

**REPORT OF**  
**MISSOURI STATE EMPLOYEES**  
**DEFERRED COMPENSATION INCENTIVE PLAN**  
**JUNE 30, 2012**



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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, 2012, 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, 2012, and the changes in plan net assets for the year then ended, in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Williams Keepers LLC*

December 11, 2012

**Missouri State Employees  
Deferred Compensation Incentive Plan  
Management's Discussion and Analysis  
For the Year Ended June 30, 2012**

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, 2012. 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, 2012, were \$396,743,226, an increase of \$9,615,105 or 2.5% compared to June 30, 2011 assets available for plan benefits of \$387,128,121. These funds are available for distribution to plan participants in accordance with Plan provisions.
- Total net additions were \$41,343,795 for the year ended June 30, 2012. Of that amount, \$2,172 was due to employer contributions and \$35,841,379 was due to net rollovers and transfers from other plans. Included with the additions was an increase of \$5,500,244 from positive investment income for the year.
- Total deductions were \$31,728,690 for the year ended June 30, 2012, compared to \$30,283,302 for the year ended June 30, 2011. Substantially all of the deductions were due to distributions to participants.
- At June 30, 2012, the number of active and terminated participants (those with a balance in their account) decreased to 47,978 compared to 55,075 at June 30, 2011. Due to reporting constraints, the balance presented for the year ended June 30, 2011, also includes participants in the Missouri State Employees Deferred Compensation Plan. The 2012 balance does not include those participants.
- In February 2010, the State of Missouri, Division of Budget and Planning announced that the employer incentive (match) associated with the State of Missouri Deferred Compensation Plan (the Plan) was suspended at least through June 30, 2010, and subsequently through June 30, 2012. This impacted state contributions to the Plan for all participants beginning with their March 31, 2010 paycheck.
- As of November 11, 2011, the record keeping responsibilities for the Plan were transferred to the International City/County Management Association Retirement Corporation (ICMA-RC). This change resulted in substantially lower administrative fees allocated to the Plan. During the Plan year, administrative fees decreased by \$301,141.

**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 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 ranging from \$25 to \$35 per month. In February 2010, the

State of Missouri, Division of Budget and Planning announced that the employer incentive (match) associated with the State of Missouri Deferred Compensation Plan was suspended at least through June 30, 2010. The State of Missouri extended the suspension of the match through the State's fiscal year 2012. This impacted state contributions to the Plan for virtually all participants beginning with their March 31, 2010 paycheck; one participating employer has continued to make matching contributions. 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, 2012, there are eight 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, 2012. 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 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, 2012 and 2011.

### Condensed Statements of Plan Net Assets

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Assets:		
Cash and cash equivalents	\$ 252,816	\$ 143,659
Investments	396,255,987	386,723,012
Receivables	273,780	365,492
Total assets	<u>396,782,583</u>	<u>387,232,163</u>
Liabilities:		
Accounts payable	<u>39,357</u>	<u>104,042</u>
Net assets available for benefits	<u>\$ 396,743,226</u>	<u>\$ 387,128,121</u>

### Condensed Statements of Changes in Plan Net Assets

	<u>For the year ended June 30, 2012</u>	<u>For the year ended June 30, 2011</u>
Additions:		
Employer contributions	\$ 2,172	\$ 3,193
Rollovers from other qualified plan	35,841,379	39,074,348
Investment earnings	5,500,244	36,035,719
Total additions	<u>\$ 41,343,795</u>	<u>75,113,260</u>
Deductions:		
Distributions to participants	31,532,511	29,785,982
Administrative fees	196,179	497,320
Total deductions	<u>31,728,690</u>	<u>30,283,302</u>
Change in net assets	<u>\$ 9,615,105</u>	<u>\$ 44,829,958</u>

A summary of the investment balances at June 30, 2012 and 2011, is as follows:

	<b>June 30, 2012</b>	<b>June 30, 2011</b>
	<b>Balance (in 000's)</b>	<b>Balance (in 000's)</b>
<b>Stable Value Fund</b>		
ING Stable Value Fund	\$ 252,781	\$ 236,564
<b>Bond Funds</b>		
Prudential Total Return Bond Fund	56	57
Bond Fund of America	544	570
Federated US Government Securities Fund	902	884
Vanguard Inflation Protection Securities Fund	750	726
	<u>2,252</u>	<u>2,237</u>
<b>Moderate Asset Allocation Investments</b>		
Fidelity Asset Manager	509	579
<b>Large - Cap Equity Funds</b>		
American Century Equity Income Fund	1,862	1,953
Fidelity Equity Income Fund	1,436	1,634
Nationwide Fund	985	879
Prudential Jensen Blend	461	518
Putnam Investors Fund	540	566
SEI S&P 500 Index Portfolio	2,189	2,289
Vanguard Total Stock Market Index Fund	1,166	1,303
American Century Growth Fund	1,158	1,084
American Century Ultra Fund	3,495	3,684
Dreyfus Third Century Fund	272	291
Fidelity Contrafund	8,409	8,930
	<u>21,973</u>	<u>23,131</u>
<b>Mid - Cap Equity Funds</b>		
Goldman Sachs Mid Cap Fund	1,088	1,278
AIM Dynamics Fund	920	1,067
	<u>2,008</u>	<u>2,345</u>
<b>Small - Cap Equity Funds</b>		
Perkins Small Cap Value Fund	793	814
Dreyfus Small Cap Stock Index Fund	338	353
Neuberger & Berman Genesis Fund	2,613	3,159
Invesco Small Company Growth Fund	73	80
Brown Capital Management Small Company Fund	321	340
	<u>4,138</u>	<u>4,746</u>

**International Equity Funds**

Janus Worldwide Fund	532	653
T. Rowe Price International Stock Fund	722	891
Templeton Developing Markets Trust	958	1,253
	<u>2,212</u>	<u>2,797</u>

**Asset Allocation Investments**

Vanguard Life Strategy Income Fund	283	335
Vanguard Life Strategy Conservative Growth	518	636
Vanguard Life Strategy Moderate Growth Fund	986	1,174
Vanguard Life Strategy Growth Fund	1,564	1,679
	<u>3,351</u>	<u>3,824</u>

**Self-Managed Accounts**

	<u>4,011</u>	<u>3,687</u>
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**Target Date Funds**

MO 1995 Fund	849	731
MO 2000 Fund	591	604
MO 2005 Fund	2,988	3,126
MO 2010 Fund	9,378	9,801
MO 2015 Fund	16,148	16,778
MO 2020 Fund	19,706	19,374
MO 2025 Fund	16,753	17,194
MO 2030 Fund	14,011	14,817
MO 2035 Fund	11,921	12,681
MO 2040 Fund	6,884	7,499
MO 2045 Fund	2,900	3,130
MO 2050 Fund	733	887
MO 2055 Fund	159	191

**Total**

	<u>103,021</u>	<u>106,813</u>
	<u>\$ 396,256</u>	<u>\$ 386,723</u>

During the years ended June 30, 2012 and 2011, Plan participants elected to allocate their state contributions as follows:

<b>Allocation of Contributions</b>		
	<b>For the year ended June 30, 2012</b>	<b>For the year ended June 30, 2011</b>
Stable Value Fund	3.9 %	18.1 %
Large-Cap Equity Funds	-	10.6
International Equity Funds	19.3	13.2
Target Date Funds	76.8	58.1
	<u>100.0 %</u>	<u>100.0 %</u>

- Net assets available for plan benefits increased by approximately \$9.6 million during the year ended June 30, 2012 to approximately \$397 million. The most significant change is accounts rolled into this Plan from other plans, reduced by the amounts distributed to participants.
- Employer contributions were approximately \$2,000 for year ended June 30, 2012, and approximately \$3,000 for the year ended June 30, 2011.
- Investment income was approximately \$5.5 million for the year ended June 30, 2012, compared to approximately \$36 million for the year ended June 30, 2011. The decrease is attributed to market conditions during the year ended June 30, 2012.
- Distributions to participants totaled approximately \$31.5 million for the year ended June 30, 2012, compared to approximately \$29.8 million for the year ended June 30, 2011. That represents a relative increase of approximately \$1.7 million.
- Administrative fees were approximately \$200,000 for the year ended June 30, 2012, compared to approximately \$497,000 for the year ended June 30, 2011. That represents a relative decrease in administrative fees of \$297,000 or 60%. This decrease is primarily attributed to the change in Plan record-keeper and related fees.

### **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 and changes in the participants' investment options as noted in the following paragraph, no other matters are known by management to have a significant impact on the operations or financial position of the Plan.

As of July 1, 2012 participants in the Plan may investment in the MOSERS' Investment Portfolio (MIP). The MIP is a monthly valued investment option offering Plan participants the ability to purchase units of the MOSERS investment portfolio.

### **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 INCENTIVE PLAN**

Statement of Plan Net Assets  
June 30, 2012

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ASSETS

Cash and cash equivalents	\$ 252,816
Due from MOSERS	210,439
Revenue share receivable	63,341
Investments, at fair value:	
Mutual funds	139,464,046
Self-directed brokerage account	4,010,995
Investments, at contract value:	
Guaranteed investment contract	<u>252,780,946</u>
Total investments	<u>396,255,987</u>
Total assets	<u>396,782,583</u>

LIABILITIES

Accounts payable	<u>39,357</u>
Total liabilities	<u>39,357</u>
Net assets held in trust for benefits	<u>\$ 396,743,226</u>

See the independent auditors' report and  
notes to financial statements

**MISSOURI STATE PUBLIC EMPLOYEES  
DEFERRED COMPENSATION INCENTIVE PLAN**

Statement of Changes in Plan Net Assets  
For the Year Ended June 30, 2012

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ADDITIONS

Contributions:

Employer	\$ 2,172
Rollovers	35,841,379
Total contributions	<u>35,843,551</u>

Investment earnings:

Net decrease in fair value of investments	(2,093,954)
Interest and dividends	7,594,198
Total investment earnings	<u>5,500,244</u>

Total additions 41,343,795

DEDUCTIONS

Benefits paid to participants	31,532,511
Administrative expenses	<u>196,179</u>

Total deductions 31,728,690

Change in net assets 9,615,105

Net assets held in trust for benefits:

Beginning of year 387,128,121

End of year \$ 396,743,226

See the independent auditors' report and  
notes to financial statements

**MISSOURI STATE EMPLOYEES  
DEFERRED COMPENSATION INCENTIVE PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2012

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**1. General Description of the Plan**

The following 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.

*General*

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. There are currently eight participating State employers in 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 record-keeper to handle participant services, record-keeping and to coordinate with the investment custodian that holds the Plan's investments. ICMA-RC is the record-keeper for the Plan as of November 11, 2011. TD Ameritrade is the investment custodian for the Plan. Prior to November 11, 2011, the Plan bookkeeping function, including third party administration, was provided by ING Institutional Plan Services (ING).

*Eligibility and Contributions*

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 Employees Deferred Compensation Plan are eligible to receive contributions on their behalf as indicated in the table below:

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

**MISSOURI STATE EMPLOYEES  
DEFERRED COMPENSATION INCENTIVE PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2012

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

In February 2010, the State of Missouri, Division of Budget and Planning announced that the employer incentive (match) associated with the State of Missouri Deferred Compensation Plan was suspended at least through June 30, 2010. This impacted state contributions to the Plan for all participants beginning with their March 31, 2010 paycheck. The State of Missouri extended the suspension of the match for the State's 2011 and 2012 fiscal years. Of the eight participating employers, only one is currently making matching contributions.

Participants may make rollover contributions from other qualified plans into the Plan.

*Investment Options*

Participants in the Plan may invest in the following options:

- Fixed earnings investments underwritten by ING Life Insurance and Annuity Company ("ILIAC")
- Self-directed brokerage options through TD Ameritrade
- Target date funds
- Mutual Funds

*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, or separation of service from the Employer, subject to Internal Revenue Service limitations. Employees may select from various payout options, including lump sum payments, rollover to other qualified plans or individual retirement arrangements 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 an annuity that can be purchased from insurance companies available through the Plan's record-keeper. Depending upon the option selected, the payments may be actuarially determined.

*Plan Membership*

As of June 30, 2012, the Plan's membership consisted of the following:

Active participants	31,583
Retired and inactive participants	16,395
	<u>47,978</u>

**MISSOURI STATE EMPLOYEES  
DEFERRED COMPENSATION INCENTIVE PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2012

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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 held in trust for benefits, liabilities and changes therein. Actual results could differ from those estimates.

*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 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' salary 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 year not remitted to the investment carriers at fiscal year end.

*Revenue Share Receivable*

The Plan receives shareholder service fees, 12(b)1 fees and other commissions from individual mutual fund companies. The record keeper receives this income as the intermediary and allocates monthly revenue to the Plan based upon the balance of the assets within the mutual fund. As presented in the *Administrative Expenses* section below, the revenue for each month is allocated the following month. As of the fiscal year end, the unpaid balances have been accrued as a receivable by the Plan.

Continued --

**MISSOURI STATE EMPLOYEES  
DEFERRED COMPENSATION INCENTIVE PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2012

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

*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 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.

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, 2012 was \$258,157,458 and the contract value on June 30, 2012 was \$252,780,946. The average yield and crediting interest rates were approximately 3.12% for the year ended June 30, 2012. 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.

Continued --

**MISSOURI STATE EMPLOYEES  
DEFERRED COMPENSATION INCENTIVE PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2012

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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 3.15% at June 30, 2012. The interest rate ranged from 2.25% to 3.48% for the year ended June 30, 2012. Total interest income recognized was approximately \$6,873,672 during the year ended June 30, 2012, 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 any 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 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 balances.

*Administrative Expenses*

ICMA-RC charges annual recordkeeping and advisory fees totaling \$34 per participant. This fee covers 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 the recordkeeping 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 \$407,300. The fees and revenue share income are allocated between the two plans. As presented in Note 1, prior to November 11, 2011, the Plan's third part administrator and record-keeper was ING. Under the agreement with ING, administrative charges were \$48 per participant.

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 out of the \$34 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.

Continued --

**MISSOURI STATE EMPLOYEES  
DEFERRED COMPENSATION INCENTIVE PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2012

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

*Rollovers*

Rollovers represent account balances transferred from other qualified plans.

**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.

**4. Cash and Cash Equivalents**

Cash and cash equivalents represent the Plan's portion of the Administrative Allowance account that is maintained by the record keeper for the Plan. Revenue share amounts are deposited into the account and used to pay Plan expenses such as record keeping fees, plan audits and financial statement preparation. The balance is allocated between the related plans based upon their respective investment balances. At June 30, 2012 the Administrative Allowance Account had a total balance of \$996,323 and is invested in the Dreyfus Money Market Fund. Of that amount, \$252,816 is allocated to the Missouri State Employees Deferred Compensation Incentive Plan and \$743,507 is allocated to the Missouri State Employees Deferred Compensation Plan.

**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, and elected to maintain the same contribution allocation, may continue to contribute to the same mutual fund or funds and have the choice of the investments available to new participants.

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**MISSOURI STATE EMPLOYEES  
DEFERRED COMPENSATION INCENTIVE PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2012

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**5. Investments (Continued)**

*Missouri Target Date Funds*

These funds were created exclusively for participants of the Plan and the Deferred Compensation 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, assumed to be age 65. Participants may 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 EMPLOYEES  
DEFERRED COMPENSATION INCENTIVE PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2012

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**5. Investments (Continued)**

Investments, presented at market value, as of June 30, 2012 are as follows:

Fixed earnings option, at contract value:	
ING Stable Value Fund	\$ 252,780,946
Variable earnings options, at fair value:	
MO 2020 Fund	19,705,538
MO 2025 Fund	16,753,357
MO 2015 Fund	16,147,994
MO 2030 Fund	14,011,166
MO 2035 Fund	11,921,014
MO 2010 Fund	9,378,438
Fidelity Contrafund	8,409,430
MO 2040 Fund	6,884,414
Self Directed Brokerage Account	4,010,995
American Century Ultra Fund	3,494,713
MO 2005 Fund	2,987,990
MO 2045 Fund	2,900,304
Neuberger & Berman Genesis Fund	2,612,772
SEI S&P 500 Index Portfolio	2,188,975
American Century Equity Income Fund	1,862,450
Vanguard Life Strategy Growth Fund	1,563,775
Fidelity Equity Income Fund	1,435,638
Vanguard Total Stock Market Index Fund	1,166,300
American Century Growth Fund	1,158,481
Goldman Sachs Mid Cap Fund	1,087,801
Vanguard Life Strategy Moderate Growth Fund	986,121
Nationwide Fund	984,628
Templeton Developing Markets Trust	957,931
Invesco Dynamics Fund	920,050
Federated US Government Securities Fund	901,553
MO 1995 Fund	848,726
Perkins Small Cap Value Fund	793,214
Vanguard Inflation Protection Securities Fund	749,653
MO 2050 Fund	733,270
T. Rowe Price International Stock Fund	721,632
MO 2000 Fund	590,754
Bond Fund of America	543,200
Putnam Investors Fund	539,649
Janus Worldwide Fund	532,029
Vanguard Life Strategy Conservative Growth	518,362

Continued --

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Notes to Financial Statements  
For the Year Ended June 30, 2012

**5. Investments (Continued)**

Variable earnings options, at fair value (continued)

Fidelity Asset Manager	509,346
Prudential Jensen Blend	460,816
Dreyfus Small Cap Stock Index Fund	337,881
Brown Capital Management Small Company Fund	320,854
Vanguard Life Strategy Income Fund	283,455
Dreyfus Premier Third Century Fund	271,532
MO 2055 Fund	159,194
Invesco Small Company Growth Fund	73,341
Prudential Total Return Bond Fund	56,305
	\$ 396,255,987

Investments as of June 30, 2012, by investment type are as follows:

Stable Value Fund	\$ 252,780,946
Bond Funds	2,250,711
Large-Cap Equity Funds	21,972,612
Mid-Cap Equity Funds	2,007,851
Small-Cap Equity Funds	4,138,062
International Equity Funds	2,211,592
Asset Allocation Investments	3,351,713
Moderate Asset Allocation Investments	509,346
Target Date Funds	103,022,159
Self-Managed Accounts	4,010,995
	\$ 396,255,987

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 64% of investments.

Continued --

**MISSOURI STATE EMPLOYEES  
DEFERRED COMPENSATION INCENTIVE PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2012

**5. Investments (Continued)**

Credit risk is the risk that 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, 2012, 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	\$ 543,200	BBB
Vanguard Inflation Protection Securities Fund	749,653	AAA
Federated U.S. Government Securities Fund - 2-5 Years	901,553	AAA
Prudential Total Return Bond Fund	56,305	BBB

At June 30, 2012, 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, 2012 for fixed income mutual funds is as follows:

<u>Fixed Income Mutual Fund</u>	<u>Fair Value</u>	<u>Weighted Average Duration</u>
Federated U.S. Government Securities Fund - 2-5 Years	\$ 543,200	3.20
Vanguard Inflation Protection Securities Fund	749,653	8.57
American Funds Bond Fund of America	901,553	4.47
Prudential Total Return Bond Fund	56,305	4.86

At June 30, 2012, the average effective duration as provided by ING for the Stable Value Fund was 3.02 years.

**MISSOURI STATE EMPLOYEES  
DEFERRED COMPENSATION INCENTIVE PLAN**

Notes to Financial Statements  
For the Year Ended June 30, 2012

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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 Asset.

**7. Subsequent Event**

As of July 1, 2012 participants in the Plan may investment in the MOSERS' Investment Portfolio (MIP). The MIP is a monthly valued investment option offering Plan participants the ability to purchase units of the MOSERS investment portfolio.

Subsequent events have been evaluated through November 29, 2012, the date the financial statements were available to be issued.

**8. Litigation**

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 \$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 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.

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 Incentive 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.