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REPORT OF

MISSOURI STATE EMPLOYEES
DEFERRED COMPENSATION INCENTIVE PLAN

June 30, 2008

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INDEPENDENT AUDITORS' REPORT

To the Trustees of the
Missouri State Employees Deferred Compensation Incentive Plan

We have audited the accompanying statement of plan net assets of the Missouri State Employees Deferred Compensation Incentive Plan (the Plan), a component unit of the state of Missouri, as of June 30, 2008, and the related statement of changes in plan net assets for the eighteen months then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 also 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 financial statements referred to above present fairly, in all material respects, the plan net assets of the Plan as of June 30, 2008, and the changes in plan net assets for the eighteen months then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

December 10, 2008

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Missouri State Employees
Deferred Compensation Incentive Plan

Management's Discussion and Analysis
For the Eighteen Months Ended June 30, 2008

This discussion and analysis of the Missouri State Public Employees Deferred Compensation Incentive Plan financial performance provides an overview of the Plan's financial activities for the eighteen months ended June 30, 2008. Please read it in conjunction with the Plan's financial statements, which follow this section.

Financial Highlights

- Assets available for plan benefits at June 30, 2008 were \$314,402,170, an increase of \$45,395,610 or 16.9% compared to December 31, 2006, assets available for plan benefits of \$269,006,560. These funds are available for distribution to plan participants in accordance with Plan provisions.

- Total additions were \$77,966,193 for the eighteen months ended June 30, 2008. Of that amount, \$16,662,681 (21% of total additions) were due to employer contributions, compared to 20% for the eighteen months ended December 31, 2006. Additions totaling \$47,128,890 (60% of total additions) were due to net transfers into the Plan from other plans, compared to 47% for the eighteen months ended December 31, 2006.

- Total deductions were \$32,570,583 for the eighteen months ended June 30, 2008, compared to \$22,629,147 for the eighteen months ended December 31, 2006. Substantially all of the deductions were due to distributions to participants.

- At June 30, 2008, the number of active, retired or inactive participants decreased to 57,625 compared to 57,665 at December 31, 2006.

- Effective September 1, 2007, the administration of the Plan was transferred to the Board of Trustees of Missouri State Employees Retirement System (MOSERS).

Overview of the Financial Statements

The Plan is established as a profit sharing incentive plan as authorized by Section 401(a) of the Internal Revenue Code (IRC), as amended. Participants who are active participants in the Missouri State Public Employees Deferred Compensation Plan, who have been an employee of a participating employer for at least 12 consecutive months, and is making monthly deferrals of at least \$25 to the Missouri State Public Employee's Deferred Compensation Plan are eligible to receive contributions on their behalf of \$25 per month. Participants may direct the contributions made by their employer in available investment options offered by the Plan and are 100% vested in their accounts. The participating employers include the State of Missouri and its agencies and retirement systems that elected to participate. As of June 30, 2008 there are seven participating State employers in the Plan. Benefits are payable to participants, in accordance with Plan provisions, upon termination of employment with the State, retirement, death, or unforeseeable emergency based on the participant's account balance.

The Plan's financial statements are comprised of a Statement of Plan Net Assets, a Statement of Changes in Plan Net Assets Available and Notes to Financial Statements.

The *statement of plan net assets* presents information on the Plan's assets and liabilities with the difference between the two reported as *net assets available for plan benefits*. This statement reflects, at fair value, the participants' balances in their selected investment options, which are available to pay benefits.

The *statement of changes in plan net assets* presents information showing how the Plan's net assets available for plan benefits changed during the eighteen months ended June 30, 2008. This statement reflects contributions made by and benefits paid to participants during the period. Investing activities during the period are also presented which include interest and dividends added to participant accounts and the net appreciation or depreciation in fair value of the investments. Other transfers and fees affecting participant accounts are also reported in this statement.

The *notes to financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The Plan is considered a component unit of the State of Missouri and is included as a pension trust fund in the State of Missouri's Comprehensive Annual Financial Report.

Financial Analysis

Summarized financial information is presented in the following condensed statements as of June 30, 2008 and December 31, 2006 and for the eighteen months then ended.

Table 1

Condensed Statements of Plan Net Assets

	June 30, 2008	December 31, 2006
Cash and cash equivalents	$ 139,359	$ 80,533
Investments	314,261,406	268,998,092
Receivables	179,902	130,692
Total assets	314,580,667	269,209,317
Accounts payable	178,497	202,757
Net assets available for benefits	$ 314,402,170	$ 269,006,560

Table 2

Condensed Statements of Changes in Plan Net Assets

	June 30, 2008 (18 Months)	December 31, 2006 (18 months)
Additions:		
Employer contributions	$ 16,662,681	$ 16,461,898
Investment income	14,174,622	27,137,454
Net transfers from (to) other plans	47,128,890	38,677,730
Total additions	77,966,193	82,277,082
Deductions:		
Distributions to participants	31,677,636	22,629,147
Administrative fees	892,947	539,476
Total deductions	32,570,583	23,168,623
Increase in net assets	$ 45,395,610	$ 59,108,459

- Net assets available for plan benefits increased by approximately $45.4 million during the eighteen month period ended June 30, 2008 to $314 million and by approximately $59.1 million during the eighteen months ended December 31, 2006. The most significant change is a $13 million decrease in investment income, which decreased significantly as a reflection of the market. Other significant changes are an $8.5 million increase in net transfers into the plan and a $9 million increase in distributions to participants.

- Employer contributions were $16.7 million for the eighteen months ended June 30, 2008 and $16.5 million for the eighteen months ended December 31, 2006.

- Investment income was $14.2 million for the eighteen months ended June 30, 2008 compared to $27.1 million for the eighteen months ended December 31, 2006. As noted previously, this reflects the negative change in market conditions between the two reporting periods.

- Distributions to participants totaled $31.7 million for the eighteen months ended June 30, 2008 compared to $22.6 million for the eighteen months ended December 31, 2006.

- Administrative fees were $892,947 for the eighteen months ended June 30, 2008 compared to $539,476 for the eighteen months ended December 31, 2006.

Other

Other than changes in the fair value of Plan assets as may be impacted by the stock and bond markets, along with changes in interest rates, no other matters are known by management to have a significant impact on the operations or financial position of the Plan.

Requests for Information

This financial report is designed to provide a general overview of the Plan's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Plan Administrator, c/o MOSERS, P.O. Box 209, Jefferson City, MO 65102-0209

Missouri State Employees
Deferred Compensation Incentive Plan

Statement of Plan Net Assets

June 30, 2008

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ASSETS		
Cash and cash equivalents	$	139,359
Revenue share receivable		179,902
Investments		314,261,406
TOTAL ASSETS		314,580,667
LIABILITIES		
Accounts payable		178,497
NET ASSETS AVAILABLE FOR BENEFITS	$	314,402,170

See accompanying notes to financial statements.

Missouri State Employees
Deferred Compensation Incentive Plan

Statement of Changes in Plan Net Assets

For the Eighteen Months Ended June 30, 2008

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ADDITIONS		
Employer contributions	$	16,662,681
Interest and dividend Income		25,910,730
Net appreciation (depreciation) in fair value of investments		(11,736,108)
Net transfers from other Plans		47,128,890
TOTAL ADDITIONS		77,966,193
DEDUCTIONS		
Distributions to participants		31,677,636
Administrative fees		892,947
TOTAL DEDUCTIONS		32,570,583
NET INCREASE		45,395,610
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING		269,006,560
NET ASSETS AVAILABLE FOR BENEFITS, ENDING	$	314,402,170

See accompanying notes to financial statements.

Missouri State Employees
Deferred Compensation Incentive Plan

Notes to Financial Statements
For the Eighteen Months Ended June 30, 2008

NOTE 1 – GENERAL DESCRIPTION OF THE PLAN:

The following brief description of the Missouri State Employees Deferred Compensation Incentive Plan (the Plan), which is administered by the Missouri State Employee Retirement System (MOSERS), is provided for general information purposes only. For a more complete description of the Plan provisions, refer to the detailed Plan documents or the State of Missouri statutes. (commission)

The Plan was established by the Missouri State Public Employees' Deferred Compensation Commission in July 1995 pursuant to Section 401(a) of the Internal Revenue Code (IRC). The first employer contributions to the Plan were made in January 1996. Participants who are active participants in the Missouri State Public Employees Deferred Compensation Plan, who have been an employee of a participating employer for at least 12 consecutive months, and is making monthly deferrals of at least $25 to the Missouri State Public Employee's Deferred Compensation Plan are eligible to receive contributions on their behalf of $25 per month. The participating employers include the State of Missouri and its agencies and retirement systems which elected to participate. As of June 30, 2008 there are seven participating State employers in the Plan. No employee contributions are made to the plan.

The Plan is considered a component unit of the State of Missouri and is included as a pension trust fund in the State of Missouri's Comprehensive Annual Financial Report.

The supervisory authority for the management and operation of the Plan is the Board of Trustees of MOSERS. MOSERS has hired a third party administrator to handle participant services and record keeping and an investment custodian to handle the Plan's investments. CitiStreet, a joint venture created by Citigroup and State Street, was the third party administrator during the fiscal period. As of July 1, 2008, CitiStreet was purchased by ING Institutional Plan Services, LLC (ING). State Street Corporation is the investment custodian.

Participants in the Plan may invest in the following options:

- Fixed earnings investments underwritten by ING Life Insurance and Annuity Company (ING); and
- Variable earnings investments administered by ING (formerly CitiStreet)

Employees participating in the Plan or their beneficiaries may withdraw the fair value of funds contributed to the Plan upon retirement, death, or separation of service from the Employer, subject to the Internal Revenue Service limitations. Employees may select from various payout options, including lump-sum payments or payments over various periods. Retiring participants have the option to annuitize their account balances as one of their payout options. The Plan provides this option through group annuity contracts with ING. Depending upon the option selected, the payments may be actuarially determined.

At June 30, 2008 the Plan's membership consisted of the following:

Active participants	57,625
Retired and inactive participants	17,253
	74,878

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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Change in Plan Year End

The Plan has changed its fiscal year end from December 31 to June 30 effective for this reporting period. These financial statements and related notes include financial data for the eighteen month period from January 1, 2007 through June 30, 2008.

Basis of Presentation

The accompanying financial statements have been prepared on the economic resources measurement focus and the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and reporting principles.

Related Plan

The Missouri State Public Employees Deferred Compensation Plan (the Deferred Compensation Plan) is related to the Plan through common sponsorship and administration. Both are offered by the State of Missouri to the same employees and the operations and administration are handled together. Certain balances are allocated between the two plans based on either investment balances or number of the participants. The Deferred Compensation Plan issues separate financial statements.

Contributions and Contributions Receivable

Contributions are recorded when the related deferred compensation payment is withheld from the participating employees' salaries. Contributions are credited by the applicable investment carrier upon receipt from the Employer. Contributions receivable represent employer contributions related to the fiscal period not remitted to the investment carriers at year-end.

Revenue Share Receivable

The Plan receives commissions and other funds from individual mutual fund companies included in the investment portfolio on a monthly or quarterly basis, as described below in the administrative section. Amounts related to the fiscal period not yet received are recorded as a receivable.

Investment Valuation

Investments in mutual funds and self-directed brokerage accounts are presented at their fair value based on published market prices. Investments in the stable value fund are valued at contract value as this is the value realizable by the participants. Investments in whole life insurance contracts are valued at cash surrender value as reported by the insurance company. Investments in universal life insurance contracts are reported at fair value, less any surrender charges, as reported by the life insurance company.

Investment Contract with ING Life Insurance and Annuity Company

In 2006, the Plan entered into a benefit-responsive investment contract with ING Life Insurance Annuity Company (ING), the ING Stable Value Fund. ING maintains the contributions in a separate account. The value of the separate account is the fair market value of investments plus cash balances and accruals, less liabilities, in accordance with such methods as described in the contract or as ING may adopt from time to time. Income and gains or losses, realized or unrealized, are credited or charged directly to the separate account. The values determined may decrease or increase according to such procedure. The separate account is charged with expenses arising from the operations of the account including taxes, brokerage, commissions, and other costs. The contract value as reported to the plan by ING is the value represented in the Interest

Accumulation Fund, which is the accounting record maintained under the contract for amounts reflecting the termination value of the predecessor investment vehicle (Nationwide) plus deposits received, withdrawals made, fees charged, plus interest at the Credited Rate and other adjustments. Participants may direct the withdrawal or transfer of all or a portion of their investment contracts.

The fair value of the investment contract as of June 30, 2008, was $178,657,086 and the contract value on June 30, 2008 was $195,032,674. The average yield and crediting interest rates was approximately 5.37% for the eighteen months ended June 30, 2008. The crediting interest rate is based on a formula agreed upon with the issuer, but may not be less than 4.9% as of June 30, 2008. The interest rates are reviewed on a quarterly basis for resetting. The crediting interest rate formula is in part based on the fair value of the underlying securities of the investment contract. The withholding of $4,901,961 by Nationwide Life Insurance Company (see note 7) from funds transferred to this investment contract with ING has a negative impact on the fair value of the underlying securities, and therefore, has a negative impact on the crediting rate of interest.

Certain events, such as termination of the contract by the Plan or the termination of the Plan, would limit the Plan's ability to transact at contract value with ING. The Plan administrator believes the occurrence of such events that would also limit the Plan's ability to transact at contract value with plan participants is not probable.

Interest Income

Interest income is recorded as earned for the stable value fund. The interest rate for the stable value fund was 4.90% at June 30, 2008. The interest ranged from 4.90% to 5.54% for the eighteen months ended June 30, 2008.

Participant Accounts

Each participant's account is credited with the participant's contributions and allocations of Plan earnings and charged with an allocation of Plan expenses. Allocations are based on participant earnings or account balances, as defined. Earnings are credited to individual participant's accounts based upon investment performance of the specific options selected. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Administrative Expenses

ING (formerly CitiStreet) charges an annual per participant recordkeeping and advisory fees totaling $56. This fee covers ING's services for both this Plan and the Deferred Compensation Plan. Both plans earn revenue share income from mutual fund companies, and this income is used to pay part of ING's fees, which reduces the actual fees paid by the participants of the Plan. The administrative expenses reported on the Statement of Changes in Plan Net Assets are net of revenue share income of approximately $550,000. The fees and revenue share income are allocated between the two plans.

In addition, the two plans paid administrative fees of $25,000 quarterly to the State of Missouri Office of Administration (prior to September 1, 2007) and MOSERS (subsequent to September 1, 2007) for administration services provided to the two plans. These quarterly fees are paid by ING out of the $56 annual per participant fee charged. These quarterly fees are also allocated between the two plans.

Distributions

Distributions are recorded at the time withdrawals are made from the Plan participant accounts, which generally coincides with the trade date.

Net Transfers to/from Other Plans

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Net transfers to/from other plans represent rollover contributions and distributions to/from other qualified plans.

Estimates

The preparation of the financial statements in conformity with the accounting principles generally accepted in the United State of America may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those results.

Risks and Uncertainties

The Plan provides for various investment options in any combination of mutual funds, insurance contracts, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the accompanying statement of plan net assets.

NOTE 3 – TAX STATUS:

The Plan is reviewed by legal counsel to ensure conformity with Section 401(a) of the IRC. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts so deferred are included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or beneficiary. The Trust established under the Plan is treated as exempt from federal income taxation.

NOTE 4 – CASH AND CASH EQUIVALENTS:

Cash and cash equivalent represents cash on deposit with a financial institution. The Plan shares a checking account with the Deferred Compensation Plan. Participant fees and revenue share amounts are deposited into the account and used to pay plan expenses on a monthly basis. The balance is allocated between the two plans based on their respective investment balances. Deposits are exposed to custodial risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution's trust department or agency but not in the depositor-government's name. The Plan does not have a formal deposit policy for custodial credit risk. At June 30, 2008 the shared checking account had a bank balance of $456,626 and the Plan's book balance was $139,359. The Deferred Compensation Plan's book balance was $489,997 at June 30, 2008. Of the $456,626 bank balance, $100,000 was covered by FDIC insurance and the remaining balance of $356,626 was uninsured and uncollateralized.

NOTE 5 – INVESTMENTS:

The Plan's investment policy is to provide a user friendly mechanism for participants to accumulate and preserve assets for retirement during years of employment and beyond. The Plan offers a diversified range of investment options. As of June 30, 2008 participants have the choice between 31 mutual funds, a stable value fund and a self-directed brokerage option.

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Stable Value Fund

ING has established a separate stable value fund. It provides a stable rate of return by investing in various types of bonds including treasuries, agencies, corporates and mortgage-backed securities. The fund is wrapped by an insurance contract which stabilizes the interest rate paid as well as insuring that participants get their principal plus interest when they decide to withdraw from the fund. However, if the insurance company were to declare bankruptcy the participant should only expect to receive the market value upon dissolution. In advance of each quarter, ING establishes a rate of return for that quarter, as described previously.

Stable value fund investment income included in the accompanying financial statements is net of annual fees which are deducted from earnings prior to posting to the participant accounts. The annual fees as a percentage of participating assets were .90% through December 31, 2007, and were reduced to .75% effective January 1, 2008 through June 30, 2008.

Mutual Funds

The Plan offers various mutual funds, along with a self-directed brokerage option through an independent broker which allows investments not offered by the Plan. Shares of mutual funds are not insured, although some securities in which the funds invest may be insured or backed by the U.S. government or its agencies. Investment income in the accompanying financial statements is net of management and other expenses charged by the funds' managers which are deducted from earnings prior to posting to the participant accounts.

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Investment Summary

Investments, at carrying value, as of June 30, 2008 are as follows:

Fixed earnings options:	
ING Stable Value Fund	$ 195,032,674
Variable earnings options:	
Fidelity Contrafund	26,520,721
American Century Ultra Fund	13,434,679
SEI Index Fund - S&P 500 Index Portfolio	8,882,288
Neuberger & Berman Genesis Fund	7,167,199
Vanguard Life Stategy Growth Fund	5,900,018
Fidelity Equity Income Fund	5,852,836
American Century Equity Income Fund	5,010,735
Vanguard Life Stategy Moderate Growth Fund	4,554,775
Gartmore Nationwide Fund	4,270,535
AIM Dynamics Fund	3,154,123
Vanguard Total Stock Market Index Fund	3,104,818
Templeton Developing Markets Trust	3,080,861
T. Rowe Price International Stock Fund	2,692,395
American Century Growth Fund	2,632,742
Janus Worldwide Fund	2,341,561
Putnam Investors Fund	2,228,697
Goldman Sachs Mid Cap Fund	1,995,787
Vanguard Life Stategy Conservative Growth	1,841,774
American Funds Bond Fund of America	1,816,171
Fidelity Asset Manager	1,748,733
Janus Small Cap Value Fund	1,603,570
Jensen Blend (Z Class)	1,580,638
Vanguard Inflation Protection Securities Fund	1,571,373
Vanguard Life Stategy Income Fund	1,474,266
Federated US Government Securities Fund - 2-5 Years	1,249,116
Self Directed Brokerage Account	1,069,012
Dreyfus Premier Third Century Fund	887,460
Dreyfus Small Cap Stock Index Fund	683,616
Brown Capital Management Small Company Fund	487,547
Dryden Total Return Bond Fund	299,005
AIM Small Company Growth Fund	91,681
Total Investments	$ 314,261,406

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Other than the ING Stable Value Fund, whose rate is adjusted quarterly, the Plan investment guidelines include no formal policy on interest rate risk. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates based upon the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The average effective duration in years as of June 30, 2008, for fixed income mutual funds is as follows:

Fixed Income Mutual Fund	Fair Value	Weighted Average Duration
American Funds Bond Fund of America	$ 1,816,171	4.19
Vanguard Inflation Protection Securities Fund	1,571,373	7.51
Federated US Government Securities Fund - 2-5 Years	1,249,116	3.60

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Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Plan. The Plan does not have a formal policy for credit risk. At June 30, 2008 the weighted average credit ratings for the fixed income securities included in the fixed income mutual funds were as follows:

Fixed Income Mutual Fund	Credit Rating
American Funds Bond Fund of America	AA
Vanguard Inflation Protection Securities Fund	AAA
Federated US Government Securities Fund - 2-5 Years	AAA

NOTE 6 – PLAN TERMINATION:

The Employer, with approval from the Missouri State Employees Retirement System Board, may terminate the Plan at any time, although no intent to terminate the Plan has been expressed. In the event of termination, all participants will remain fully vested, except to the extent that law or regulations may preclude such vesting.

NOTE 7 – CONTINGENCIES:

On May 15, 2006, Nationwide Life Insurance Company (Nationwide) provided the Commission notice of Nationwide's intent to access a market value adjustment (MVA) on the liquidation of its group fixed annuity contract. The MVA was $4,901,961. On May 30, 2006, Nationwide filed a lawsuit in the US District Court for the Southern District of Ohio seeking a declaratory judgment that it had the right under the terms of the fixed annuity contract to withhold a market value adjustment. On December 21, 2006, the State of Missouri sued Nationwide Life Insurance Company and Nationwide Retirement Systems in the Circuit Court of Cole County, Missouri, for the breach of contract, breach of fiduciary duty, and an accounting, seeking a return of the withheld amount plus interest. The United States District Court dismissed Nationwide's lawsuit on March 23, 2007. The State, through the Attorney General's office, continues to pursue its legal remedies against Nationwide in Cole County Circuit Court.

As of the date of this report, this litigation is still ongoing.

NOTE 8 – FINANCIAL MARKETS: stabilize

Since June 30, 2008 the financial markets have continued to falter. In July, the U.S. Treasury acted to ~~bailout~~ certain entities and again, in October, the federal government passed a $700 billion legislative plan to stabilize the country's financial system, ~~lead by defaults in sub-prime mortgages~~. The decline in the financial markets, has had a material impact on the Plan's net assets; however, management does not ~~anticipate~~ ~~that~~ believe that the assets have sustained a permanent impairment.

NOTE 9 – INCENTIVE PROGRAM CHANGE

Beginning with the July 31, 2008 paycheck, the State changed the match incentive amounts for eligible employees. See the following chart for the new incentive amounts:

Participant's Monthly Contribution	State's Monthly Match
$25 to $29.50	$25
$30 to $34.50	$30
$35 or more	$35