481	14.57%	15.36%	0.34%	-	-	-
Barclays Global Investors	727,878,123	10.30%	15.36%	0.34%	(11.16%)	(6.88%)	3.11%
Rhumbline	301,810,358	4.27%	15.36%	0.33%	(10.85%)	(7.90%)	2.47%
Enhanced	\$297,187,870	4.20%	15.40%	2.26%	-	-	-
PIMCO	297,187,870	4.20%	15.40%	2.26%	(9.52%)	(5.54%)	4.25%
Standard & Poor's 500	-	-	15.39%	0.25%	(11.20%)	(6.91%)	3.08%
Growth	\$110,473,398	1.56%	13.94%	2.47%	-	-	-
Dresdner	33,731,284	0.48%	10.78%	1.53%	-	-	-
INTECH	41,518,045	0.59%	12.28%	6.34%	-	-	-
H-S&Y	35,224,069	0.50%	19.28%	(0.95%)	-	-	-
Russell 1000 Growth	-	-	14.31%	2.94%	(21.54%)	(11.73%)	0.25%
S&P 500 Growth	-	-	12.17%	2.32%	(17.40%)	(9.59%)	2.43%
Value	\$109,734,599	1.55%	15.52%	(1.30%)	-	-	-
Earnest	21,358,291	0.30%	15.99%	3.30%	-	-	-
GEAM	30,917,559	0.44%	14.13%	(1.17%)	-	-	-
ICAP	25,936,820	0.37%	13.43%	(5.01%)	-	-	-
PFR	31,521,929	0.45%	18.42%	(1.27%)	-	-	-
Russell 1000 Value	-	-	17.27%	(1.02%)	(0.19%)	(2.45%)	5.23%
S&P 500 Value	-	-	18.84%	(1.84%)	(4.62%)	(4.74%)	3.10%
Mid Cap Equity	\$135,906,227	1.92%	17.19%	(5.10%)	(3.52%)	3.81%	-
Franklin Portfolio Assoc.	84,604,439	1.20%	17.65%	0.67%	2.94%	7.00%	12.13%
Putnam Investments	51,301,788	0.73%	16.43%	(6.17%)	(11.39%)	(0.02%)	7.47%
S&P 400 Mid Cap	-	-	17.63%	(0.71%)	0.99%	4.77%	10.24%
Small Cap Equity	\$536,580,313	7.59%	21.95%	(0.76%)	(0.68%)	8.13%	-
Growth	\$202,932,398	2.87%	23.34%	(2.18%)	(22.17%)	-	-
Aeltus Capital Management	136,559,442	1.93%	21.64%	(2.85%)	(12.08%)	(0.50%)	2.67%
TCW Group	66,372,956	0.94%	26.98%	(0.27%)	(31.76%)	(13.28%)	(1.57%)
Russell 2000 Growth	-	-	24.15%	0.69%	(16.66%)	(7.15%)	(1.54%)
Value	\$333,647,915	4.72%	21.12%	(0.35%)	16.66%	-	-
Ariel Capital Management	187,463,607	2.65%	18.23%	1.12%	13.19%	9.45%	12.13%
Brandywine Asset Management	146,184,308	2.07%	25.05%	(0.83%)	20.59%	9.10%	-
Russell 2000 Value	-	-	22.72%	(3.80%)	10.93%	7.84%	7.33%
International Equity	\$528,640,179	7.48%	18.58%	(8.23%)	(15.08%)	(6.30%)	-
Alliance Capital Management	183,780,120	2.60%	19.44%	(5.87%)	(13.11%)	(6.36%)	-
Bank of Ireland	179,260,313	2.54%	20.07%	(9.70%)	(13.07%)	(4.98%)	-
Dresdner RCM	165,599,746	2.34%	16.08%	(9.20%)	(19.33%)	(8.50%)	-
MSCI EAFE Index	-	-	19.27%	(6.46%)	(13.52%)	(6.70%)	(2.39%)
Alternative Investment	\$17,625,339	0.25%	11.04%	9.35%	-	-	-
Portfolio Advisors	17,625,339	0.25%	11.04%	9.35%	-	-	-
Post Venture Cap Index	-	-	34.85%	19.79%	(29.83%)	(16.55%)	(1.15%)

Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ending June 30, 2003. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

Returns for Periods Ending June 30, 2003

	Market Value \$(Dollars)	Ending Weight	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 4 Years
Domestic Fixed-Income	\$3,324,941,925	54.59%	3.97%	12.17%	9.05%	9.79%	8.53%
Alliance Capital Mgmt.	1,590,212,385	26.11%	3.81%	13.60%	10.18%	10.70%	9.02%
Alliance Capital Index	-	-	2.50%	10.40%	9.51%	10.07%	8.67%
Reams Asset Management	1,564,713,830	25.69%	4.25%	11.20%	7.47%	9.03%	8.45%
Taplin, Canida & Habacht	68,251,508	1.12%	4.91%	14.50%	11.13%	10.65%	8.49%
Lehman Brothers Agg.	-	-	2.50%	10.40%	9.51%	10.08%	8.67%
Cash Flow Account	101,764,202	1.67%	0.70%	2.73%	2.45%	3.51%	3.76%
Treasury Bills	-	-	0.34%	1.53%	2.08%	3.33%	3.88%
Composite Fund	\$6,090,778,331	100.00%	9.60%	6.17%	1.69%	1.40%	3.50%
Standard & Poor's 500	-	-	15.39%	0.25%	(9.33%)	(11.20%)	(6.91%)
Domestic Equity Database	-	-	18.04%	0.43%	(6.39%)	(5.77%)	(0.58%)
Domestic Fixed Database	-	-	3.05%	10.75%	8.86%	9.23%	8.00%

TOTAL DOMESTIC EQUITY PERIOD ENDING JUNE 30, 2003

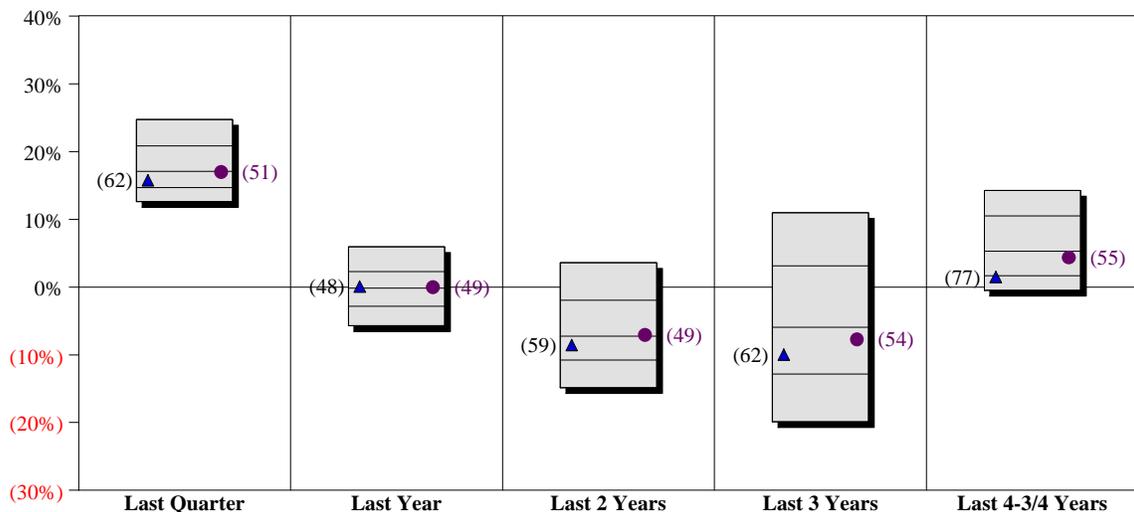
Investment Philosophy

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 16.94% return for the quarter placing it in the 51 percentile of the CAI Total Domestic Equity Database group for the quarter and in the 49 percentile for the last year.
- Total Domestic Equity's portfolio outperformed the S&P Super Composite 1500 by 1.22% for the quarter and underperformed the S&P Super Composite 1500 for the year by 0.11%.

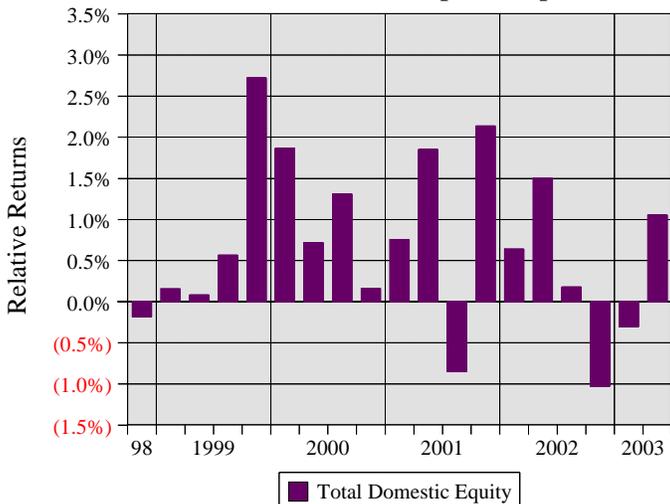
Performance vs CAI Total Domestic Equity Database



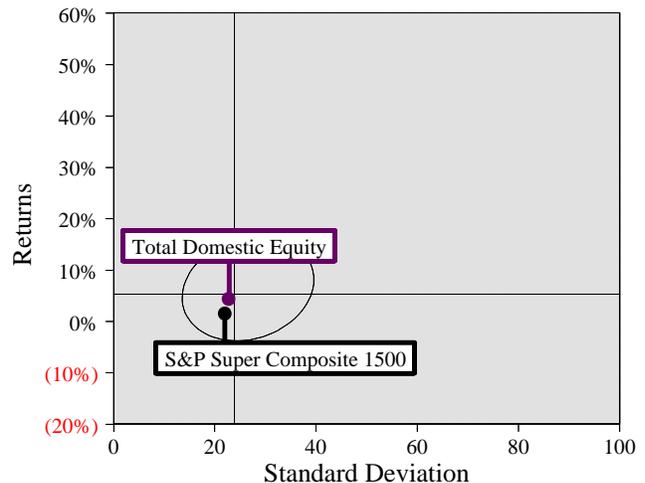
	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 4-3/4 Years
10th Percentile	24.72	5.93	3.57	10.95	14.25
25th Percentile	20.83	2.27	(1.92)	3.15	10.49
Median	17.09	(0.15)	(7.26)	(5.92)	5.30
75th Percentile	14.70	(2.84)	(10.78)	(12.83)	1.68
90th Percentile	12.60	(5.73)	(14.90)	(19.89)	(0.51)

	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 4-3/4 Years
Total Domestic Equity ●	16.94	(0.07)	(7.09)	(7.79)	4.32
S&P Super Composite 1500 ▲	15.72	0.04	(8.61)	(10.02)	1.46

Relative Return vs S&P Super Composite 1500



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





TOTAL FIXED-INCOME PERIOD ENDING JUNE 30, 2003

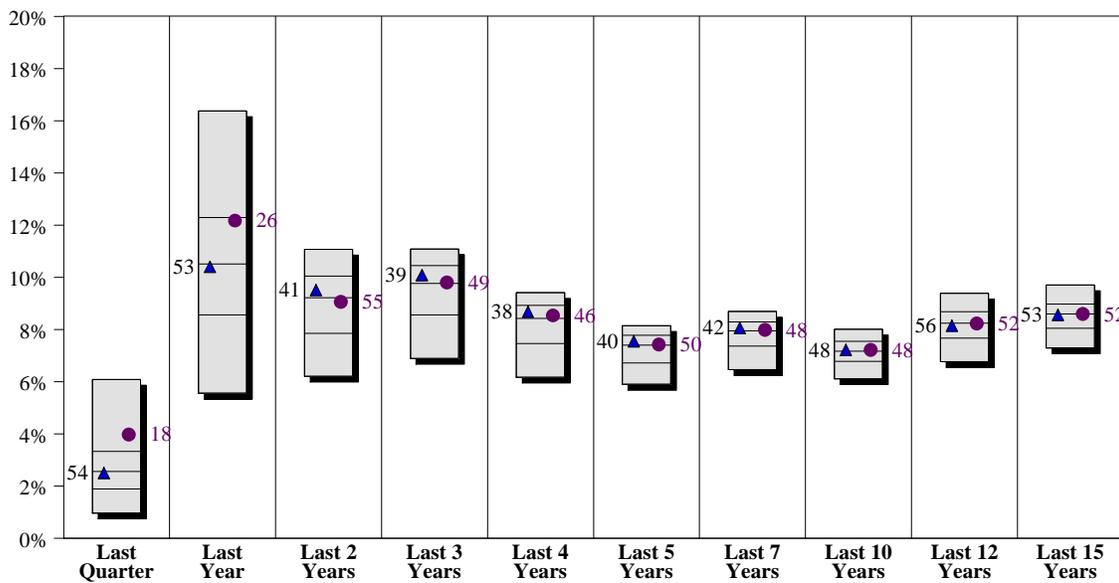
Investment Philosophy

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

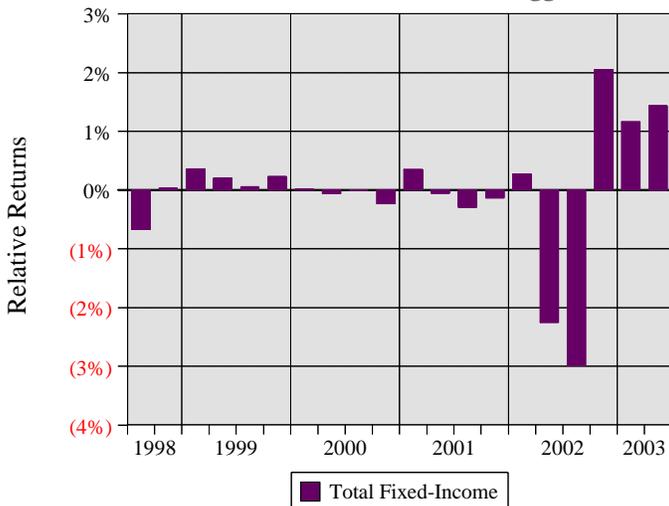
- Total Fixed-Income's portfolio posted a 3.97% return for the quarter placing it in the 18 percentile of the CAI Total Domestic Fixed-Inc Database group for the quarter and in the 26 percentile for the last year.
- Total Fixed-Income's portfolio outperformed the L/B Agg by 1.47% for the quarter and outperformed the L/B Agg for the year by 1.77%.

Performance vs CAI Total Domestic Fixed-Inc Database

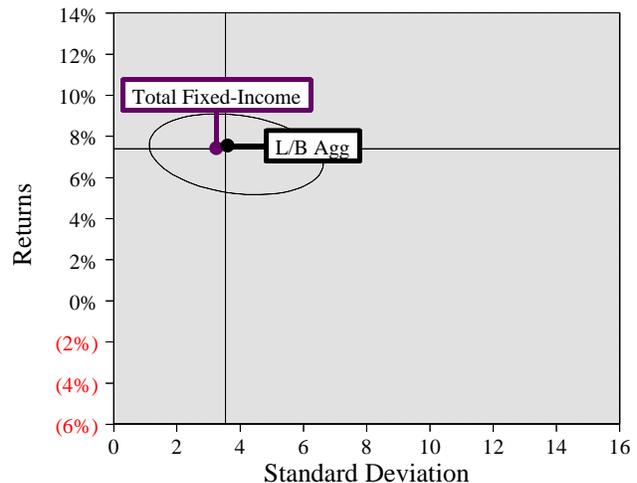


	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 4 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 12 Years	Last 15 Years
10th Percentile	6.08	16.37	11.06	11.08	9.40	8.14	8.69	8.00	9.38	9.70
25th Percentile	3.33	12.29	10.05	10.46	8.93	7.78	8.30	7.55	8.68	8.98
Median	2.56	10.52	9.22	9.77	8.43	7.41	7.95	7.18	8.25	8.60
75th Percentile	1.90	8.56	7.85	8.57	7.47	6.72	7.37	6.78	7.67	8.06
90th Percentile	0.96	5.56	6.20	6.89	6.17	5.89	6.46	6.11	6.76	7.29
Total Fixed-Income ●	3.97	12.17	9.05	9.79	8.53	7.42	7.98	7.21	8.22	8.58
L/B Agg ▲	2.50	10.40	9.51	10.08	8.67	7.54	8.05	7.21	8.14	8.56

Relative Return vs L/B Agg



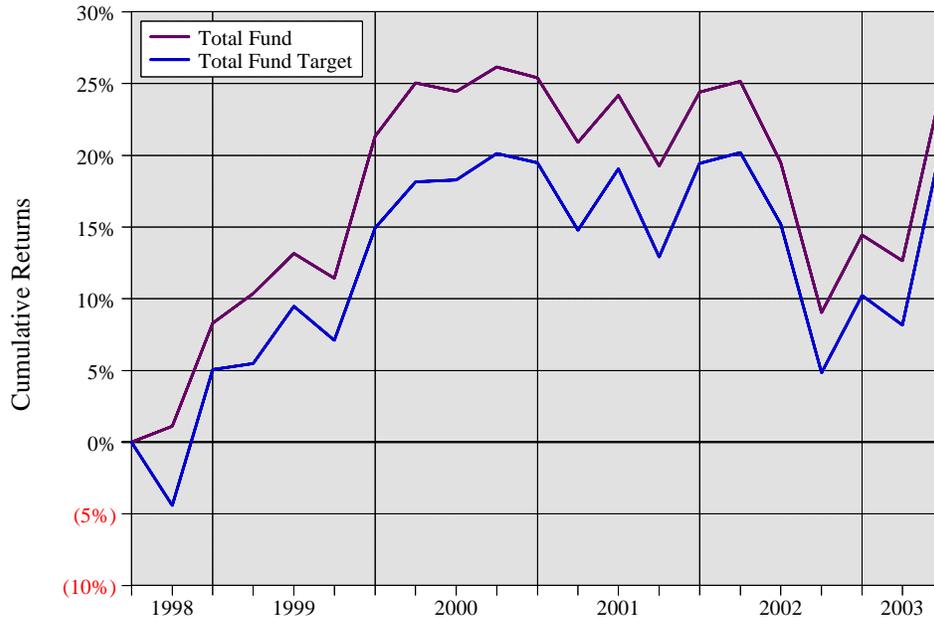
CAI Total Domestic Fixed-Inc Database Annualized Five Year Risk vs Return



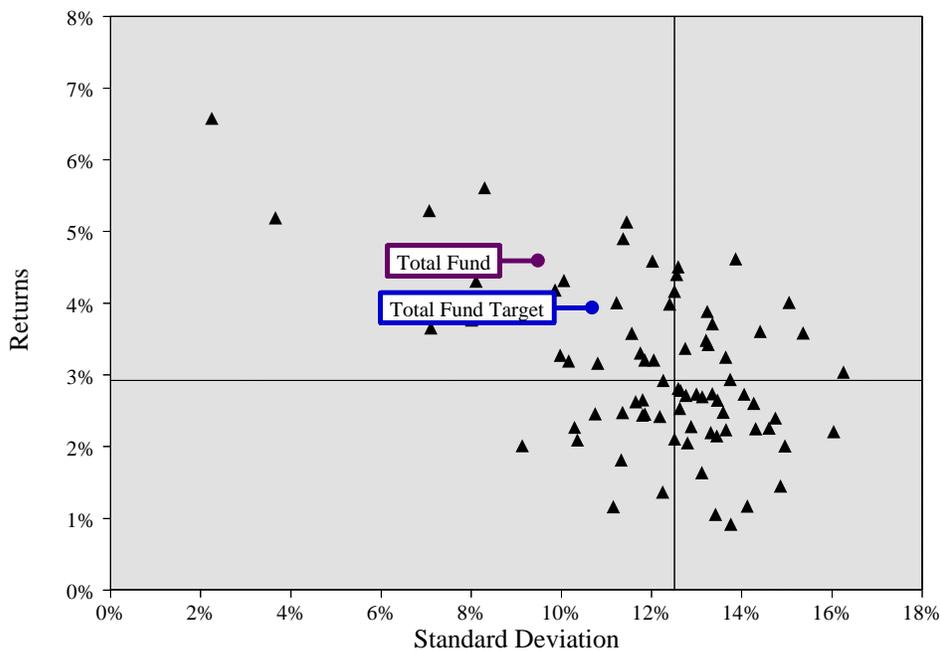
Cumulative Performance Relative to Target

The first chart below illustrates the cumulative performance of the Total Fund relative to the cumulative performance of the Fund's Target Asset Mix. The Target Mix is assumed to be rebalanced each quarter with no transaction costs. The second chart below shows the return and the risk of the Total Fund and the Target Mix, contrasted with the returns and risks of the plans in the Public Plan Sponsor Database.

Cumulative Returns Actual vs Target



Five Year Annualized Risk vs Return



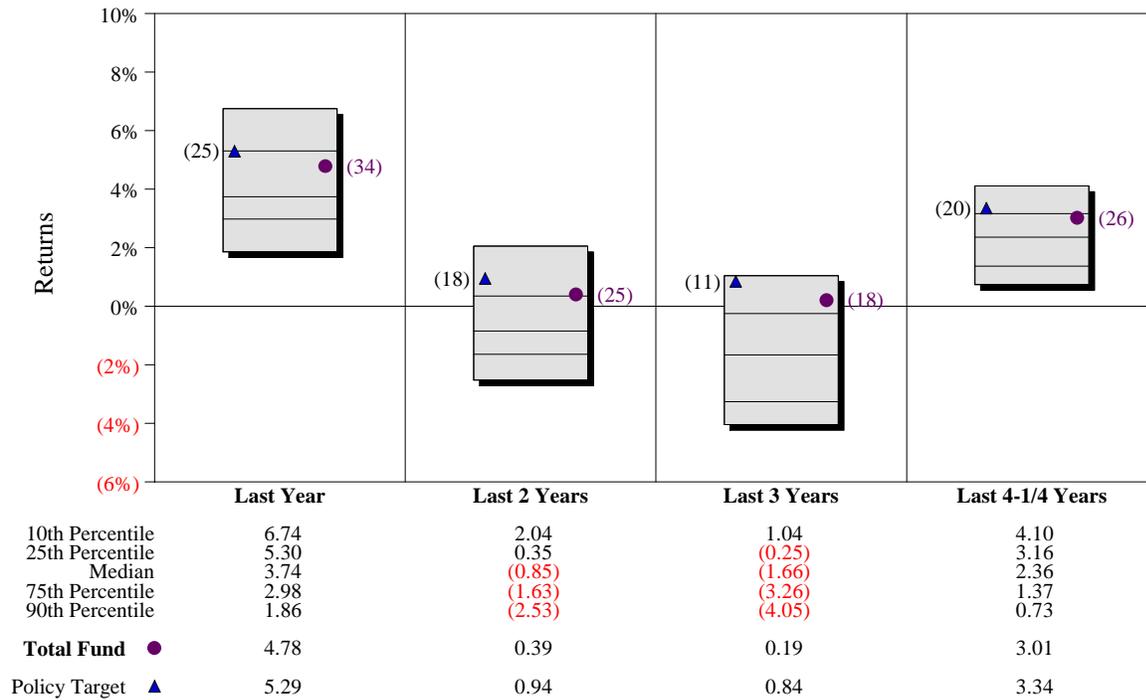
Triangles represent membership of the CAI Public Fund Sponsor Database

* 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.

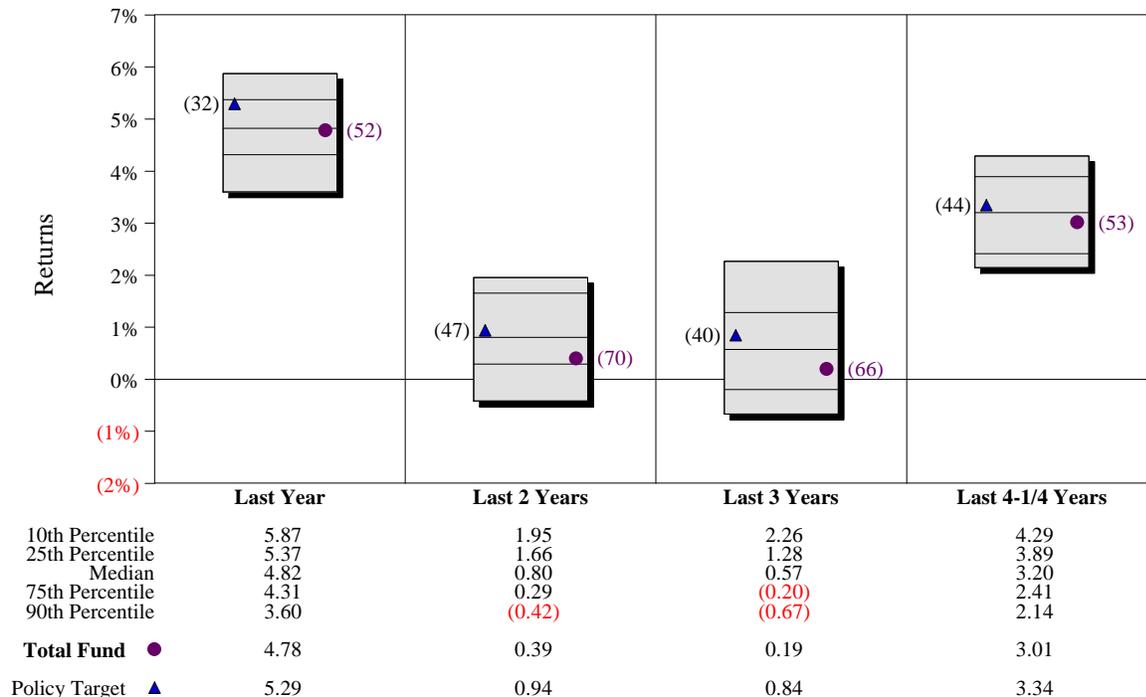
Total Fund Ranking

The first two charts show the ranking of the Total Fund's performance relative to that of the CAI Public Fund Sponsor Database for periods ending June 30, 2003. The first chart is a standard unadjusted ranking. In the second chart each fund in the database is adjusted to have the same historical asset allocation as that of the Total Fund.

CAI Public Fund Sponsor Database



Asset Allocation Adjusted Ranking



* Current Quarter Target = 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.



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