

**REPORT OF**  
**MISSOURI STATE PUBLIC EMPLOYEES**  
**DEFERRED COMPENSATION PLAN**  
**JUNE 30, 2011**

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of plan net assets of the Missouri State Public Employees Deferred Compensation Plan (the Plan), a component unit of the State of Missouri, as of June 30, 2011, 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, 2011, 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.

*Williams Keepers LLC*

December 6, 2011

**Missouri State Public Employees  
Deferred Compensation Plan  
Management's Discussion and Analysis  
For Year Ended June 30, 2011**

This discussion and analysis of the Missouri State Public Employees Deferred Compensation Plan financial performance provides an overview of the Plan's financial activities for year ended June 30, 2011. 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, 2011 were \$1,151,586,460, an increase of \$127,631,851 or 12.5% compared to June 30, 2010 assets available for plan benefits of \$1,023,954,609. These funds are available for distribution to plan participants in accordance with Plan provisions.
- Total additions were \$203,467,430 for the year ended June 30, 2011, resulting from positive investment income of \$149,283,020. Employee contributions totaled \$54,295,644 for the year ended June 30, 2011.
- Total deductions were \$75,835,579 for the year ended June 30, 2011, substantially all of which were due to distributions to participants.
- At June 30, 2011, the number of active and terminated participants (those with a balance in their account) remained relatively stable at 55,075 compared to 57,241 at June 30, 2010.

**Overview of the Financial Statements**

The Plan is a deferred compensation plan as authorized by Section 457 of the Internal Revenue Code (IRC), as amended, through which the State of Missouri and its agencies (the State) offers its employees the option to defer income in accordance with IRS and Plan guidelines. Participants may direct their contributions in available investment options offered by the Plan and are 100% vested in their accounts. 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, 2011. 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 by the Office of Administration – Division of Accounting to be a component unit of the State of Missouri and therefore the Plan 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 and for the years ended June 30, 2011 and 2010:

### Condensed Statements of Plan Net Assets

|  | June 30, 2011           | June 30, 2010           |
|--|-------------------------|-------------------------|
| Assets:  |                         |                         |
| Cash and cash equivalents                      | \$ 475,270              | \$ 382,649              |
| Investments                                    | 1,143,766,386           | 1,016,170,413           |
| Receivables                                    | 1,178,937               | 721,704                 |
| Policyholder account and cash surrender values | 6,477,993               | 6,865,875               |
| Total assets                                   | <u>1,151,898,586</u>    | <u>1,024,140,641</u>    |
| Liabilities:                                   |                         |                         |
| Accounts payable                               | <u>312,126</u>          | <u>186,032</u>          |
| Net assets available for benefits              | <u>\$ 1,151,586,460</u> | <u>\$ 1,023,954,609</u> |

### Condensed Statements of Changes in Plan Net Assets

|   | For the year ended<br>June 30, 2011 | For the year ended<br>June 30, 2010 |
|---|-------------------------------------|-------------------------------------|
| Additions (reductions):                     |                                     |                                     |
| Employee contributions                      | \$ 54,240,317                       | \$ 58,493,209                       |
| Rollovers from other qualified plans        | 331,975                             | 317,280                             |
| Change in value of life insurance contracts | (387,882)                           | (70,439)                            |
| Investment earnings                         | 149,283,020                         | 77,772,532                          |
| Total additions (reductions)                | <u>203,467,430</u>                  | <u>136,512,582</u>                  |
| Deductions:                                 |                                     |                                     |
| Distributions to participants               | 74,530,542                          | 61,593,590                          |
| Life insurance premiums                     | 424,517                             | 477,746                             |
| Administrative fees                         | 880,520                             | 1,131,074                           |
| Total deductions                            | <u>75,835,579</u>                   | <u>63,202,410</u>                   |
| Change in net assets                        | <u>\$ 127,631,851</u>               | <u>\$ 73,310,172</u>                |

A summary of the investment balances at June 30, 2011 and 2010, is as follows:

|   | <u>June 30, 2011</u><br><u>Balance (in 000's)</u> | <u>June 30, 2010</u><br><u>Balance (in 000's)</u> |
|---|---|---|
| <b>Stable Value Fund</b>                            |   |   |
| ING Stable Value Fund                               | \$ 484,902  | \$ 496,941  |
| <b>Bond Funds</b>                                   |   |   |
| Prudential Total Return Bond Fund                   | 591   | 584   |
| Bond Fund of America                                | 3,860   | 4,067   |
| Federated US Government Securities Fund - 2-5 Years | 3,467   | 3,522   |
| Vanguard Inflation Protection Securities Fund       | 3,550   | 3,681   |
|   | <u>11,468</u>                                     | <u>11,854</u>                                     |
| <b>Moderate Asset Allocation Investments</b>        |   |   |
| Fidelity Asset Manager                              | <u>2,573</u>                                      | <u>2,227</u>                                      |
| <b>Large - Cap Equity Funds</b>                     |   |   |
| American Century Equity Income Fund                 | 12,128  | 10,253  |
| Fidelity Equity Income Fund                         | 13,255  | 11,188  |
| Gartmore Nationwide Fund                            | 5,374   | 4,534   |
| Prudential Jensen Blend                             | 3,513   | 2,833   |
| Putnam Investors Fund                               | 4,123   | 3,367   |
| SIMT S&P 500 Index Portfolio                        | 14,303  | 11,757  |
| Vanguard Total Stock Market Index Fund              | 8,606   | 6,866   |
| American Century Growth Fund                        | 8,956   | 7,171   |
| American Century Ultra Fund                         | 19,052  | 14,604  |
| Dreyfus Premier Third Century Fund                  | 1,664   | 1,295   |
| Fidelity Contrafund                                 | 51,010  | 42,746  |
|   | <u>141,984</u>                                    | <u>116,614</u>                                    |
| <b>Mid - Cap Equity Funds</b>                       |   |   |
| Goldman Sachs Mid Cap Fund                          | 7,616   | 5,695   |
| AIM Dynamics Fund                                   | 5,948   | 4,262   |
|   | <u>13,564</u>                                     | <u>9,957</u>                                      |
| <b>Small - Cap Equity Funds</b>                     |   |   |
| Janus Small Cap Value Fund                          | 4,574   | 4,305   |
| Dreyfus Small Cap Stock Index Fund                  | 2,506   | 1,891   |
| Neuberger & Berman Genesis Fund                     | 19,843  | 15,624  |
| AIM Small Company Growth Fund                       | 381   | 301   |
| Brown Capital Management Small Company Fund         | 1,952   | 1,497   |
|   | <u>29,256</u>                                     | <u>23,618</u>                                     |
| <b>International Equity Funds</b>                   |   |   |
| Janus Worldwide Fund                                | 3,989   | 3,265   |
| T. Rowe Price International Stock Fund              | 8,478   | 6,774   |
| Templeton Developing Markets Trust                  | 10,544  | 8,893   |
|   | <u>23,011</u>                                     | <u>18,932</u>                                     |

| <b>Asset Allocation Investments</b>         |           |                         |                            |
|---|-----------|-------------------------|----------------------------|
| Vanguard Life Strategy Income Fund          | \$        | 1,344                   | \$ 1,405                   |
| Vanguard Life Strategy Conservative Growth  |           | 1,791                   | 1,728                      |
| Vanguard Life Strategy Moderate Growth Fund |           | 4,306                   | 3,729                      |
| Vanguard Life Strategy Growth Fund          |           | 5,726                   | 4,547                      |
|   |           | <u>13,167</u>           | <u>11,409</u>              |
| <b>Self-Managed Accounts</b>                |           | <u>20,987</u>           | <u>15,133</u>              |
| <b>Target Date Funds</b>                    |           |                         |                            |
| MO 1995 Fund                                |           | 3,855                   | 2,679                      |
| MO 2000 Fund                                |           | 5,022                   | 4,841                      |
| MO 2005 Fund                                |           | 13,686                  | 13,027                     |
| MO 2010 Fund                                |           | 33,788                  | 27,934                     |
| MO 2015 Fund                                |           | 64,380                  | 52,680                     |
| MO 2020 Fund                                |           | 80,287                  | 60,895                     |
| MO 2025 Fund                                |           | 71,144                  | 52,465                     |
| MO 2030 Fund                                |           | 55,684                  | 41,060                     |
| MO 2035 Fund                                |           | 39,881                  | 29,094                     |
| MO 2040 Fund                                |           | 20,855                  | 15,145                     |
| MO 2045 Fund                                |           | 8,906                   | 6,081                      |
| MO 2050 Fund                                |           | 4,624                   | 3,091                      |
| MO 2055 Fund                                |           | 742                     | 493                        |
|   |           | <u>402,854</u>          | <u>309,485</u>             |
| <b>Total</b>                                | <b>\$</b> | <b><u>1,143,766</u></b> | <b><u>\$ 1,016,170</u></b> |

During the years ended June 30, 2011 and 2010, Plan participants elected to allocate their contributions as follows:

| <b>Allocation of Contributions</b>    |   |   |
|---------------------------------------|---|---|
|                                       | <b>For the year ended<br/>June 30, 2011</b> | <b>For the year ended<br/>June 30, 2010</b> |
| Stable Value Fund                     | 33.4 %                                      | 36.5  |
| Bond Funds                            | 1.5   | 1.7   |
| Moderate Asset Allocation Investments | 0.2   | 0.2   |
| Large-Cap Equity Funds                | 9.8   | 10.5  |
| Mid-Cap Equity Funds                  | 1.3   | 1.4   |
| Small-Cap Equity Funds                | 2.7   | 2.8   |
| International Equity Funds            | 1.8   | 2.0   |
| Asset Allocation Investments          | 2.0   | 2.1   |
| Self-Managed Accounts                 | 0.6   | 0.4   |
| Target Date Funds                     | 45.9  | 41.6  |
| Life Insurance Contracts              | 0.8   | 0.8   |
|                                       | <u>100.0 %</u>                              | <u>100.0</u>                                |

- Net assets available for plan benefits increased by approximately \$127.6 million during the year ended June 30, 2011 to approximately \$1.2 billion. The most significant change is investment income, which increased significantly as a reflection of the rebound in the financial markets due to the state of the overall United States and global economies.
- Employee contributions were approximately \$54.2 million for the year ended June 30, 2011, and approximately \$58.5 million for the year ended June 30, 2010. That reflects a relative decrease of approximately \$4.3 million or 7.2%. The State of Missouri and substantially all employers participating in the related Incentive Plan stopped making contributions on behalf of employees participating in the Plan, which had a negative impact on employee contributions into the Plan.
- Investment income was approximately \$149.3 million for the year ended June 30, 2011, compared to investment income of approximately \$77.8 million for the year ended June 30, 2010. As noted previously, this reflects the positive change in the market conditions between the two years.
- The change in value of universal life insurance contracts was a decrease of approximately \$388 thousand for the year ended June 30, 2011, compared to a decrease of approximately \$70 thousand for the year ended June 30, 2010. That reflects a relative decrease of approximately \$318 thousand.
- Distributions to participants totaled approximately \$74.5 million for the year ended June 30, 2011, compared to approximately \$61.6 million for the year ended June 30, 2010. That reflects a relative increase of approximately \$12.9 million or 21%.
- Administrative fees were approximately \$880 thousand for the year ended June 30, 2011, compared to \$1.1 million for the year ended June 30, 2010.

### **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 PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Statement of Plan Net Assets  
June 30, 2011

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ASSETS

|   |                      |
|---|----------------------|
| Cash and cash equivalents                           | \$ 475,270           |
| Due from MOSERS                                     | 802,425              |
| Contributions receivable                            | 72,419               |
| Revenue share receivable                            | 304,093              |
| Investments, at fair value:                         |                      |
| Mutual funds  | 637,877,778          |
| Self-directed brokerage account                     | 20,986,783           |
| Investments, at contract value:                     |                      |
| Guaranteed investment contract                      | 484,901,825          |
| Total investments                                   | <u>1,143,766,386</u> |
| Cash surrender value of life insurance contracts    | 627,624              |
| Account value of universal life insurance contracts | 5,850,369            |
| Total assets  | <u>1,151,898,586</u> |

LIABILITIES

|                                       |                                |
|---------------------------------------|--------------------------------|
| Accounts payable                      | <u>312,126</u>                 |
| Total liabilities                     | <u>312,126</u>                 |
| Net assets held in trust for benefits | <u><u>\$ 1,151,586,460</u></u> |

See independent auditors' report and  
notes to financial statements



**MISSOURI STATE PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Statement of Changes in Plan Net Assets  
For the Year Ended June 30, 2011

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ADDITIONS

Contributions:

|                     |                   |
|---------------------|-------------------|
| Employee            | \$ 54,240,317     |
| Rollovers           | 331,975           |
| Total contributions | <u>54,572,292</u> |

Investment earnings:

|   |                    |
|---|--------------------|
| Net increase in fair value of investments | 136,461,244        |
| Interest and dividends                    | 12,821,776         |
| Total investment earnings                 | <u>149,283,020</u> |

Decrease in value of universal life insurance contracts (387,882)

Total additions 203,467,430

DEDUCTIONS

|                               |            |
|-------------------------------|------------|
| Benefits paid to participants | 74,530,542 |
| Life insurance premiums       | 424,517    |
| Administrative expenses       | 880,520    |

Total deductions 75,835,579

Change in net assets 127,631,851

Net assets held in trust for benefits:

Beginning of year 1,023,954,609

End of year \$ 1,151,586,460

See independent auditors' report and  
notes to financial statements

# MISSOURI STATE PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN

Notes to Financial Statements  
For the Year Ended June 30, 2011

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## 1. General Description of the Plan

The following description of the Missouri State Public Employees Deferred Compensation 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.

### *General*

The Plan was established by the Missouri State Public Employees Deferred Compensation Commission (the "Commission") in December 1979, was approved by the Governor of the State of Missouri in February 1980, and enrollment in the Plan began in April 1980. The first employee contributions to the Plan were made in May 1980. The participating employers include the State of Missouri and its agencies and departments including state colleges and universities, state retirement systems, Missouri Consolidated Health Care Plan and any state agency or instrumentality defined as a body corporate and politic. There are currently eighteen State of Missouri employers participating in the Plan. The Plan is available to all employees of the participating employers, as well as any elected officials receiving a salary from the State. 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 recordkeeping and an investment custodian to hold 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.

### *Eligibility and Contributions*

Under the Plan provisions, employees of the State of Missouri are eligible to contribute into the Plan through reduction of salary. In accordance with Section 457 of the Internal Revenue Code (the "IRC"), the Plan limits the amount of an individual's annual contribution to 100% of his/her annual gross compensation, not to exceed \$16,500. The Plan offers a catch-up program to participants who have attained the age of 50, increasing their maximum contribution to \$22,000. Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees. Participating employers do not make contributions to the Plan.

Under provisions of the Small Business Job Protection Act of 1996 (SBJPA), which became effective for Plan years beginning after December 31, 1996, assets of IRC Section 457 plans must be held in a trust, custodial account or annuity contract for the exclusive benefit of employees and beneficiaries. At June 30, 2011, the Plan met the requirements of the SBJPA.

Continued --

**MISSOURI STATE PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2011

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**1. General Description of the Plan (Continued)**

*Investment Options*

Participants in the Plan may invest in the following options:

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

Effective January 1, 1989, the option to invest in life insurance contracts underwritten by Security Benefit Life Insurance Corporation (SBL) was no longer available to Plan participants. Participants making deferrals to SBL life insurance contracts at December 1988, may continue such deferrals but may not increase the amount of such deferrals at any time. As of July 1, 2000, the option to invest in universal life insurance contracts underwritten by Monumental Life Insurance Company (“Monumental”) was no longer available to Plan participants. No new policies were being written by Monumental. However, the policies in existence as of June 30, 2000, continue to be serviced.

*Payment of Benefits*

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 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.

*Plan Membership*

As of June 30, 2011, the Plan’s membership consisted of the following:

|                                   |                      |
|-----------------------------------|----------------------|
| Active participants               | 37,147               |
| Retired and inactive participants | <u>17,928</u>        |
|                                   | <u><u>55,075</u></u> |

Continued --

**MISSOURI STATE PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2011

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**2. Summary of Significant Accounting Policies**

*Basis of Accounting*

The accompanying financial statements have been prepared on the economic resources measurement focus and the accrual basis of accounting in accordance with 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.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates and assumptions that affect the reported amounts of net assets available for benefits, liabilities and changes therein. Actual results could differ from those estimates.

*Related Plan*

The Missouri State Employees Deferred Compensation Incentive Plan (the "Incentive 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 participants. The Incentive Plan issues separate financial statements.

*Contributions and Contributions Receivable*

Contributions are recorded when the related deferred compensation payment is withheld from the participating employees' salary. Contributions are credited by the applicable investment carrier upon receipt from the Employer. Contributions receivable represent employee contributions withheld from participants' salaries during the fiscal year not remitted to the investment carriers at fiscal 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 year but 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.

Continued --

**MISSOURI STATE PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2011

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**2. Summary of Significant Accounting Policies (Continued)**

*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 ING Stable Value Fund are valued at contract value as this is the value realizable by 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. Investments in universal life insurance contracts are reported at fair value, less any surrender charges, as reported by the life insurance company. Investments in whole life insurance contracts are valued at cash surrender value as reported by the insurance company.

Purchases and sales of securities are recorded on a trade date basis. Realized investment gains and losses are determined using the average cost. Dividends are recorded on the declaration date. Interest is recorded when earned.

*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 or minus deposits received, withdrawals made, fees charged, 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, 2011 was \$456,647,288 and the contract value on June 30, 2011 was \$484,901,825. The average yield and crediting interest rates were approximately 2.25% for the year ended June 30, 2011. 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 \$13,684,419 by Nationwide Life Insurance Company (see note 8) 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. The withheld amount was settled prior to year-end and paid out after year-end. See note 8 below for additional details.

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**MISSOURI STATE PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2011

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**2. Summary of Significant Accounting Policies (Continued)**

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 2.25% at June 30, 2011. The interest rate ranged from 2.0% to 2.25% for the year ended June 30, 2011. Total interest income recognized was approximately \$10,121,000 during the year ended June 30, 2011, and is included in interest and dividends on the statement of changes in plan net assets.

*Participant Accounts*

Each participant's account is credited with the participants' 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 account balances 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 times 100% vested in their account balance.

*Administrative Expenses*

ING charges annual recordkeeping and advisory fees totaling \$48 per participant. This fee covers ING's services for both this Plan and the Incentive 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 \$1,001,000. 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 \$48 annual per participant fee charged. These quarterly fees are also allocated between the two plans.

*Benefits Paid*

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

*Rollovers*

Rollovers represent contributions transferred from other qualified plans.

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**MISSOURI STATE PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2011

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**3. Tax Status**

The Plan is reviewed by legal counsel to ensure conformity with Section 457 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.

**4. Cash and Cash Equivalents**

Cash and cash equivalents represent cash on deposit with financial institutions. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution'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 the amount equal to or greater than the amount on deposit that exceeds Federal Depository Insurance Corporation ("FDIC") insured amounts.

The Plan shares a checking account with the Incentive 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, 2011, the shared checking account had a bank balance of \$417,258 and the Plan's carrying balance was \$424,885. The Incentive Plan's carrying balance was \$143,659 at June 30, 2011. The full amount of the bank balance was covered by FDIC insurance at June 30, 2011.

The Plan shares a deposit account with the Incentive Plan. Participant and employer contributions are temporarily deposited into this account before being transferred to ING for investment into the investment options as directed by the participants. This account is invested in overnight repurchase agreements that are not insured by FDIC insurance; however, the account at June 30, 2011 was fully collateralized with securities held by the financial institution in the Plan's name.

Continued --

**MISSOURI STATE PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2011

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**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 Plan participants. New participants into the Plan after April 2009 have the choice between the thirteen 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*

These funds were created exclusively for participants of the Plan and the Incentive Plan. Each new participant who does not make an investment selection is, by default, invested in the target date fund closest to when he or she is first eligible to retire. All participants are free to choose any target date fund as their investment in the Plan. 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 participants move 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 ILIAC, which stabilizes the interest rate paid as well as ensuring 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 might 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 .30%.

*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 fund managers which are deducted from earnings prior to posting to the participant accounts.

Continued --



**MISSOURI STATE PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2011

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**5. Investments (Continued)**

Investments as of June 30, 2011 are as follows:

Fixed earnings option, at contract value:

|                       |                |
|-----------------------|----------------|
| ING Stable Value Fund | \$ 484,901,825 |
|-----------------------|----------------|

Variable earnings options, at fair value:

|   |            |
|---|------------|
| MO 2020 Fund                                  | 80,287,217 |
| MO 2025 Fund                                  | 71,143,938 |
| MO 2015 Fund                                  | 64,379,843 |
| MO 2030 Fund                                  | 55,684,498 |
| Fidelity Contrafund                           | 51,010,345 |
| MO 2035 Fund                                  | 39,880,943 |
| MO 2010 Fund                                  | 33,787,644 |
| Self Directed Brokerage Account               | 20,986,783 |
| MO 2040 Fund                                  | 20,854,792 |
| Neuberger & Berman Genesis Fund               | 19,843,317 |
| American Century Ultra Fund                   | 19,051,871 |
| SIMT S&P 500 Index Portfolio                  | 14,303,037 |
| MO 2005 Fund                                  | 13,686,025 |
| Fidelity Equity Income Fund                   | 13,254,921 |
| American Century Equity Income Fund           | 12,128,437 |
| Templeton Developing Markets Trust            | 10,544,281 |
| American Century Growth Fund                  | 8,955,814  |
| MO 2045 Fund                                  | 8,906,180  |
| Vanguard Total Stock Market Index Fund        | 8,606,058  |
| T. Rowe Price International Stock Fund        | 8,477,634  |
| Goldman Sachs Mid Cap Fund                    | 7,615,564  |
| AIM Dynamics Fund                             | 5,947,836  |
| Vanguard Life Strategy Growth Fund            | 5,726,233  |
| Gartmore Nationwide Fund                      | 5,374,347  |
| MO 2000 Fund                                  | 5,021,509  |
| MO 2050 Fund                                  | 4,624,426  |
| Perkins Small Cap Value Fund                  | 4,574,377  |
| Vanguard Life Strategy Moderate Growth Fund   | 4,306,466  |
| Putnam Investors Fund                         | 4,122,502  |
| Janus Worldwide Fund                          | 3,988,793  |
| Bond Fund of America                          | 3,860,349  |
| MO 1995 Fund                                  | 3,853,918  |
| Vanguard Inflation Protection Securities Fund | 3,550,146  |

Continued --

**MISSOURI STATE PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2011

**5. Investments (Continued)**

Variable earnings options, at fair value *(continued)* :

|   |                         |
|---|-------------------------|
| Prudential Jensen Blend                             | \$ 3,513,143            |
| Federated US Government Securities Fund - 2-5 Years | 3,466,668               |
| Fidelity Asset Manager                              | 2,572,934               |
| Dreyfus Small Cap Stock Index Fund                  | 2,506,463               |
| Brown Capital Management Small Company Fund         | 1,951,791               |
| Vanguard Life Strategy Conservative Growth          | 1,791,167               |
| Dreyfus Premier Third Century Fund                  | 1,663,598               |
| Vanguard Life Strategy Income Fund                  | 1,344,276               |
| MO 2055 Fund  | 742,411                 |
| Prudential Total Return Bond Fund                   | 591,268                 |
| AIM Small Company Growth Fund                       | 380,798                 |
|   | <u>\$ 1,143,766,386</u> |

Investments as of June 30, 2011, by investment type are as follows:

|                                       |                         |
|---------------------------------------|-------------------------|
| Stable Value Fund                     | \$ 484,901,825          |
| Bond Funds                            | 11,468,431              |
| Large-Cap Equity Funds                | 141,984,073             |
| Mid-Cap Equity Funds                  | 13,563,400              |
| Small-Cap Equity Funds                | 29,256,746              |
| International Equity Funds            | 23,010,708              |
| Asset Allocation Investments          | 13,168,142              |
| Moderate Asset Allocation Investments | 2,572,934               |
| Target Date Funds                     | 402,853,344             |
| Self-Managed Accounts                 | 20,986,783              |
|                                       | <u>\$ 1,143,766,386</u> |

Custodial credit risk for investments is the risk that the Plan would not be able to recover the value of investments in the event of a failure by the counterparty to a transaction. The Plan does not have any investments that are not registered in the name of the Plan and are either held by the counterparty or the counterparty's trust department or agent, but not in the Plan's name, except for one of the underlying investments in the Target Date Funds (Vanguard High Yield Fund) which is registered in the name of the manager for benefit of the Plan.

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the Plan's investment in a single issuer. The Plan has no formal policy because participants elect where to invest contributions. However, the investment in the Stable Value Fund represents approximately 61% of investments.

Continued --

**MISSOURI STATE PUBLIC EMPLOYEES  
DEFERRED COMPENSTION PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2011

**5. Investments (Continued)**

Credit risk is the risk than an issuer or other counterparty to an investment will not fulfill its obligation to the Plan. The Plan does not have a formal policy for credit risk. At June 30, 2011, the weighted average credit ratings for the fixed income securities included in the fixed income mutual funds were as follows:

| <u>Fixed Income Mutual Fund</u>                       | <u>Fair Value</u> | <u>Credit Rating</u> |
|---|-------------------|----------------------|
| American Funds Bond Fund of America                   | \$ 3,860,349      | BBB                  |
| Vanguard Inflation Protection Securities Fund         | 3,550,146         | AAA                  |
| Federated U.S. Government Securities Fund - 2-5 Years | 3,466,668         | AAA                  |
| Prudential Total Return Bond Fund                     | 591,268           | BBB                  |

At June 30, 2011, 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 instrument'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, 2011 for fixed income mutual funds is as follows:

| <u>Fixed Income Mutual Fund</u>                       | <u>Fair Value</u> | <u>Weighted Average Duration</u> |
|---|-------------------|----------------------------------|
| American Funds Bond Fund of America                   | \$ 3,860,349      | 4.72                             |
| Vanguard Inflation Protection Securities Fund         | 3,550,146         | 8.13                             |
| Federated U.S. Government Securities Fund - 2-5 Years | 3,466,668         | 3.30                             |
| Prudential Total Return Bond Fund                     | 591,268           | 4.97                             |

At June 30, 2011, the weighted average duration as provided by ING for the Stable Value Fund was 4.60 years.

Continued --

**MISSOURI STATE PUBLIC EMPLOYEES  
DEFERRED COMPENSTION PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2011

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**6. 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 participant account balances and the amounts reported in the accompanying Statement of Plan Net Assets.

**7. Life Insurance Contracts**

The face amount of universal life insurance in force with Monumental was approximately \$72,817,605 at June 30, 2011. The cash surrender value of the universal life insurance policies in force with Monumental was \$5,758,884 at June 30, 2011. The carrying value of these policies was \$5,850,369 at June 30, 2011.

The face amount of life insurance in force with SBL was approximately \$1,083,000 at June 30, 2011. The cash surrender value and carrying value of these policies was \$627,624 at June 30, 2011.

At the time of retirement or termination of employment from the State of Missouri, employees have the option of transferring ownership of the policy and continuing to make the life insurance premium payments directly to SBL or Monumental, or receiving the cash surrender value of the policy.

**8. Contingencies**

On May 15, 2006, Nationwide Life Insurance Company ("Nationwide") provided the Commission notice of Nationwide's intent to assess a market value adjustment ("MVA") on the liquidation of its group fixed annuity contract. The MVA was approximately \$13.7 million for the Plan and another MVA of approximately \$4.9 million was withheld from the Incentive Plan. On May 30, 2006, Nationwide filed a lawsuit in the U.S. 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, continued to pursue its legal remedies against Nationwide in Cole County Circuit Court.

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**MISSOURI STATE PUBLIC EMPLOYEES  
DEFERRED COMPENSTION PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2011

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On February 26, 2010, a Cole County Circuit judge ruled in favor of Nationwide Life Insurance Co., and Nationwide Retirement Solutions, in the lawsuit filed by the State of Missouri, Office of Administration and the Missouri State Deferred Compensation Plan. The Attorney General's Office appealed the Circuit Court's ruling Western District Court of Appeals. The Court of Appeals issued a decision in favor of the Plans and a motion for transfer was denied by the Missouri Supreme Court. Subsequently, Nationwide paid the judgment plus statutory interest in the amount of \$27,083,156 to MOSERS and, in turn, those funds were paid to ING, allocated to both plans, and deposited into their respective Stable Value Fund on July 1, 2011.

**9. Change of Administrator**

The contract for Plan record-keeping was put out for bid on December 16, 2010. The RFP was sent to seventeen large industry plan record keepers as well as being posted to the MOSERS website. Proposals were submitted by six providers and after careful consideration of each response to the RFP, the contract was awarded to International City/County Management Association Retirement Corporation (ICMA-RC). The transition to the new record-keeper was completed on November 11, 2011.