Comprehensive Annual Financial Report

for the fiscal year ended

June 30, 2012

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 17, 2012

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, 2012.

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 immediately following the report of the independent auditors, beginning on page 21.

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 assets and changes in net assets. 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 Controls

The MTFC is responsible for establishing and maintaining internal controls designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition. Those controls also assure the reliability of financial records for preparing financial statements and maintaining the accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from that control. The evaluation of costs and benefits requires estimates and judgments by the MTFC Board. All internal control evaluations occur within this framework. The MTFC believes the corporation's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Economic Outlook

After more than two and a half years of extensions to the federal highway act, Safe Accountable Flexible Efficient Transportation Equity Act - A Legacy for Users (SAFETEA-LU), Congress reached an agreement for a new transportation bill on June 29, 2012. Congress passed Moving Ahead for Progress in the 21st Century (MAP-21), a two-year, $105.0 billion transportation bill for the nation's transportation projects. General Fund transfers of $18.8 billion to the Highway Trust Fund will allow level funding over the life of the bill through September 30, 2014. The Congressional Budget Office (CBO) estimates the Highway Trust Fund's Highway and Transit Accounts will not face deficits until fiscal year 2015. States now have federal transportation funding for a full 27-months.

While some signs of recovery have been noted, the national economy has not returned to pre-recession levels. Although state revenues designated for transportation (motor fuel taxes, motor vehicle sales and use taxes and motor vehicle and driver's licensing fees) have not returned to 2008 levels, they increased $12.0 million, 1.2 percent, from fiscal year 2011 to fiscal year 2012. The increase is attributable to motor vehicle sales and use taxes and motor vehicle and driver's licensing fees. Motor fuel taxes decreased by 1.0 percent. With people driving more fuel efficient vehicles and driving fewer miles, fuel tax-driven revenue streams continue to decline. Despite the uncertainty of long-term federal transportation funding, the need for transportation projects still exists. Using financing tools such as MTFC loans allows entities a means of accomplishing transportation projects today and avoiding future inflation costs. There were no new financial policies that significantly impacted the financial statements for the fiscal year ended June 30, 2012.

Future of MTFC

The Missouri Department of Transportation's (MoDOT) Statewide Transportation Improvement Program for fiscal years 2013-2017 has dropped from an average of $1.2 billion in recent years to about $700.0 million – now and in the future. Missourians will see very few new projects during the next few years that expand the system. Interest in MTFC loans may increase as an innovative financing option for transportation partners wanting to proceed with expansion projects in their regions. The MTFC funds available to loan may not be sufficient to meet the demand. In fiscal year 2011, a Loan Guarantee Pilot Program was approved to utilize when there are no funds available for the MTFC to loan. The MTFC would guarantee the borrower's payments to another financial institution, which should equate to a lower interest rate for the borrower. To date, the pilot program has not been utilized. Also, staff is researching a potential Loan Participation Program in which banks could purchase a portion of the MTFC's outstanding loans. This would accelerate loan repayments and increase the MTFC funds available to loan. The MTFC's net assets have increased over the last four years primarily as a result of income derived from interest earned on loans and investments. The growth in net assets is expected to stay steady while the loans receivable balance is high and interest rates on investments are low.

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,
- Educating partners and
- Preparing newsletters to communicate activity to potential customers.

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, 2011. This was the fourth 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 only. 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 another 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

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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, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Linda C. Davidson

President

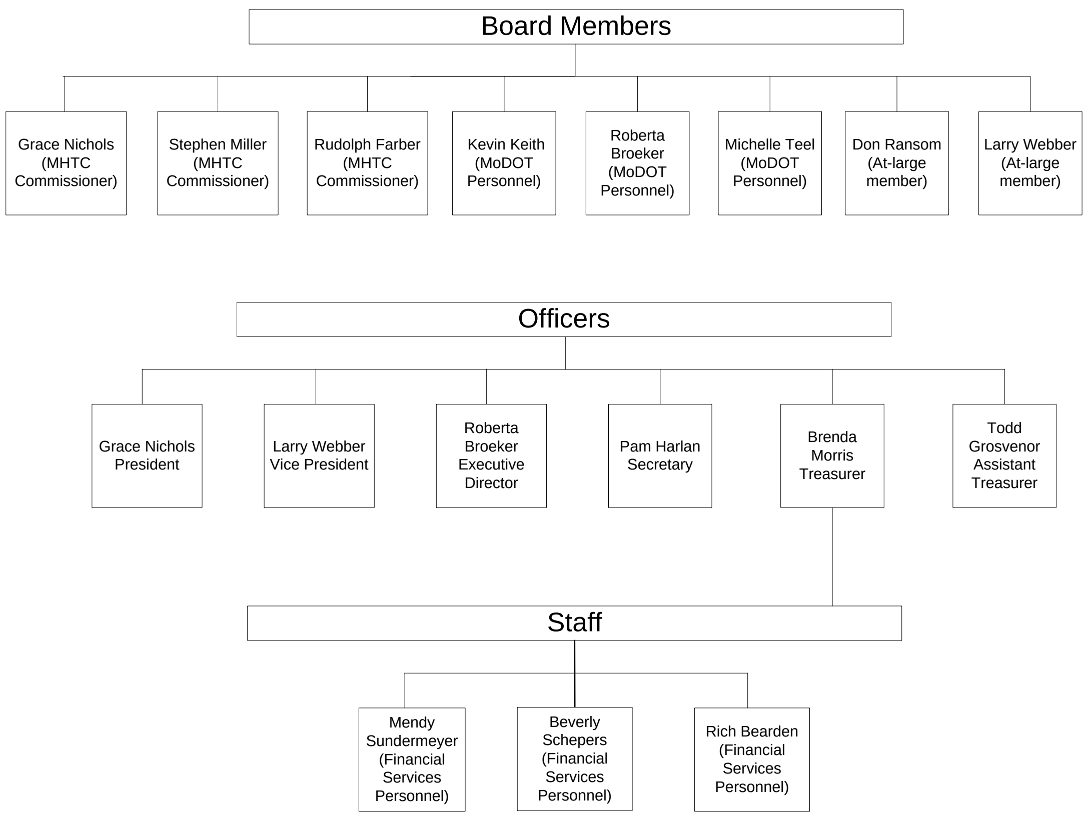
Jeffrey R. Esser

Executive Director

Organizational Chart

June 30, 2012

Missouri Transportation Finance Corporation (MTFC) Organizational Chart



MoDOT – Missouri Department of Transportation
MHTC – Missouri Highways and Transportation Commission

Principal Officials

Fiscal Year 2012

MTFC Title	**Name**
President	Grace Nichols, MHTC Commissioner
Vice President	Larry Webber, MTFC At-large member
Executive Director	Roberta Broeker, MoDOT Chief Financial Officer
Secretary	Pam Harlan, MHTC Secretary
Treasurer	Brenda Morris, MoDOT Financial Services Director
Assistant Treasurer	Todd Grosvenor, MoDOT Financial Services Administrator

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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Missouri Transportation Finance Corporation
Jefferson City, Missouri

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, 2012 and 2011, which collectively comprise the Corporation's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Corporation's management. 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 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 our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the business-type activities of the Corporation as of June 30, 2012 and 2011, and the changes in net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2012, 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, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

U.S. generally accepted accounting principles require the management's discussion and analysis on pages 21 through 24 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.

Our audits were 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Williams-Keepers LLC

August 17, 2012

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. We encourage readers to 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 2012, the MTFC approved eleven loans totaling $34.5 million. Three of the approved loans have been disbursed. Seven loans are scheduled for disbursement in fiscal year 2013. One loan had a partial disbursement in fiscal year 2012 and will have two remaining disbursements in fiscal years 2014 and 2015. The fiscal year 2012 approved loan amount was more than fiscal year 2011 when four loans totaling $10.8 million were approved. In fiscal year 2010, six loans totaling $15.7 million were approved.

- Disbursements totaling $21.9 million for nine loans were made in fiscal year 2012. In fiscal year 2011, two loans totaling $2.6 million were disbursed and in fiscal year 2010, ten loans totaling $59.4 million were disbursed.

- The MTFC's net loans receivable increased $13.3 million from fiscal year 2011 to 2012, as loan disbursements exceeded loan repayments. From fiscal year 2010 to 2011, net loans receivable decreased $11.2 million as loan repayments exceeded loan disbursements.

- Operating income decreased $55,000 from fiscal year 2011 to 2012 as a result of a decrease in interest income on outstanding loans. From fiscal year 2010 to 2011 operating income increased $544,000 as a result of an increase in interest income on outstanding loans.

- Net nonoperating revenues decreased $47,000, 32.6 percent, from fiscal year 2011 to 2012 and decreased $196,000, 57.6 percent, from fiscal year 2010 to 2011. The decrease in both fiscal years was due to the reduction in the investment earnings.

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 Assets* include all MTFC assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 Assets* 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 Assets
June 30, 2012, 2011 and 2010
(dollars in thousands)

	2012	2011	2010
Assets			
Cash and investments	$13,531	$13,588	$10,928
Restricted cash and investments	4,701	15,437	4,028
Interest receivable on loans and investments	1,438	1,326	1,453
Loans receivable, net	76,956	63,659	74,889
Total assets	96,626	94,010	91,298
Liabilities			
Accounts Payable	9	2	1
Net Assets			
Restricted for lending purposes	81,711	79,188	78,998
Unrestricted net assets	14,906	14,820	12,299
Total net assets	$96,617	$94,008	$91,297

Assets

Restricted cash and investments decreased $10.7 million from fiscal year 2011 to 2012. An increase of $11.4 million occurred between fiscal year 2011 and 2010. In fiscal year 2012, net loans receivable increased $13.3 million and in fiscal year 2011 net loans receivable decreased $11.2 million. The decrease in restricted cash and investments, as well as the increase in loans receivable in fiscal year 2012, are attributed to loan disbursements of $21.9 million exceeding loan repayments of $8.6 million. In fiscal year 2011, loan repayments of $13.8 million exceeded loan disbursements of $2.6 million resulting in the increase in restricted cash and investments, and the decrease in loans receivable.

Net Assets

Net assets increased $2.6 million in fiscal year 2012. This increase resulted from $2.5 million in loan interest and $111,000 in investment earnings. In fiscal year 2011, net assets increased $2.7 million for similar reasons.

MTFC Changes in Net Assets
Years ended June 30, 2012, 2011 and 2010
(dollars in thousands)

	2012	2011	2010
Operating Revenues			
Interest income on loans	$ 2,523	$ 2,580	$ 2,056
Other income	37	16	29
Total operating revenues	2,560	2,596	2,085
Operating Expenses			
Administrative fees	36	17	49
Other operating expenses	12	12	13
Total operating expenses	48	29	62
Nonoperating Revenues (Expenses)			
Investment earnings	111	158	375
Nonoperating expenses	(14)	(14)	(35)
Total nonoperating revenues (expenses)	97	144	340
Change in net assets	2,609	2,711	2,363
Net assets at beginning of year	94,008	91,297	88,934
Net assets at end of year	$96,617	$94,008	$91,297

Revenues

In fiscal years 2012, 2011 and 2010, the primary source of income was interest earned on loans. In fiscal year 2012, interest income on loans recognized as operating revenue decreased $57,000 compared to fiscal year 2011 and increased $524,000 in fiscal year 2011 compared to fiscal year 2010. The average loans receivable balance was $69.8 million in fiscal year 2012 compared to $68.2 million in fiscal year 2011 and $53.0 million in fiscal year 2010. The decrease in interest income in fiscal year 2012 is the result of the decrease in the average interest rate on the loans included in the loans receivable, as well as three loans totaling $11.2 million being disbursed in March 2012. In fiscal year 2011, the increase in interest income is the result of the increase in the average loans receivable balance. Nonoperating revenue is recognized on investments that are available for lending purposes. The primary reason for the decrease is the change in market value adjustments on investments. Program fees in fiscal year 2012, included in other income, increased $21,000. Between fiscal year 2011 to 2010, program fees decreased $13,000. In fiscal year 2012, the MTFC received six more loan applications totaling $13.6 million more in loan requests than fiscal year 2011. The decrease in fiscal year 2011 was a result of the MTFC collecting program fees on four loans totaling $10.8 million compared to six loans totaling $15.7 million in fiscal year 2010.

Expenses

In fiscal year 2012, administrative fees totaled $36,000, an increase of $19,000 from fiscal year 2011, due to an increase in loan applications. In fiscal year 2011, administrative fees decreased $32,000 from fiscal year 2010. The decrease in administrative fees from fiscal year 2010 to 2011 is due to fewer hours charged by Missouri Department of Transportation (MoDOT) staff to the MTFC.

ECONOMIC AND OTHER FACTORS

The MTFC is an option for financing transportation projects. Interest in MTFC loans may increase as an innovative financing option for transportation partners wanting to proceed with expansion projects in their regions. The MTFC funds available to loan may not be sufficient to meet the demand. In fiscal year 2011, a Loan Guarantee Pilot Program was approved to utilize when there are no funds available for the MTFC to loan. The MTFC would guarantee the borrower's payments to another financial institution, which should equate to a lower interest rate for the borrower. As of June 30, 2012, the pilot program has not been utilized. Also, staff is researching a potential Loan Participation Program in which banks could purchase a portion of the MTFC's outstanding loans. This would accelerate loan repayments and increase the MTFC funds available to loan. The MTFC's net assets have increased over the last four years primarily as a result of income derived from interest earned on loans and investments. The growth in net assets is expected to stay steady while the loans receivable balance is high and interest rates on investments are low.

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 Assets

June 30, 2012 and 2011

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 4,174,344	$ 7,588,279
Investments	3,522,330	6,000,063
Interest receivable - loans	1,383,817	1,233,647
Restricted assets:		
Cash and cash equivalents	4,701,440	3,302,482
Investments	---	6,009,180
Interest receivable – investments	53,641	92,250
Loans receivable, net	12,934,541	8,184,260
Total restricted assets	17,689,622	17,588,172
Total current assets	26,770,113	32,410,161
Noncurrent assets		
Investments	5,834,187	---
Restricted assets:		
Investments	---	6,125,840
Loans receivable, net	64,021,583	55,474,250
Total noncurrent restricted assets	64,021,583	61,600,090
Total noncurrent assets	69,855,770	61,600,090
Total Assets	96,625,883	94,010,251
Liabilities		
Current liabilities		
Accounts payable	1,394	1,705
Unearned revenue	5,445	---
Total current liabilities	6,839	1,705
Noncurrent liabilities		
Unearned revenue	1,948	---
Total noncurrent liabilities	1,948	---
Total Liabilities	8,787	1,705
Net Assets		
Restricted for lending purposes	81,711,205	79,188,262
Unrestricted net assets	14,905,891	14,820,284
Total Net Assets	$96,617,096	$94,008,546

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

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenues		
Interest income on loans	$ 2,523,476	$ 2,580,320
Program fees	36,858	16,187
Total Operating Revenues	2,560,334	2,596,507
Operating Expenses		
Administrative fees	36,334	16,870
Professional fees	9,800	9,800
Other	2,411	2,601
Total Operating Expenses	48,545	29,271
Operating Income	2,511,789	2,567,236
Nonoperating Revenue (Expenses)		
Investment earnings	110,948	158,271
Investment fees	(14,187)	(14,024)
Net Nonoperating Revenues (Expenses)	96,761	144,247
Change in net assets	2,608,550	2,711,483
Net Assets, beginning of year	94,008,546	91,297,063
Net Assets, end of year	$96,617,096	$94,008,546

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

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Interest received on loans	$ 2,373,306	$ 2,718,928
Fees received for services	36,858	16,187
Loan disbursements	(21,904,367)	(2,562,500)
Principal received	8,606,753	13,792,577
Payments for administrative services	(29,252)	(16,277)
Other payments	(12,211)	(12,401)
Net cash provided by (used in) operating activities	(10,928,913)	13,936,514
Cash Flows From Investing Activities		
Interest received	304,286	290,866
Sale of investments	45,689,559	36,960,596
Purchase of investments	(37,065,722)	(47,705,762)
Investment fees	(14,187)	(14,024)
Net cash provided by (used in) investing activities	8,913,936	(10,468,324)
Net increase (decrease) in cash and cash equivalents	(2,014,977)	3,468,190
Cash and Cash Equivalents, Beginning of Year	10,890,761	7,422,571
Cash and Cash Equivalents, End of Year	$ 8,875,784	$ 10,890,761
Reconciliation of Operating Income to Net Cash Provided by (used in) Operating Activities		
Operating income	$ 2,511,789	$ 2,567,236
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Interest receivable - loans	(150,170)	138,608
Loans receivable, net	(13,297,614)	11,230,077
Accounts payable	(311)	593
Unearned revenue	7,393	---
Net Cash Provided by (used in) Operating Activities	$(10,928,913)	$ 13,936,514
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets		
Cash and cash equivalents	$ 4,174,344	$ 7,588,279
Restricted cash and cash equivalents	4,701,440	3,302,482
Total Cash and Cash Equivalents	$ 8,875,784	$ 10,890,761
Noncash Items Impacting Recorded Assets		
Increase (decrease) in fair value of investments	$ (154,730)	$ (144,219)

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 (the Commission), under Missouri General Not-for-Profit Corporation Law, 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 component unit of the state of Missouri. The Commission 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

The MTFC accounts for its activities as a special-purpose government engaged in business-type activities. 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.

In reporting its financial activity, the MTFC applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations; Accounting Principles Board Opinions; and Accounting Research Bulletins of the Committee on Accounting Procedure.

(C) Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash and overnight repurchase agreements. Investments are reported at fair value. Restricted cash, cash equivalents and investments are set aside for lending purposes.

(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. Loans receivable are restricted for lending purposes.

(E) Net Assets

Equity is categorized in the statements of net assets as restricted and unrestricted. Restricted net assets are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. 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 as needed.

(F) Unearned Revenue

The MTFC currently has unearned revenue in the form of prepaid interest. This unearned revenue will be recognized as it is earned.

(G) 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 personnel service costs related to the support of the MTFC.

Nonoperating expenses: Nonoperating expenses consist of investment fees.

(H) 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.

(I) Income Taxes

The MTFC submitted a request for ruling to the Internal Revenue Service. 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, 2012 and 2011 were $8,875,784 and $10,890,761, 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, 2012 and 2011, the MTFC had $9,356,517 and $18,135,083, respectively, of unregistered government sponsored securities for which a financial institution's trust department holds the securities in the MTFC's name.

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

	2012	2011
Interest income on deposits	$ 20,749	$ 20,527
Interest income on investments	244,929	281,963
Net appreciation (reduction) in fair value of investments	(154,730)	(144,219)
Total investment earnings	$ 110,948	$ 158,271

(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.

At June 30, 2012, the MTFC's investments had the following average maturities:

Investment Type	Fair Value	Less than 1 year	1-3 years	4-5 years
Repurchase agreements	$ 8,875,679	$ 8,875,679	$ ---	$ ---
Government agency obligations	7,556,590	3,522,330	1,015,420	3,018,840
US agency obligations	1,799,927	---	---	1,799,927

At June 30, 2011, the MTFC's investments had the following average maturities:

Investment Type	Fair Value	Less than 1 year	1-3 years	4-5 years
Repurchase agreements	$10,890,718	$10,890,718	$ ---	$ ---
Government agency obligations	18,135,083	12,009,243	4,121,780	2,004,060

At June 30, 2012 and 2011, the MTFC's investments were rated as shown below. This disclosure does not include repurchase agreements.

Investment Type	Moody's	Fair Value 2012	Fair Value 2011
Governmental agency obligations	Aaa	$ 7,556,590	$18,135,083
US agency obligations	Aaa	1,799,927	---

(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 secure city or county loans. Public entity loans are secured by irrevocable letters of credit or designated funds. The receivable balance as of June 30, 2012 and 2011 consists of the following:

(amounts in thousands)

Customer and Project Description	Loan Date	Maturity Date	Interest Rate	2012	2011
Principal and Interest Paid Monthly					
City of Lexington Rehabilitate South 24th Street between Highways 24 and 224 in the city.	11/23/05	11/30/12	3.76%	$ 8	$ 22
City of Lexington Rehabilitate South and Franklin Streets in the city.	08/01/06	07/31/13	3.80	11	19
Principal and Interest Paid Semi-annually					
City of Pacific Accelerate the Missouri Highways and Transportation Commission's (MHTC) portion and finance the city's portion of a cost share project to relocate the I-44 eastbound ramp.	03/23/09	09/30/14	4.18	306	854
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	2,500	---

(amounts in thousands)

Customer and Project Description	Loan Date	Maturity Date	Interest Rate	2012	2011
Principal and Interest Paid Annually					
County of Madison Finance the county's portion of a cost share project to relocate Route 72 bypassing Fredericktown and Junction City and to refinance debt of related improvements.	09/28/07	03/01/18	4.20%	$ 2,673	$ 3,085
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	2,944	3,370
City of Kansas City Construct a single point urban interchange in conjunction with the kcICON project.	12/21/07	11/19/17	4.20	8,011	6,878
City of Poplar Bluff Construct Shelby Road intersection at Westwood Boulevard and Business Route 67.	03/02/09	03/01/21	4.86	5,213	5,212
County of St. Louis* Finance the county's portion of a cost share project to rebuild an interchange at I-270 and Dorsett Road.	03/02/09	03/01/13	3.53	---	1,637
Kansas City Power and Light Company Accelerate the MHTC's portion and finance the company's portion of a cost share project to improve the approach and replacement of Route 45 bridge over Burlington Northern Santa Fe Railway.	05/29/09	09/01/18	5.15	2,921	3,265
St. Francois County Special Road District #2 Replace the Commerce Street bridge.	06/12/09	03/01/17	4.03	240	283
City of Rogersville Accelerate the MHTC's portion and finance the city's portion of a cost share project to improve traffic flow and access management at the intersection of Route 60 and Route VV/B.	07/31/09	08/01/15	4.47	504	696
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	24,822	26,939
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	1,651	---
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	12/01/21	2.92	557	---

*The loan was paid in full April 2012

(amounts in thousands)

Customer and Project Description	Loan Date	Maturity Date	Interest Rate	2012	2011
Principal and Interest Paid Annually (continued)					
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%	$ 8,492	$ ---
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	221	---
Highway 71/291 Partners in Progress Transportation Development District Accelerate the MHTC's portion and finance the Transportation Development District's portion of two cost share projects to improve the interchange of Route 71 and Route 291.	05/25/12	08/01/15	0.55	500	---
Interest Only Paid Annually					
City of Waynesville Accelerate the MHTC's portion of a cost share project to relocate the GW Lane Outer Road that runs parallel to I-44.	09/11/09	08/01/11	1.02	---	1,017
City of Trenton Accelerate the MHTC's portion of a cost share project to construct turn lanes and upgrade Route 65.	10/30/09	08/01/12	1.18	382	382
County of St. Charles Accelerate the MHTC's portion of a cost share project to construct Phase II of Route 364 (Page Avenue) from Central School Road to Mid Rivers Drive.	06/01/10	08/01/13	1.33	10,000	10,000
Bi-State Development Agency Provide funding for Bi-State's Debt Service Reserve Fund as a secondary security to bondholders.	10/03/11	10/01/16	1.83	5,000	---
Total				$76,956	$63,659

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

Fiscal Year	Principal
2013	$12,935
2014	12,524
2015	12,709
2016	7,256
2017	12,318
2018-2022	19,214
Total principal	$76,956

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

	2012	2011
Current loans receivable	$12,935	$ 8,184
Noncurrent loans receivable	64,021	55,475
Total loans receivable	$76,956	$63,659

Note 4: Accounts Payable

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

Note 5: Restricted Net Assets

The MTFC received money from federal grants, which is restricted for lending purposes only. The grants required a state transportation funding match, which, with interest earned on investments, is also restricted.

(amounts in thousands)

	2012	2011
Current restricted assets	$17,690	$17,588
Noncurrent restricted assets	64,021	61,600
Total restricted assets available for lending purposes	$81,711	$79,188
Restricted assets committed for executed loans	$30,867	$16,182
Restricted assets uncommitted	50,844	63,006
Total net assets restricted for lending purposes	$81,711	$79,188

Note 6: Risk Management

The MTFC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and errors and omissions for which the MTFC carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. No liabilities were reported at June 30, 2012 or 2011. The MTFC has had no settlements in the last three years.

Note 7: Loan Commitments and Loans Approved

At June 30, 2012, the MTFC had loan commitments totaling $30.9 million that were approved and executed but not disbursed. Two of the loan commitments have had partial disbursements with the following remaining payouts:

(amounts in thousands)

Customer and Project Description	Approved Date	Executed Date	Projected Disbursement Date	Interest Rate	Amount
Principal and Interest Paid Annually					
County of St. Charles Accelerate the MHTC's portion of a cost share project to construct a diverging diamond interchange at Mid Rivers Mall Drive and an additional westbound lane on I-70 between Mid Rivers Mall Drive and Route 79.	01/28/11	07/18/11	12/01/12	0.69%	$ 3,334
County of Christian Finance the county's portion of a cost share project to construct a diverging diamond interchange at Route 65 and Route CC.	05/02/11	09/09/11	08/01/13	3.64	1,657
City of Liberty Accelerate the MHTC's portion and accelerate the city's sub-allocated surface transportation program funds of a cost share project to reconfigure the interchange and replace the bridge at Interstate 35 and Route 291.	10/04/11	12/20/11	08/01/12	0.72	10,000
Village of Innsbrook Construct shoulders on Route F.	10/04/11	01/26/12	08/15/12	2.29	200
Neosho Transportation Development District Accelerate the MHTC's portion of a cost share project to construct improvements on and adjacent to Route 60.	10/04/11	03/22/12	07/16/12	0.27	2,426
Highway 71/291 Partners In Progress	01/31/12	05/18/12	10/01/13	0.55	3,700
Transportation Development District Accelerate the MHTC's portion and finance the Transportation Development District's portion of two cost share projects to improve the interchange of Route 71 and Route 291.	01/31/12	05/18/12	10/01/14	0.55	2,306
					6,006
County of Barton Finance the county's portion of a cost share project to improve Route 71 at 30th Road and First Street.	10/04/11	06/18/12	08/01/12	2.17	1,544

(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 Columbia* Finance the local portion of a cost share project to construct improvements on Route 740, also known as Stadium Boulevard.	02/06/07	10/14/09	10/01/12	3.92%	$ 5,700
Total loan commitments					$ 30,867

*This loan had partial disbursements with the remaining payout listed.

At June 30, 2012, loan agreements of approximately $4.1 million have been approved but have not been executed; therefore, the funds have not been disbursed. The details of the loan agreements, including timing of disbursements, have not been finalized with the loan recipients. These consist of the following:

(amounts in thousands)

Customer and Project Description	Approved Date	Projected Disbursement Date	Interest Rate	Loan Length	Amount
City of O'Fallon** Construct Crusher Street extension and improve Elaine Drive.	01/31/12	11/01/12	2.69%	10 years	$3,075
City of Sedalia Rehabilitate the Washington Street Bridge.	05/01/12	02/01/13	2.76	5 years	1,000
Total loans approved					$4,075

**This item was presented to the MTFC board as two loan applications and is presented in the MD&A as such. The two loan applications have been combined into one loan agreement as presented here.

On December 15, 2003, the MTFC approved a line-of-credit for the Missouri Highways and Transportation Commission. The maximum amount available on the line-of-credit is the total uncommitted balance of the MTFC accounts. The primary purpose of the line-of-credit is to finance projects eligible in conformity with federal transportation laws in the event of federal reimbursement delays for State Road Fund Projects. The Commission will make a lump-sum repayment of principal and interest three months after the loan is advanced. At June 30, 2012 and 2011, no advances had been made to the Missouri Highways and Transportation Commission on the line-of-credit.

Statistical Section

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Index

Statistical Section

Note:

The objective of this statistical section is to provide users with a historical perspective by presenting information for multiple years. Over time, data for the most recent ten years will be presented. However, in some cases schedules originate with the year the MTFC began tracking the information or it became administratively feasible to report retroactively.

Financial Trends
Changes in Net Assets

Years Ended June 30
(amounts in thousands)

	2012	2011	2010	2009
Operating Revenues				
Interest income on loans	$2,523	$2,580	$2,056	$ 844
Program fees	37	16	29	43
Total Operating Revenues	2,560	2,596	2,085	887
Operating Expenses				
Administrative fees	36	17	49	48
Professional fees	10	10	11	10
Travel and training	---	---	---	---
Other	2	2	2	3
Total Operating Expenses	48	29	62	61
Operating Income	2,512	2,567	2,023	826
Nonoperating Revenues (Expenses)				
Investment earnings	111	158	375	1,967
Investment fees	(14)	(14)	(35)	(64)
Net Nonoperating Revenues	97	144	340	1,903
Change in Net Assets	$2,609	$2,711	$2,363	$2,729

2008	2007	2006	2005	2004	2003
$1,064	$ 913	$1,154	$1,262	$1,019	$ 967
6	5	3	3	1	---
1,070	918	1,157	1,265	1,020	967
33	45	36	50	59	33
9	8	8	8	10	10
1	4	2	---	---	---
5	4	1	9	1	1
48	61	47	67	70	44
1,022	857	1,110	1,198	950	923
2,459	2,996	1,692	733	545	672
(57)	(55)	(28)	---	---	---
2,402	2,941	1,664	733	545	672
$3,424	$3,798	$2,774	$1,931	$1,495	$1,595

Financial Trends
Net Assets

Years Ended June 30
(amounts in thousands)

Fiscal Year	Restricted	Unrestricted	Total
2012	$ 81,711	$ 14,906	$ 96,617
2011	79,188	14,820	94,008
2010	78,998	12,299	91,297
2009	78,278	10,656	88,934
2008	76,311	9,894	86,205
2007	73,852	8,929	82,781
2006	70,856	8,127	78,983
2005	69,164	7,045	76,209
2004	68,425	5,853	74,278
2003	67,883	4,900	72,783

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
2012	$ 11,910	1.92%
2011	13,604	2.30
2010	28,196	2.86
2009	56,901	3.35
2008	52,144	4.54
2007	51,010	5.17
2006*	38,942	4.08

*Includes only October through June

Source: Financial Institution

Revenue Capacity
Net Loans Receivable by Fiscal Year

Years Ended June 30
(amounts in thousands)

Fiscal Year	Net Loans Receivable	Weighted Average Interest Rate
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
2007	24,513	3.76
2006	29,785	3.60
2005	34,958	3.52
2004	33,654	3.61
2003	32,616	3.51

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
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
2006	5,838	188,399,000	32	5.2
2005	5,788	178,036,000	31	6.3
2004	5,745	170,392,000	30	5.9
2003	5,706	164,163,000	29	5.9
2002	5,676	160,014,000	28	5.7

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)

	2011			2002		
	Employees	Rank	Percentage	Employees	Rank	Percentage
Trade, transportation and utilities	519	1	20%	554	1	21%
Government	455	2	17	444	2	16
Education and health services	410	3	15	354	3	13
Professional and business services	323	4	12	307	5	11
Leisure and hospitality	260	5	10	253	6	9
Manufacturing	253	6	10	323	4	12
Financial activities	161	7	6	162	7	6
Other services	116	8	4	117	9	4
Construction, natural resources and mining	102	9	4	138	8	5
Information	54	10	2	68	10	3
Total	2,653		100%	2,720		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
2012	11	$34,458
2011	4	10,791
2010	6	15,658
2009	11	23,724
2008	3	10,284
2007	14	95,781
2006	2	8,060
2005	2	897
2004	1	500
2003	2	25,673

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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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 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, 2012, and have issued our report thereon dated August 17, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Williams-Keepers LLC

August 17, 2012