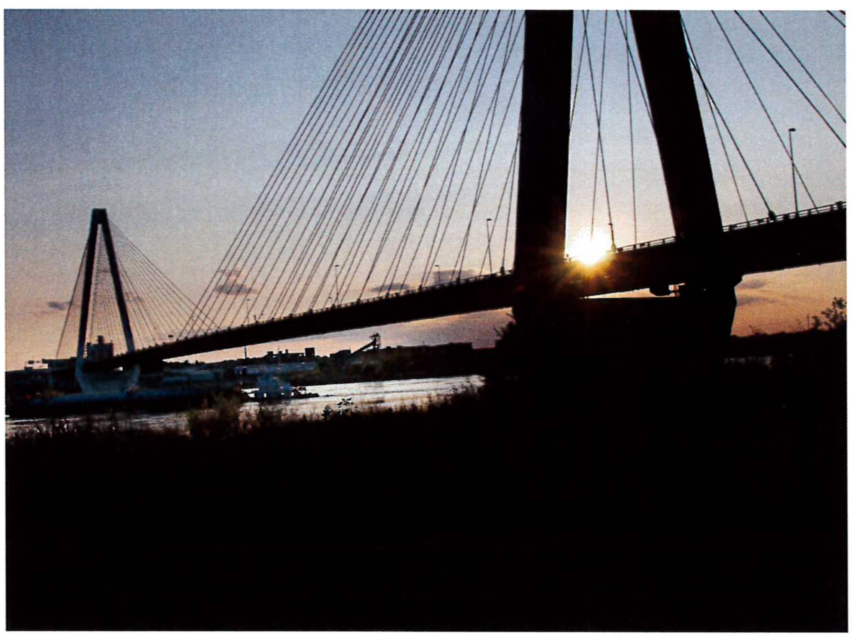
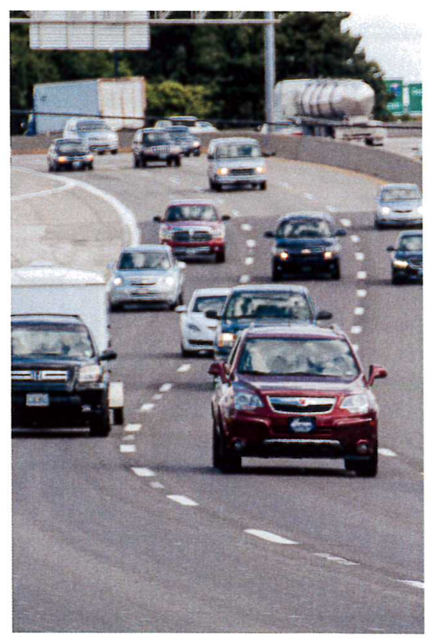
Comprehensive

Annual Financial Report

For fiscal years ended

June 30, 2017 and 2016





MTFC

Missouri Transportation Finance Corporation

a Component Unit of the State of Missouri

Comprehensive Annual Financial Report

for fiscal years ended

June 30, 2017 and 2016

Roberta Broeker, CPA, Executive Director
and Brenda Morris, CPA, Treasurer

Prepared by the Financial Services Division
Missouri Department of Transportation

Missouri Transportation Finance Corporation
P.O. Box 270
Jefferson City, MO 65102
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MTFC

Missouri Transportation Finance Corporation

a Component Unit of the State of Missouri

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Table of Contents

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Introductory Section

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August 22, 2017

Board of Directors
Missouri Transportation Finance Corporation
Jefferson City, Missouri

The Missouri Transportation Finance Corporation (MTFC) is pleased to submit the Comprehensive Annual Financial Report (CAFR) of the MTFC for the fiscal year ended June 30, 2017.

The Transportation Equity Act of the Twenty-first Century (TEA-21) Cooperative Agreement between the Federal Highway Administration, the Federal Transit Administration and the Federal Railroad Administration, agencies of the United States Department of Transportation, the Missouri Highways and Transportation Commission (MHTC) and the MTFC requires the MTFC to have an annual independent financial and compliance audit. In fulfillment of this requirement, the MTFC prepared this CAFR and contracted with the independent auditing firm of Williams-Keepers LLC to audit the financial statements.

Generally accepted accounting principles (GAAP) require management to provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MTFC's MD&A can be found on page 19, immediately following the report of the independent auditors.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the MTFC. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects and is reported in a manner designed to present fairly the MTFC's net position and changes in net position. All disclosures necessary to enable the reader to gain an understanding of the MTFC's financial activities have been included.

Profile of the MTFC

The MTFC, incorporated in August 1996 as a not-for-profit corporation, derived its authority to form and operate from the TEA-21. The Cooperative Agreement provided the original capitalization for the entity, a mixture of federal and state funds, to administer a program focused on funding Missouri highways and transportation projects by offering financing options such as low interest direct loans to private and public entities. An eight member Board of Directors administers the MTFC and is responsible for the direction of the entity, including approval of all loans.

Internal Control

The MTFC assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The MTFC believes the corporation's internal control provides reasonable assurance that the financial statements are free from any material misstatement.

Economic Outlook

In December 2015, Congress passed the Fixing America's Surface Transportation (FAST) Act, which is a five-year, $305 billion transportation bill for the nation's transportation projects. Prior to the Fast Act, Congress had not passed a long-term highway authorization act since 2005. The Fast Act is funded with receipts into the Highway Trust Fund, a transfer of $24 billion from the General Fund and additional funding offsets to pay for the bill. Despite the good news of a five-year transportation bill, Congress still needs to work on a long-term source of transportation revenue to support the nation's infrastructure needs.

From fiscal year 2016 to 2017, state revenues designated for transportation increased from $1,138.7 million to $1,153.2 million, or 1.3 percent. Motor fuel taxes decreased .1 percent in fiscal year 2017 compared to fiscal year 2016, and the revenue from this source is still 1.8 percent less than fiscal year 2008 when collections were $520.5 million. Motor vehicle sales taxes grew by 5.5 percent, while motor vehicle and driver licensing fees decreased 1.1 percent from fiscal year 2016 to fiscal year 2017.

Future of MTFC

MoDOT's popular Cost Share Program, which set aside monies for which local entities could compete to accomplish transportation projects that were a local priority, was suspended by the MHTC in January 2014. The program allowed local priority projects to be completed with a mixture of local funds and monies from the Cost Share Program. The local entities would often accelerate their project using a MTFC loan. The suspension of the Cost Share Program was a major reason fewer loans were applied for and approved in fiscal years 2014 and 2015. For fiscal years 2016 and 2017, loan activity increased as entities looked for ways to finance their projects.

In January 2017, the MHTC approved re-activating the Cost Share Program. Project applications were due June 30, 2017 with project selection to occur in late August 2017. The Cost Share Committee will meet approximately 3 times a year to select Cost Share projects.

The MTFC's net position has increased over the last three years primarily as a result of income derived from interest earned on loans and investments. The growth in net position is expected to remain steady.

Initiatives

MoDOT's Financial Services staff is responsible for marketing MTFC loans as a transportation project funding option. They accomplish this activity by:

- Maintaining information about the MTFC on the Partnership Development Website;
- Attending and presenting at meetings throughout the state to educate partners; and
- Preparing newsletters to communicate activity to potential customers.

There were no new financial policies that significantly impacted the financial statements for the fiscal year ended June 30, 2017.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the MTFC for its CAFR for the fiscal year ended June 30, 2016. This was the ninth consecutive year the MTFC received this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for a certificate.

Acknowledgements

The timely preparation of this report was achieved by the dedicated service of MoDOT's Financial Services Division staff who are responsible for MTFC administrative activities. We would like to express appreciation to members of the staff who assisted and contributed to this report.

Sincerely,

Roberta Broeker

Roberta Broeker, CPA
Executive Director

Brenda Morris

Brenda Morris, CPA
Treasurer

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Missouri Transportation Finance Corporation

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

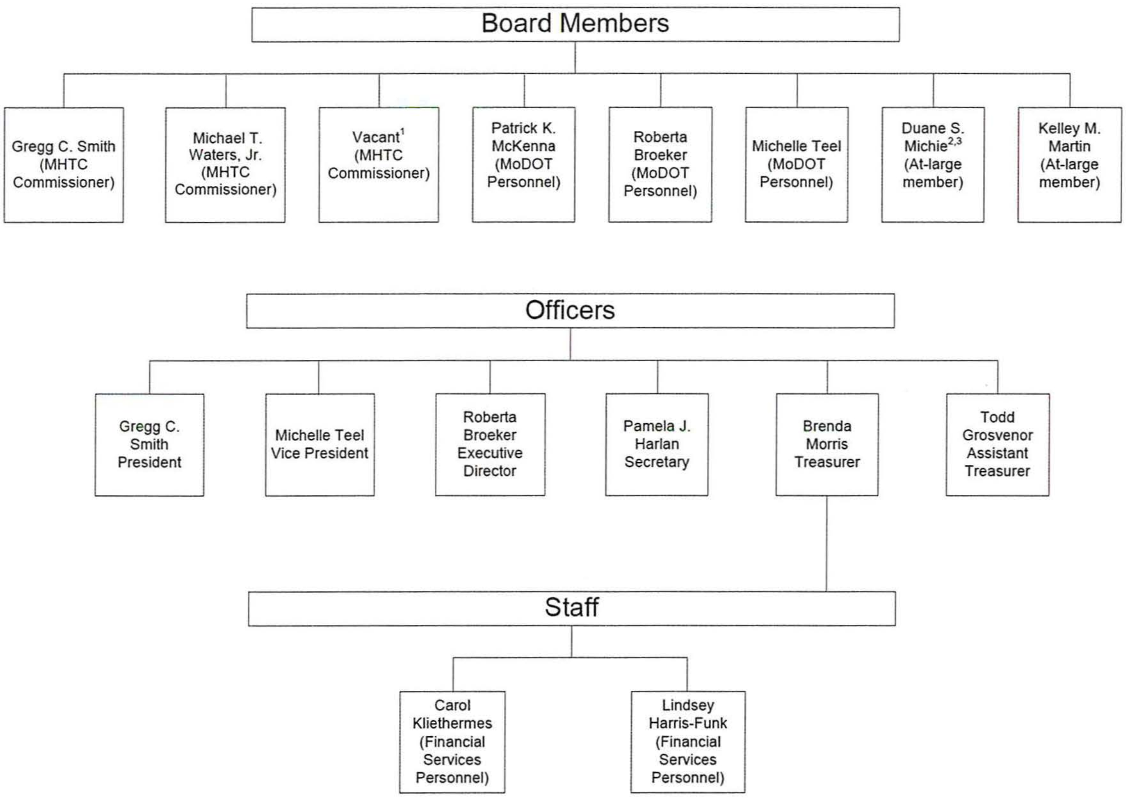
June 30, 2016

Executive Director/CEO

Organizational Chart

June 30, 2017

Missouri Transportation Finance Corporation (MTFC) Organizational Chart



[1] On July 1, 2016, Commissioner Stephen R. Miller resigned from the MHTC.

[2] On June 30, 2017, Duane S. Michie's second, two-year term as an at-large member expired.

[3] On June 7, 2017, The MHTC elected James E. Smith to the MTFC Board of Directors as an at-large member for a two-year term beginning July 1, 2017 and expiring June 30, 2019.

MoDOT – Missouri Department of Transportation

MHTC – Missouri Highways and Transportation Commission

Principal Officials

Fiscal Year 2017

MTFC Title	Name
President	Gregg C. Smith, MHTC Commissioner
Vice President	Michelle Teel, MoDOT Multimodal Operations Director
Executive Director	Roberta Broeker, MoDOT Chief Financial Officer
Secretary	Pamela J. Harlan, MHTC Secretary
Treasurer	Brenda Morris, MoDOT Financial Services Director
Assistant Treasurer	Todd Grosvenor, MoDOT Special Projects Coordinator

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Financial Section

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CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Missouri Transportation Finance Corporation
Jefferson City, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Missouri Transportation Finance Corporation (the Corporation), a component unit of the State of Missouri, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Corporation as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require the management's discussion and analysis on pages 19 through 22 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, or 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2017, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Williams Keepers LLC

August 22, 2017

Management's Discussion and Analysis

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Management's Discussion and Analysis

The following section of our annual financial report presents our discussion and analysis of the MTFC's financial performance during the year. It is intended to provide an objective and easily readable analysis of the MTFC's financial activities based on currently known facts, decisions and conditions. Readers should consider the information presented here in conjunction with the information presented in the financial statements and notes, which follow this section.

FINANCIAL HIGHLIGHTS

- During fiscal year 2017, the MTFC approved five loans totaling $34.5 million. By comparison, in fiscal year 2016, the MTFC approved six loans totaling $6.6 million. In fiscal year 2015, the MTFC approved one loan totaling $226,000.

- Loan disbursements totaling $6.0 million were made to three entities in fiscal year 2017. In fiscal year 2016, loan disbursements totaling $3.0 million were made to six entities and in fiscal year 2015, loan disbursements totaling $2.0 million were made to two entities.

- During fiscal year 2017, one entity declined their approved loan totaling $13.2 million. In fiscal years 2016 and 2015, no entities contacted the MTFC declining their approved loans. During fiscal year 2017 and fiscal year 2016, no entities requested loan reductions. In fiscal year 2015, one entity requested a loan disbursement be $226,000 less than the approved amount.

- The MTFC's net loans receivable decreased $5.2 million and $4.2 million from fiscal year 2016 to 2017 and from fiscal year 2015 to 2016, respectively, as loan repayments exceeded loan disbursements.

- Operating income decreased by $60,000 from fiscal year 2016 to 2017 and $260,000 from fiscal year 2015 to 2016. The decrease in operating income is due to the reduction of interest income on loans as the loan receivable balance continues to decline.

- Total nonoperating revenues decreased $252,000, 41.4 percent, from fiscal year 2016 to 2017, due to a decrease in investment earnings. From fiscal year 2015 to 2016, total nonoperating revenues increased $203,000, 50.1 percent, for the same reason.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the MTFC's basic financial statements, which are comprised of two components: 1) financial statements and 2) notes to the financial statements.

Financial Statements report information about the MTFC through accounting methods used by private-sector companies, the economic resources measurement focus and accrual basis of accounting. These statements provide short- and long-term information about the financial status of the MTFC.

The *Statements of Net Position* include all MTFC assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the MTFC is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* account for all revenues and expenses of the MTFC as soon as the event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The *Statements of Cash Flows* provide readers the sources and uses of cash and the changes in the cash balance during the year.

Notes to the Financial Statements provide additional information and discuss particular accounts in more detail. The Notes are essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS

MTFC Net Position
June 30, 2017, 2016 and 2015
(dollars in thousands)

	2017	2016	2015
Assets			
Cash and investments	$ 77,976	$ 71,110	$ 64,938
Interest receivable on loans and investments	727	781	846
Loans receivable, net	28,092	33,327	37,548
Total assets	106,795	105,218	103,332
Liabilities			
Accounts payable	3	2	4
Net Position			
Restricted for lending purposes	77,221	76,865	76,257
Unrestricted net position	29,571	28,351	27,071
Total net position	$106,792	$105,216	$103,328

Assets

Cash and investments increased $6.9 million from June 30, 2016 to June 30, 2017, and $6.2 million between June 30, 2015 and June 30, 2016. At June 30, 2017, net loans receivable were $5.2 million less than at June 30, 2016. Net loans receivable at June 30, 2016 were $4.2 million less than the prior year. Correspondingly, the loan interest receivable declined from fiscal year end to fiscal year end as the loan receivable balance decreased. In fiscal year 2017, loan repayments of $11.2 million exceeded loan disbursements of $6.0 million. In fiscal year 2016, loan repayments of $7.2 million exceeded loan disbursements of $3.0 million.

Net Position

Net position increased $1.6 million in fiscal year 2017 and $1.9 million in fiscal year 2016. The primary reason for the net position increase at June 30, 2017 is $1.2 million in loan interest and total nonoperating revenues of $356,000. At June 30, 2016, net position increased $1.9 million as a result of loan interest of $1.3 million and total nonoperating revenues of $608,000. Net position restricted for lending purposes includes federal grants received to capitalize the MTFC, the required state transportation funding match and the accumulated net investment earnings (loss).

MTFC Changes in Net Position
Years ended June 30, 2017, 2016 and 2015
(dollars in thousands)

	2017	2016	2015
Operating Revenues			
Interest income on loans	$ 1,205	$ 1,310	$ 1,570
Other income	52	8	2
Total operating revenues	1,257	1,318	1,572
Operating Expenses			
Administrative fees	28	29	23
Other operating expenses	9	9	9
Total operating expenses	37	38	32
Operating Income	1,220	1,280	1,540
Nonoperating Revenues (Expenses)			
Investment earnings	408	662	449
Nonoperating expenses	(52)	(54)	(44)
Total nonoperating revenues (expenses)	356	608	405
Change in net position	1,576	1,888	1,945
Net position at beginning of year	105,216	103,328	101,383
Net position at end of year	$106,792	$105,216	$103,328

Revenues

In fiscal years 2017, 2016 and 2015, the primary source of income was interest earned on loans. In fiscal year 2017, interest income on loans recognized as operating revenue decreased $105,000 compared to fiscal year 2016 and decreased $260,000 in fiscal year 2016 compared to fiscal year 2015. The decrease in interest earned on loans is consistent with the decrease in the average loans receivable balance. The average loans receivable balance was $32.6 million in fiscal year 2017 compared to $34.2 million in fiscal year 2016 and $40.1 million in fiscal year 2015. Program fees, included in other income in the schedule above, are received at the time applications are submitted and are calculated based upon a percentage of the requested loan amount. In fiscal year 2017, program fees increased to $52,000 compared to fiscal year 2016 and 2015, which were $8,000 and $2,000 respectively.

Nonoperating revenue is recognized on investments. The primary reason for the decrease of nonoperating revenue in fiscal year 2017 is the decrease of the market value of investments and investment earnings.

Expenses

In fiscal year 2017, administrative fees totaled $28,000, a decrease of $1,000 from fiscal year 2016. Administrative fees in fiscal year 2016 increased $6,000 from fiscal year 2015. The administrative fees decrease from fiscal years 2016 to 2017 and the increase from 2015 to 2016 is due to the number of loan applications in the respective years. The other operating expenses remain unchanged for fiscal years 2017, 2016 and 2015.

ECONOMIC AND OTHER FACTORS

For fiscal year 2017, loan activity increased as entities looked for ways to finance their projects since the popular Cost Share Program, which set aside monies for which local entities could compete to accomplish transportation projects that were a local priority, was suspended by the MHTC in January 2014. However, the MHTC re-activated this program in January 2017. Local priority projects will be completed with a mixture of local funds and monies from the Cost Share Program. Previously, the local entities would often accelerate the project selected using a MTFC loan. The suspension of the Cost Share Program is a major reason for the lower number of loans applied for and approved in fiscal years 2014 and 2015.

With the re-activation of the Cost Share Program, project applications were requested to be submitted by June 30, 2017 with project selection to occur in late August 2017. The Cost Share Committee will meet approximately 3 times a year to select Cost Share projects.

The MTFC's net position has increased over the last three years primarily as a result of income derived from interest earned on loans and investments. The growth in net position is expected to remain steady.

CONTACTING THE MTFC

This financial report is designed to provide the Missouri Transportation Finance Corporation's interested parties, including citizens, taxpayers, customers, potential investors and creditors, with a general overview of the MTFC's finances and to demonstrate the MTFC's accountability for the money it receives. Questions about this report or requests for additional financial information should be addressed to Missouri Transportation Finance Corporation, P.O. Box 270, Jefferson City, Missouri 65102.

Financial Statements

Statements of Net Position

June 30, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 25,613,657	$ 16,974,366
Investments	27,501,810	16,177,713
Interest receivable on loans	583,880	591,313
Interest receivable on investments	143,073	189,435
Loans receivable, net	5,423,510	7,798,450
Total current assets	59,265,930	41,731,277
Noncurrent assets		
Investments	24,860,133	37,958,096
Loans receivable, net	22,668,741	25,528,315
Total noncurrent assets	47,528,874	63,486,411
Total Assets	106,794,804	105,217,688
Liabilities		
Current liabilities		
Accounts payable	3,150	1,613
Total current liabilities	3,150	1,613
Total Liabilities	3,150	1,613
Net Position		
Restricted for lending purposes	77,220,770	76,864,618
Unrestricted net position	29,570,884	28,351,457
Total Net Position	$106,791,654	$105,216,075

The notes to the financial statements are an integral part of these statements.

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2017 and 2016

	2017	2016
Operating Revenues		
Interest income on loans	$ 1,204,792	$ 1,310,453
Program fees	51,819	7,991
Total Operating Revenues	1,256,611	1,318,444
Operating Expenses		
Administrative fees	27,795	28,800
Professional fees	8,900	8,900
Other	489	480
Total Operating Expenses	37,184	38,180
Operating Income	1,219,427	1,280,264
Nonoperating Revenue (Expenses)		
Investment earnings (loss)	407,643	661,952
Investment fees	(51,491)	(53,701)
Net Nonoperating Revenues (Expenses)	356,152	608,251
Change in net position	1,575,579	1,888,515
Net Position, beginning of year	105,216,075	103,327,560
Net Position, end of year	$106,791,654	$105,216,075

The notes to the financial statements are an integral part of these statements.

Statements of Cash Flows

Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities		
Fees received for services	$ 51,819	$ 7,991
Payments for administrative services	(26,258)	(31,639)
Other payments	(9,389)	(9,380)
Net cash provided by (used in) operating activities	16,172	(33,028)
Cash Flows From Investing Activities		
Interest received	933,959	834,317
Principal received	11,192,631	7,217,765
Sale of investments	43,267,108	55,259,405
Interest received on loans	1,212,225	1,415,289
Loan disbursements	(5,958,118)	(2,996,952)
Purchase of investments	(41,973,195)	(56,811,647)
Investment fees	(51,491)	(53,701)
Net cash provided by (used in) investing activities	8,623,119	4,864,476
Net increase (decrease) in cash and cash equivalents	8,639,291	4,831,448
Cash and Cash Equivalents, Beginning of Year	16,974,366	12,142,918
Cash and Cash Equivalents, End of Year	$ 25,613,657	$ 16,974,366
Reconciliation of Operating Income to Net Cash Provided by (used in) Operating Activities		
Operating income	$ 1,219,427	$ 1,280,264
Interest income on loans	(1,204,792)	(1,310,453)
Adjustments to operating cash flows for net change in accounts payable	1,537	(2,839)
Net Cash Provided by (used in) Operating Activities	$ 16,172	$ (33,028)
Noncash Items Impacting Recorded Assets		
Increase (decrease) in fair value of investments	$ (479,954)	$ (211,422)

The notes to the financial statements are an integral part of these statements.

Notes to the Financial Statements

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies

The Missouri Transportation Finance Corporation (MTFC) was created by the Missouri Highways and Transportation Commission (MHTC), under Missouri Nonprofit Corporation Law Act, Chapter 355 of the Revised Statutes of Missouri (RSMo), on August 23, 1996. The entity administers a program, in conformity with federal transportation laws, to provide financing and other assistance to public and private entities for highway and transportation projects in the state of Missouri.

(A) Reporting Entity

The MTFC is a discretely presented component unit of the state of Missouri. The MHTC has authority to remove any board member for cause, and therefore, may impose its will on the MTFC. The accompanying basic financial statements include only those operations related to the MTFC.

(B) Basis of Accounting

MTFC accounts for its activities as an Enterprise Fund, a type of Proprietary Fund. Proprietary Funds are used to account for ongoing activities that are similar to activities found in the private sector. The measurement focus is upon determination of net income. In reporting its financial activity, the MTFC applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. The accrual basis of accounting is utilized under which revenues are recognized when earned and expenses are recorded when liabilities are incurred. In applying the accrual concept to federal grant revenues and contributions, the legal and contractual requirements of the individual programs are used for guidance.

(C) Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash and overnight repurchase agreements. Investments are reported at fair value. MTFC requires that securities underlying overnight repurchase agreements must have a fair value of at least 100 percent of the cost of the agreement. The fair values of the repurchase agreements are determined daily.

(D) Loans Receivable

Program loans are made and collected to fulfill the MTFC's responsibility to provide financing and other assistance to public and private entities for highway and transportation projects in the state of Missouri. Management has determined, based on prior experience and collateral pledged on the loans, that an allowance for uncollectible loans is not necessary.

(E) Net Position

Equity is categorized in the statements of net position as restricted and unrestricted. Restricted net position is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. In general, restricted net position is composed of the original federal and state grant funds provided to establish the loan program and net investment income earned on those funds not currently loaned. When both restricted and unrestricted resources are available for use, generally it is the MTFC's policy to use restricted resources first for program loans to provide financing and other assistance to public and private entities for highway and transportation projects in the state of Missouri. Unrestricted resources are used for operating expenses and loans as needed.

(F) Classification of Operating and Nonoperating Revenues and Expenses

The MTFC has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, including interest income on program loans made to entities as provided by federal transportation laws and program fees.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, including federal, state and local grants and contracts. Investment earnings are also classified as nonoperating revenue.

Operating expenses: Operating expenses primarily include administrative fees and professional services. The administrative fees are reimbursements to the Missouri Department of Transportation for personal service costs related to the support of the MTFC.

Nonoperating expenses: Nonoperating expenses consist of investment fees.

(G) Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

(H) Income Taxes

The MTFC submitted a request for ruling to the Internal Revenue Service (IRS). In response to that request, the IRS ruled the income of the MTFC is excludable from gross income for federal income tax purposes under Section 115 of the Code. The MTFC is required to file an annual income tax return on Form 1120.

Note 2: Cash and Investments

(A) Deposits

The carrying amounts of deposits and repurchase agreements of the MTFC at June 30, 2017 and 2016 were $25,613,657 and $16,974,366, respectively. The bank balances were covered by federal depository insurance and by collateral held by a third-party bank under a joint custody agreement.

(B) Investments

The MTFC's investment policy is approved by the Board. This policy supports the MTFC's conservative and prudent approach to investment management. The policy also addresses authorized financial dealers and institutions, internal controls, suitable and authorized investments, collateralization, diversification of the portfolio, maximum maturities, performance standards and reporting requirements.

The policy allows funds to be invested in time deposits, linked deposits, certificates of deposit, commercial paper, bankers' acceptances, repurchase and reverse repurchase agreements and United States Treasury and federal agency securities. The MTFC's investments are reported at fair value. At June 30, 2017 and 2016, the MTFC had $52,361,943 and $54,135,809, respectively, of unregistered government sponsored securities for which a financial institution's trust department holds the securities in the MTFC's name.

The MTFC has categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. As defined by generally accepted accounting principles, Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs comprised of quoted prices for similar assets. Level 3 inputs are significant unobservable inputs.

At June 30, 2017, the MTFC's investments have the following ratings, fair value measurements and maturities:

	Rating		Fair Value Measurements	Investment Maturities		
Investment by Type	Moody's	Standard and Poor's	Level 2	Less than 1 year	1-3 years	4-5 years
Repurchase agreements	Aaa	AA+	$25,612,885	$25,612,885	$ ---	$ ---
Government agency obligations	Aaa	AA+	37,868,811	23,233,142	11,117,619	3,518,050
U.S. agency obligations	Aaa	AA+	14,493,131	4,268,667	9,417,728	806,736
			$77,974,827	$53,114,694	$20,535,347	$ 4,324,786

At June 30, 2016, the MTFC's investments have the following ratings, fair value measurements and maturities:

	Rating		Fair Value Measurements	Investment Maturities		
Investment by Type	Moody's	Standard and Poor's	Level 2	Less than 1 year	1-3 years	4-5 years
Repurchase agreements	Aaa	AA+	$16,974,200	$16,974,200	$ ---	$ ---
Government agency obligations	Aaa	AA+	38,842,593	16,047,600	20,792,693	2,002,300
U.S. agency obligations	Aaa	AA+	15,293,216	130,113	14,160,490	1,002,613
			$71,110,009	$33,151,913	$34,953,183	$ 3,004,913

Investment earnings consisted of the following for the years ended June 30:

	2017	2016
Interest income on deposits	$ 139,343	$ 40,997
Interest income on investments	748,254	832,377
Net appreciation (depreciation) in fair value of investments	(479,954)	(211,422)
Total investment earnings (loss)	$ 407,643	$ 661,952

(C) Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. The MTFC policy states interest rate risk will be managed by the following objectives:

Safety: The investment portfolio is developed to avoid the need to sell securities on the open market prior to maturity, with securities scheduled to mature to meet cash requirements for ongoing operations.

Liquidity: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so the securities mature concurrent with cash needs to meet anticipated demands (static liquidity).

Yield: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs.

(D) *Credit Risk*

The MTFC minimizes credit risk by limiting investments to the safest types of securities as defined in Note 2: Cash and Investments, Section (B) Investments.

(E) *Concentration of Credit Risk*

The MTFC diversifies its investments to minimize the risk of loss resulting from over-concentration of assets in a specific maturity, issuer or class of securities. The asset allocation is periodically reviewed by management.

(F) *Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the MTFC will not be able to recover collateralized securities in the possession of an outside party. The MTFC's policy is to collateralize demand deposits and repurchase agreements with securities held by the financial institution's agent in the MTFC's name. The MTFC policy also states security transactions are settled "delivery versus payment." This means payment is made simultaneously with the receipt of the security. These securities are delivered to the MTFC's safekeeping bank.

Note 3: Loans Receivable

Loans are entered into to provide financing for highway and transportation projects. Future revenues primarily secure public entity loans. Irrevocable letters of credit or designated funds secure loans for private entities. The receivable balance as of June 30, 2017 and 2016 consists of the following:

(amounts in thousands)

Customer and Project Description	Loan Date	Maturity Date	Interest Rate	2017	2016
Principal and Interest Paid Semi-annually					
City of Columbia Finance the city's portion of the cost share project to construct improvements on Route 740, also known as Stadium Boulevard. The project consists of widening Route 740 from a five-lane undivided roadway to a six-lane divided roadway.	03/01/12	03/01/22	3.92%	$ 4,426	$ 5,213
City of Holts Summit Finance the city's project to widen Halifax Road to reduce a slight curve, install curb, gutter and sewer for drainage and construct a pedestrian sidewalk.	04/15/16	12/31/25	2.26	444	490
City of Warrenton Finance the city's project to construct a new I-70 interchange and extend Route MM to the north across I-70 to the North Outer Road.	12/01/16	03/31/37	2.64	1,850	---

(amounts in thousands)

Customer and Project Description	Loan Date	Maturity Date	Interest Rate	2017	2016
Principal and Interest Paid Annually					
City of St. Louis Construct Gateway Transportation Center to consolidate urban buses, intercity buses, light rail passenger, commercial space and parking.	10/26/07	01/31/18	4.20%	$ 530	$ 1,053
City of Kansas City Construct a single point urban interchange in conjunction with the kcICON project.	12/21/07	11/19/17	4.20	1,467	2,886
U.S. Highway 36 – Interstate 72 Corridor – Transportation Development District Construct two additional lanes of approximately 52 miles on Route 36.	12/31/09	12/31/19	3.99	6,501	12,701
City of St. Clair Finance the city's portion of a cost share project to relocate the I-44 North Outer Road at Route 47.	10/03/11	10/01/21	2.93	885	1,047
City of Kirksville Accelerate the MHTC's portion and finance the city's portion of a cost share project to improve access and pedestrian facilities along Route 63.	12/01/11	12/01/18	2.92	62	92
City of Poplar Bluff Accelerate the MHTC's portion and finance the city's portion of a cost share project to improve the interchange at Route 67 and Oak Grove Road and the intersection at Business Route 67 and Oak Grove Road.	03/01/12	03/01/22	4.15	2,272	2,698
City of Republic Finance the city's portion of a cost participation project to improve the intersection of Route 60 and Oakwood Avenue.	03/01/12	03/01/17	2.96	---	47
Barton County Finance the county's portion of a cost share project to improve Route 71 at 30th Road and First Street.	08/01/12	08/01/22	2.17	332	384
City of O'Fallon Construct Crusher Street extension and improve Elaine Drive.	11/01/12	11/01/22	2.69	1,921	2,212
Christian County Finance the county's portion of a cost share project to construct a diverging diamond interchange at Route 65 and Route CC.	10/01/13	08/01/23	3.64	1,180	1,325
Village of Innsbrook Construct shoulders on Route F.	10/01/13	08/15/23	2.29	144	164

(continued)

(amounts in thousands)

Customer and Project Description	Loan Date	Maturity Date	Interest Rate	2017	2016
Principal and Interest Paid Annually (continued)					
City of Owensville Finance the city's portion of a cost share project to improve Route 28 inside the city limits.	03/03/14	06/30/18	1.61%	$ 106	$ 212
City of Waynesville Finance the city's portion of a cost share project to improve Route 17 inside the city limits.	10/01/14	06/30/24	2.28	564	637
Port Authority of Kansas City Finance the port's project to rehabilitate and construct railroad tracks, remove a scale and provide a new connection to the Union Pacific mainline.	10/19/15	07/31/22	2.68	129	150
City of Cape Girardeau Finance the city's project to replace a city bridge on South Sprigg Street.	12/01/15	09/01/25	3.26	3,532	700
City of Park Hills Finance the city's project to improve East Main Street from View Street to Strauss Street and Strauss Street from East Main Street to St. Joe Drive.	06/15/16	08/31/24	3.26	183	530
City of Park Hills Finance the city's project to extend Fairgrounds Drive to a proposed trailhead serving the St. Joe State Park.	06/15/16	10/31/24	3.26	495	560
City of Cottleville Finance the city's cost apportionment project to widen Route N to three lanes with a center turn lane, add shoulders and a shared-use path.	06/15/16	07/30/26	2.57	843	---
City of Sunrise Beach* Finance the city's portion of the cost share project to widen Route 5 to three lanes from Route F to the city of Laurie.	07/01/15	08/31/30	2.55	226	226
Total				$28,092	$33,327

*City of Sunrise Beach MTFC loan agreement specifies interest only payments annually until August 31, 2021; after which, principal and interest shall be paid annually.

Annual loans receivable to maturity are indicated in the following schedule.
(amounts in thousands)

Fiscal Year	Principal
2018	$ 5,424
2019	5,929
2020	7,200
2021	2,867
2022	2,850
2023-2027	3,726
2028-2031	96
Total principal	$28,092

Loans receivable are included in the accompanying statements of net position, as follows:
(amounts in thousands)

	2017	2016
Current loans receivable	$ 5,424	$ 7,798
Noncurrent loans receivable	22,668	25,529
Total loans receivable	$28,092	$33,327

Note 4: Administrative Expenses

Administrative expenses and accounts payable represent reimbursements to the Missouri Department of Transportation (MoDOT) for personnel and administrative costs.

Note 5: Restricted Net Position

The MTFC received money from federal grants, which is restricted for lending purposes only. Those grants required a state transportation funding match, which, with net investment earnings (loss), is also restricted for lending purposes. Restricted net position increased due to the net investment gain for the year ended June 30, 2017, included in net nonoperating revenues (expenses).

(amounts in thousands)

	2017	2016
Federal grant	$49,410	$49,410
State grant	10,250	10,250
Cumulative net investment earnings	17,561	17,205
Total restricted net position available for lending purposes	$77,221	$76,865

Note 6: Risk Management

The MTFC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets. The MTFC does not carry commercial insurance but takes additional internal control steps to ensure safekeeping of assets. The State's Legal Expense Fund covers all state employees for the risks of errors and omissions. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. No liabilities of loss related to torts were reported at June 30, 2017 or 2016. The MTFC has had no settlements in the last three years.

Note 7: Loan Commitments and Loans Approved

At June 30, 2017, the MTFC had loan commitments totaling $19.5 million that were approved and executed, but not disbursed.

(amounts in thousands)

Customer and Project Description	Approved Date	Executed Date	Projected Disbursement Date	Interest Rate	Amount
Principal and Interest Paid Semi-annually					
City of Warrenton * Finance the city's project to construct a new I-70 interchange and extend Route MM to the north across I-70 to the North Outer Road.	10/11/16	11/28/16	07/03/17	2.64%	$13,550
City of Wentzville Finance the city's project to construct a new I-70 interchange west of the existing Wentzville Parkway.	10/11/16	03/02/17	01/02/18	1.00	5,000
Principal and Interest Paid Annually					
City of Republic * Finance a portion of the city's project to improve East Hines Street and North Oakwood Avenue by widening to three lanes, installing left-turn lanes and constructing curbs, gutters and a pedestrian sidewalk.	02/01/17	06/02/17	08/01/17	3.01	661
City of Park Hills * Finance the city's project to extend Fairgrounds Drive to a proposed trail head serving the St. Joe State Park.	05/03/17	06/27/17	10/25/17	3.26	285
Total loan commitments**					$19,496

*These loans had partial disbursements with the remaining payouts listed.
**Unrestricted and restricted net assets are sufficient to meet loan commitments and loans approved.

Note 8: Accounting Pronouncements

GASB Statements that had no financial impact on the MTFC financial statements include:

- 80, Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14;
- 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans;
- 77, Tax Abatement Disclosures;
- 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans;
- 73, Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope for GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.

GASB Statements that will not affect the MTFC financial statements include:

- 87, Leases;
- 86, Certain Debt Extinguishment Issues;
- 85, Omnibus 2017;
- 84, Fiduciary Activities;
- 83, Certain Asset Retirement Obligations;
- 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73;
- 81, Irrevocable Split-Interest Agreements;
- 79, Certain External Investment Pools and Pool Participants;
- 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

Note 9: Subsequent Events

On December 31, 2009, the Commission entered into an agreement with the U.S. Highway 36-Interstate 72 Corridor-Transportation Development District to loan $34.3 million to construct two additional lanes of approximately 52 miles of Route 36. The loan had an interest rate of 3.99 percent with principal and interest paid annually. The unpaid principal balance on the loan at the end of fiscal year 2017 was $6.5 million with an anticipated maturity date of December 31, 2019. The U.S. Highway 36-Interstate 72 Corridor-Transportation Development District made a lump sum payment of $6.5 million on July 31, 2017 to fulfill their loan obligation included in Note 3.

Statistical Section

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Index

Statistical Section

Financial Trends
Changes in Net Position
Years Ended June 30
(amounts in thousands)

	2017	2016	2015	2014
Operating Revenues				
Interest income on loans	$1,205	$1,310	$1,570	$2,005
Program fees	52	8	2	2
Total Operating Revenues	1,257	1,318	1,572	2,007
Operating Expenses				
Administrative fees	28	29	23	21
Professional fees	9	9	9	9
Travel and training	---	---	---	---
Other	---	---	---	---
Total Operating Expenses	37	38	32	30
Operating Income	1,220	1,280	1,540	1,977
Nonoperating Revenues (Expenses)				
Investment earnings (loss)	408	662	449	326
Investment fees	(52)	(54)	(44)	(24)
Net Nonoperating Revenues (Expenses)	356	608	405	302
Change in Net Position	$1,576	$1,888	$1,945	$2,279

2013	2012	2011	2010	2009	2008
$2,632	$2,523	$2,580	$2,056	$ 844	$1,064
2	37	16	29	43	6
2,634	2,560	2,596	2,085	887	1,070
27	36	17	49	48	33
10	10	10	11	10	9
---	---	---	---	---	1
2	2	2	2	3	5
39	48	29	62	61	48
2,595	2,512	2,567	2,023	826	1,022
(99)	111	158	375	1,967	2,459
(9)	(14)	(14)	(35)	(64)	(57)
(108)	97	144	340	1,903	2,402
$2,487	$2,609	$2,711	$2,363	$2,729	$3,424

Financial Trends
Net Position

Years Ended June 30
(amounts in thousands)

Fiscal Year	Restricted	Unrestricted	Total
2017	$77,221	$29,571	$106,792
2016	76,865	28,351	105,216
2015	76,257	27,071	103,328
2014	75,852	25,531	101,383
2013	75,550	23,554	99,104
2012	75,658	20,959	96,617
2011	75,562	18,446	94,008
2010	75,417	15,880	91,297
2009	75,077	13,857	88,934
2008	73,174	13,031	86,205

Amounts for 2008 through 2012 include restatements of restricted and unrestricted net position to meet the definition of restricted net position. These restatements had no effect on total net position.

Revenue Capacity
Average Fair Value of Investments and Average Yields on Investments Held on Behalf of the MTFC

Years Ended June 30
(amounts in thousands)

Fiscal Year	Average Monthly Fair Value of Investments	Average Monthly Yield on Investments
2017	$ 51,090	1.08%
2016	54,332	1.18
2015	45,066	0.91
2014	23,717	0.82
2013	8,816	1.25
2012	11,910	1.92
2011	13,604	2.30
2010	28,196	2.86
2009	57,105	3.35
2008	52,144	4.54

Source: Investment summary of funds held at MTFC calculated by Missouri Department of Transportation, Financial Services staff.

Revenue Capacity
Net Loans Receivable by Fiscal Year

Years Ended June 30
(amounts in thousands)

Fiscal Year	Net Loans Receivable	Weighted Average Interest Rate
2017	$ 28,092	3.51%
2016	33,327	3.72
2015	37,547	3.81
2014	54,290	3.45
2013	75,230	3.15
2012	76,956	3.59
2011	63,659	3.68
2010	74,889	3.77
2009	28,276	4.25
2008	17,835	2.88

Source: Weighted average interest rate calculated by Missouri Department of Transportation, Financial Services staff.

Demographic and Economic Information Population, Personal Income and Unemployment Rate – State of Missouri

Years Ended December 31
(amounts in thousands)

Year	Population	Personal Income	Per Capita Personal Income	Unemployment Rate
2016	6,093	$268,379,357	$44	4.0%
2015	6,084	263,751,344	43	3.9
2014	6,064	255,747,928	42	5.1
2013	6,044	238,095,204	39	7.4
2012	6,022	233,049,000	39	7.6
2011	6,011	229,986,000	38	7.7
2010	6,012	217,486,000	36	9.2
2009	5,988	213,238,000	36	9.2
2008	5,912	205,288,000	35	6.0
2007	5,878	198,757,000	34	5.1

Sources:

Population: United States Department of Commerce, Census Bureau

Personal Income, Per Capita Personal Income and Unemployment Rate: United States Department of Commerce, Bureau of Economic Analysis

Demographic and Economic Information
Employment Sectors – State of Missouri

Years Ended December 31
(amounts in thousands)

	2016			2007		
	Employees	Rank	Percentage	Employees	Rank	Percentage
Trade, transportation and utilities	549	1	19%	562	1	20%
Education and health services	459	2	16	391	3	14
Government	446	3	16	453	2	16
Professional and business services	387	4	14	341	4	12
Leisure and hospitality	295	5	10	273	6	10
Manufacturing	260	6	9	299	5	11
Financial activities	174	7	6	166	7	6
Construction, natural resources and mining	124	8	4	149	8	5
Other services	116	9	4	120	9	4
Information	51	10	2	65	10	2
Total	2,861		100%	2,819		100%

Source: United States Department of Labor, Bureau of Labor Statistics

Operating Information
Approved Loans by Fiscal Year

Years Ended June 30
(dollar amounts in thousands)

Fiscal Year	Number of Loans Approved	Total Approved Loan Amount
2017	5	$34,546
2016	6	6,567
2015	1	226
2014	---	---
2013	2	1,546
2012	11	34,458
2011	4	10,791
2010	6	15,658
2009	11	23,724
2008	3	10,284

Source: Missouri Department of Transportation, Financial Services database

Not all loans approved by the MTFC board are executed or disbursed.

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Other Information

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Missouri Transportation Finance Corporation
Jefferson City, Missouri

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Missouri Transportation Finance Corporation (the Corporation), a component unit of the State of Missouri, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated August 22, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Williams Keepers LLC

August 22, 2017