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**REPORT OF  
MISSOURI STATE EMPLOYEES  
DEFERRED COMPENSATION INCENTIVE PLAN**

**June 30, 2009**

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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, 2009, and the related statement of changes in plan net assets for the year 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, 2009, and the changes in plan net assets for the year 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.

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December 2, 2009

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**Missouri State Employees  
Deferred Compensation Incentive Plan  
Management's Discussion and Analysis  
For the Year Ended June 30, 2009**

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 year ended June 30, 2009. 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, 2009, were \$307,100,703, a decrease of \$7,301,467 or 2.3% compared to June 30, 2008, assets available for plan benefits of \$314,402,170. These funds are available for distribution to plan participants in accordance with Plan provisions.
- Total net additions were \$21,681,696 for the year ended June 30, 2009. Of that amount, \$14,766,552 was due to employer contributions and \$28,206,425 was due to net transferred from other plans. Included with the additions was a reduction of \$21,291,281 from negative investment income for the year.
- Total deductions were \$28,983,163 for the year ended June 30, 2009, compared to \$32,570,583 for the eighteen months ended June 30, 2008. Substantially all of the deductions were due to distributions to participants.
- At June 30, 2009, the number of active, retired or inactive participants remained relatively flat at 74,574 compared to 74,878 at June 30, 2008.
- In April 2009, the Plan added twelve Missouri Target Date Funds as investment options to simplify retirement investing for the Plan participants. Approximately 20% of the Plan's investments are invested in these twelve new funds.

**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 ranging from \$25 to \$35 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, 2009, 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 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 year ended June 30, 2009. 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, 2009, and for the year then ended and June 30, 2008, and for the eighteen months then ended.

**Table 1**  
**Condensed Statements of Plan Net Assets**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Cash and cash equivalents	\$ 48,004	\$ 139,359
Investments	306,925,250	314,261,406
Receivables	182,619	179,902
Total assets	<u>307,155,873</u>	<u>314,580,667</u>
Accounts payable	<u>55,170</u>	<u>178,497</u>
Net assets available for benefits	<u>\$ 307,100,703</u>	<u>\$ 314,402,170</u>

**Table 2**  
**Condensed Statements of Changes in Plan Net Assets**

	<u>June 30, 2009</u> <u>(12 Months)</u>	<u>June 30, 2008</u> <u>(18 months)</u>
Additions (Reductions)		
Employer contributions	\$ 14,766,552	\$ 16,662,681
Investment income (loss)	(21,291,281)	14,174,622
Net transfers from other plans	<u>28,206,425</u>	<u>47,128,890</u>
Total net additions	<u>21,681,696</u>	<u>77,966,193</u>
Deductions:		
Distributions to participants	28,309,672	31,677,636
Administrative fees	<u>673,491</u>	<u>892,947</u>
Total deductions	<u>28,983,163</u>	<u>32,570,583</u>
Increase (decrease) in net assets available for benefits	<u>\$ (7,301,467)</u>	<u>\$ 45,395,610</u>

A summary of the investment balances at June 30, 2009 and 2008, is as follows:

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**Table 3**  
**Statements of Investment Balances**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
	<u>Balance (000's)</u>	<u>Balance (000's)</u>
<b>Stable Value Fund</b>		
ING Stable income Fund	\$ 214,439	\$ 195,033
<b>Bond Funds</b>		
Dryden Total Return Fund	107	299
American Funds Bond Fund of America	503	1,816
Federated US Govt. 2-5 Yrs.	1,419	1,249
Vanguard Inflation-Protected Sec. Fund	720	1,571
	<u>2,749</u>	<u>4,935</u>
<b>Moderate Asset Allocation Investments</b>		
Fidelity Asset Manager-50%	429	1,749
<b>Large-Cap Equity Funds</b>		
American Century Equity Income	1,672	5,011
Fidelity Equity-Income	1,271	5,853
Gartmore Nationwide	659	4,270
Jennison Blend	369	1,581
Putnam Investors	404	2,229
SEI Index S&P 500 Index	1,626	8,882
Vanguard Total Stock Market	911	3,105
American Century Growth	808	2,633
American Century Ultra	2,463	13,435
Dreyfus Premier Third Century	206	887
Fidelity Contrafund	6,378	26,521
	<u>16,767</u>	<u>74,407</u>
<b>Mid-Cap Equity Funds</b>		
Goldman Sachs Mid Cap Value	778	1,996
AIM Dynamics	629	3,154
	<u>1,407</u>	<u>5,150</u>
<b>Small-Cap Equity Funds</b>		
Janus Small Cap Value	578	1,603
Dreyfus Small Cap Value	210	684
Neuberger Berman Genesis	2,088	7,167
AIM Small Cap Growth	32	91
Brown Capital Mgmt Small Co	241	487
	<u>3,149</u>	<u>10,032</u>

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	<u>June 30, 2009</u>	<u>June 30, 2008</u>
	<u>Balance (000's)</u>	<u>Balance (000's)</u>
<b>International Equity Funds</b>		
Janus Worldwide	478	2,342
T. Rowe Price International Stock	633	2,692
Templeton Developing Markets	883	3,081
	<u>1,994</u>	<u>8,115</u>
<b>Asset Allocation Investments</b>		
Vanguard Life Strategy Income	353	1,474
Vanguard Life Strategy Cons Growth	497	1,842
Vanguard Life Strategy Mod Growth	876	4,555
Vanguard Life Strategy Growth	1,229	5,900
	<u>2,955</u>	<u>13,771</u>
<b>Self-Managed Accounts</b>		
	<u>1,652</u>	<u>1,069</u>
<b>Target Date Funds</b>		
MO 1995 Fund	87	-
MO 2000 Fund	289	-
MO 2005 Fund	1,935	-
MO 2010 Fund	5,105	-
MO 2015 Fund	9,756	-
MO 2020 Fund	9,888	-
MO 2025 Fund	10,133	-
MO 2030 Fund	9,333	-
MO 2035 Fund	8,050	-
MO 2040 Fund	4,616	-
MO 2045 Fund	1,786	-
MO 2050 Fund	406	-
	<u>61,384</u>	<u>-</u>
<b>Total</b>	<u>\$ 306,925</u>	<u>\$ 314,261</u>

During the year ended June 30, 2009, Plan participants elected to allocate their State contributions as follows:

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**Table 4**  
**Allocation of Contributions**

Stable Value Fund	35.8 %
Bond Funds	2.5
Moderate Asset Allocation Investments	0.7
Large Cap Equity Funds	26.6
Mid-Cap Equity Funds	2.6
Small-Cap Equity Funds	5.2
International Equity Funds	3.6
Asset Allocation Investments	11.2
Target Date Funds	11.7
<b>Total</b>	<u><u>100.0 %</u></u>

- Net assets available for plan benefits decreased by approximately \$7.3 million during the year ended June 30, 2009 to \$307 million. The most significant change, other than the difference in the reporting period, is investment income, which decreased significantly as a reflection of the declines in the financial markets due to the state of the overall United States and global economies.
- Employer contributions were \$14.8 million for year ended June 30, 2009, and \$16.7 million for the eighteen months ended June 30, 2008. After adjusting for the difference in the length of the two reporting periods, there was a relative increase of approximately \$3.6 million or 33%. This is attributable to the new employer match incentive scale that went into effect in July 2008.
- Investment income was a loss of \$21.3 million for the year ended June 30, 2009, compared to positive income of \$14.2 million for the eighteen months ended June 30, 2008. As noted previously, this reflects the negative change in market conditions between the two reporting periods.
- Distributions to participants totaled \$28.3 million for the year ended June 30, 2009, compared to \$31.7 million for the eighteen months ended June 30, 2008. After adjusting for the difference in the length of the two reporting periods, there was a relative increase of approximately \$7.2 million or 34%.
- Administrative fees were \$673,000 for the year ended June 30, 2009, compared to \$893,000 for the eighteen months ended June 30, 2008. After adjusting for the difference in the length of the two reporting periods, there was a relative increase in administrative fees of \$78,000 or 13%.

#### **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

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Missouri State Employees  
Deferred Compensation Incentive Plan

Statement of Plan Net Assets  
June 30, 2009

ASSETS

Cash and cash equivalents	\$	48,004
Revenue share receivable		92,545
Due from MOSERS		90,074
Investments		<u>306,925,250</u>
Total assets		<u>307,155,873</u>

LIABILITIES

Accounts Payable		<u>55,170</u>
Net assets available for benefits		<u><u>\$ 307,100,703</u></u>

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



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Missouri State Employees  
Deferred Compensation Incentive Plan

Statement of Changes in Plan Net Assets  
For the Year Ended June 30, 2009

ADDITIONS (REDUCTIONS)	
Employer contributions	\$ 14,766,552
Investment income (loss)	(21,291,281)
Net transfers from other plans	28,206,425
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TOTAL NET ADDITIONS	21,681,696
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DEDUCTIONS	
Distributions to participants	28,309,672
Administrative fees	673,491
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TOTAL DEDUCTIONS	28,983,163
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NET INCREASE (DECREASE)	(7,301,467)
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING	314,402,170
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NET ASSETS AVAILABLE FOR BENEFITS, ENDING	\$ 307,100,703
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The accompanying notes are an integral part of these financial statements.

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**Missouri State Employees  
Deferred Compensation Incentive Plan**

**Notes to Financial Statements**  
For the Year Ended June 30, 2009

**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 Employees' 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.

The Plan was established by the Missouri State Public Employees' Deferred Compensation Commission (the 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. The participating employers include the State of Missouri and its agencies and retirement systems which elected to participate. As of June 30, 2009, there are seven participating State employers in the Plan. No employee contributions are made to the Plan. 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 are 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 as indicated in the table below:

<u>Participant's Monthly Contribution</u>	<u>State's Monthly Match Amount</u>
\$25 to \$29.50	\$25
\$30 to \$34.50	\$30
\$35 or more	\$35

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. ING Institutional Plan Services, LLC (ING) is the third party administrator for the Plan. State Street Corporation is the investment custodian for the Plan.

Participants in the Plan may invest in the following options:

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

Employees participating in the Plan or their beneficiaries may withdraw the fair value of funds contributed to the Plan upon retirement, death, qualifying hardship 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 2009 June 30, 2009, the Plan's membership consisted of the following:

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Active participants	57,645
Retired and inactive participants	<u>16,929</u>
Total participants	<u><u>74,574</u></u>

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### 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 and the employer is required to make the matching contribution. 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.

### Due from MOSERS

The due from MOSERS represents a cash balance held by MOSERS to pay for administrative expenses of the Plan as they arise.

### 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 the Missouri Target Date funds are valued at fair value based on the fair value of the underlying assets comprising each Missouri Target Date Fund as provided by the individual fund managers.

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 (ILIAC), the ING Stable Value Fund. ILIAC 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 ILIAC 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 ILIAC 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, 2009, was \$175,281,008 and the contract value on June 30, 2009, was \$214,441,339. The average yield and crediting interest rates was approximately 3.06% for the year ended June 30, 2009. The crediting interest rate is based on a formula agreed upon with the issuer. 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 ILIAC. 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 2.5% at June 30, 2009. The interest ranged from 2.5% to 3.75% for the year ended June 30, 2009.

Participant Accounts

Each participant's account is credited with the employers' matching 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 by the participant. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account. Participants are at all time 100% invested in their account balance.

Administrative Expenses

ING charges 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 \$505,000. 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 MOSERS 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.

## Transfers from Other Plans

Transfers from other plans represent rollover contributions from other qualified plans.

## Estimates

The preparation of the financial statements in conformity with the accounting principles generally accepted in the United States 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 equivalents represent cash on deposit with a financial institution. Deposits are exposed to custodial risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution's trust department or agency but not in the depositor-government's name. The Plan has a formal deposit policy for custodial credit risk which requires banks managing demand deposit accounts for the Plan to hold, at a minimum, collateral security in the Plan's name in an amount equal to or greater than the amount on deposit that exceeds the Federal Deposit Insurance Corporation (FDIC) insured amount.

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. At June 30, 2009, the shared checking account had a bank balance of \$250,963 and the Plan's carrying balance was \$48,004. The Deferred Compensation Plan's carrying balance was \$152,879 at June 30, 2009. Of the \$250,963 bank balance, \$250,000 was covered by FDIC insurance and the remaining \$963 balance was collateralized with securities held by the financial institution in the Plan's name.

## **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. Missouri Target Date Funds were added to the investment options in April 2009 to simplify retirement investing for the Plan participants. New participants into the Plan after April 2009 have the choice between the twelve target date funds, a stable value fund, or a self-directed brokerage option. The self-directed brokerage option was retained for participants who prefer a hands on approach to retirement investing. Participants who were already contributing to one or more of the 31 mutual funds before April 2009 can continue to contribute to the same mutual fund or funds and have the choice of the investments available to new participants.

### Missouri Target Date Funds

In April 2009, the Plan added twelve Missouri Target Date Funds to its investment option mix. These funds were created exclusively for participants of the Plan and the Deferred Compensation Plan. Each participant selects the target date fund dated closest to when he or she plans to retire. The target date funds with dates farthest in the future have the most aggressive investment approach and are more heavily invested in stocks. These funds automatically adjust from a long-term growth focus to a more conservative investment mix as the participant moves closer to retirement, investing more in bonds and less in stock.

### Stable Value Fund

ING Investment Management, Inc is the manager of the ING Stable Value Fund's assets. The Stable Value Fund provides a stable rate of return by investing in various types of bonds including treasuries, agencies, corporate and mortgage-backed securities. The fund is wrapped by an insurance contract, issued by ING Life Insurance and Annuity Company, 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, the insurance wrapper guarantee of participants' return of principal does not extend to certain employer-initiated events, such as employer decision to terminate the contract or withdrawals that arise from mass layoffs or similar events.

In advance of each quarter, the ING Stable Value Fund 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 are .32%.

### 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, 2009, are as follows:

	<b>June 30, 2009 Fair Value</b>
Fixed earnings options:	
ING Stable Value Fund	\$ 214,441,339
Variable earnings options:	
MO 2025 Fund	10,132,966
MO 2020 Fund	9,887,692
MO 2015 Fund	9,756,100
MO 2030 Fund	9,332,673
MO 2035 Fund	8,049,575
Fidelity Contrafund	6,378,047
MO 2010 Fund	5,105,069
MO 2040 Fund	4,615,518
American Century Ultra Fund	2,463,211
Neuberger & Berman Genesis Fund	2,087,619
MO 2005 Fund	1,935,370
MO 2045 Fund	1,786,429
American Century Equity Income Fund	1,672,461
Self Directed Brokerage Account	1,651,858
SEI Index Fund - S&P 500 Index Portfolio	1,626,289
Federated US Government Securities Fund - 2-5 Years	1,418,530
Fidelity Equity Income Fund	1,270,576
Vanguard Life Strategy Growth Fund	1,228,593
Vanguard Total Stock Market Index Fund	911,378
Templeton Developing Markets Trust	882,641
Vanguard Life Strategy Moderate Growth Fund	876,351
American Century Growth Fund	807,545
Goldman Sachs Mid Cap Fund	778,177
Vanguard Inflation Protection Securities Fund	719,604
Gartmore Nationwide Fund	659,116
T. Rowe Price International Stock Fund	632,512
AIM Dynamics Fund	629,123
Janus Small Cap Value Fund	577,795
Bond Fund of America	502,948
Vanguard Life Strategy Conservative Growth	497,311
Janus Worldwide Fund	478,265
Fidelity Asset Manager	428,906
MO 2050 Fund	406,058
Putnam Investors Fund	404,264
Jensen Blend (Z Class)	368,813
Vanguard Life Strategy Income Fund	353,235

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	<b>June 30, 2009 Fair Value</b>
MO 2000 Fund	288,674
Brown Capital Management Small Company Fund	240,597
Dreyfus Small Cap Stock Index Fund	209,713
Dreyfus Premier Third Century Fund	205,536
Dryden Total Return Bond Fund	107,158
MO 1995 Fund	87,220
AIM Small Company Growth Fund	32,395
Total Investments	<u>\$ 306,925,250</u>

Investments, at carrying value, as of June 30, 2009, summarized by investment type are as follows:

Stable value fund	\$ 214,441,339
Bond funds	2,748,240
Large-cap equity funds	16,767,236
Mid-cap equity funds	1,407,300
Small-cap equity funds	3,148,119
International equity funds	1,993,418
Asset allocation investments	2,955,490
Moderate asset allocation investments	428,906
Target date funds	61,383,344
Self-managed accounts	1,651,858
Total Investments	<u>\$ 306,925,250</u>

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, 2009, the weighted average credit ratings for the fixed income securities included in the fixed income mutual funds were as follows:

<b>Fixed Income Mutual Fund</b>	<b>Credit Rating</b>
American Funds Bond Fund of America	AA
Vanguard Inflation Protection Securities Fund	AAA
Federated US Government Securities Fund - 2-5 Years	AAA
Dryden Total Return Bond Fund	A

At June 30, 2009, the average credit rating as provided by ING for the securities in the Stable Value Fund was AA3.

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, 2009, for fixed income mutual funds is as follows:

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<b>Fixed Income Mutual Fund</b>	<b>Fair Value</b>	<b>Weighted Average Duration</b>
Federated US Government Securities Fund - 2-5 Years	1,418,530	4.10
Vanguard Inflation Protection Securities Fund	719,604	4.24
American Funds Bond Fund of America	502,948	4.38
Dryden Total Return Bond Fund	107,158	4.23

At June 30, 2009, the weighted average duration as provided by ING for the Stable Value Fund was 4.4 years.

**NOTE 6 – DEFERRED COMPENSATION PLAN:**

The Deferred Compensation Plan is a separate qualified defined contribution plan established in accordance with Section 457 of the IRC. The funds of the Missouri State Employees Deferred Compensation Plan are not included in the accompanying financial statements.

**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 approximately \$4.9 million for the Plan and another MVA of approximately \$13.7 million was withheld from the Deferred Compensation Plan. 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.