



TEXAS MOBILITY FUND

A governmental fund of the Texas Department of Transportation

Annual Financial Report
For The Fiscal Year Ended August 31, 2017
(With Independent Auditor's Report)



Texas Mobility Fund
A Governmental Fund of the Texas Department of Transportation

ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
August 31, 2017

Prepared by:
Texas Department of Transportation's Financial Management Division

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**Texas Mobility Fund
Annual Financial Report
For the Fiscal Year Ended August 31, 2017**

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Section One

Introductory Section

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125 EAST 11TH STREET, AUSTIN, TEXAS 78701-2483 | 512.463.8588 | WWW.TXDOT.GOV

December 15, 2017

To: The Citizens of the State of Texas and the Creditors of the Texas Mobility Fund Bonds

The audited financial statements of the Texas Mobility Fund (Mobility Fund) for the year ended August 31, 2017, are submitted in conformity with the Master Resolution, dated as of May 4, 2005, as amended and supplemented by the first through twelfth Supplemental Resolutions (Resolution).

An external audit firm, Crowe Horwath LLP, performed an independent audit, in accordance with generally accepted auditing standards, of the Mobility Fund's basic financial statements for the year ended August 31, 2017. The audit opinion is presented in this report preceding the financial statements. This report was prepared by the accounting staff in the Financial Management Division of the Texas Department of Transportation (TxDOT). TxDOT's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Management is responsible for the accuracy of the data in this report as well as for the completeness and fairness of the presentation. Consequently, management assumes full responsibility for the completeness and fairness of all of the information presented in the financial statements. To the best of my knowledge and belief, the financial statements are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the Mobility Fund and provide disclosures that enable the reader to understand the Mobility Fund's financial condition.

The Management's Discussion and Analysis (MD&A) provides a narrative introduction, overview and analysis of the financial activities of the Mobility Fund. We encourage readers to consider the information in this letter of transmittal in conjunction with the MD&A.

Profile of the Government

This report includes financial statements for the Mobility Fund. The Mobility Fund is part of TxDOT's reporting entity. TxDOT is an agency of the state of Texas. TxDOT is managed by an executive director and is governed by the five-member Texas Transportation Commission (Commission). All members of the Commission are appointed by the Governor with the advice and consent of the Texas Senate.

In 2001, voters approved a Texas constitutional amendment that authorized the creation of the Mobility Fund. In particular, Article III, Section 49-k of the Texas Constitution (Constitutional Provision) created the Mobility Fund within the treasury of the state of Texas.

In 2003, the 78th Legislature dedicated sources of revenue to the Mobility Fund. The funds generated by these dedicated revenues, as well as funds generated through other pledged revenues, are required to be accounted for in accounts established in the Mobility Fund. TxDOT is responsible for ensuring that the accounts are maintained at the proper minimum balances as set forth in the Resolution and for investing in securities required to meet liquidity requirements.

OUR VALUES: *People • Accountability • Trust • Honesty*

OUR MISSION: *Through collaboration and leadership, we deliver a safe, reliable, and integrated transportation system that enables the movement of people and goods.*

An Equal Opportunity Employer

The Mobility Fund is administered by the Commission to provide a method of financing for the construction, reconstruction, acquisition and expansion of state highways, including costs of any necessary design and costs of acquisition of rights of way, as determined by the Commission in accordance with standards and procedures established by law. Monies in the Mobility Fund may also be used to provide state participation in the payment of a portion of the costs of constructing and providing public transportation projects in accordance with procedures, standards and limitations established by law. By expediting the delivery of transportation infrastructure, the Mobility Fund is an important tool in meeting TxDOT's goal to develop and operate an integrated transportation system that provides reliable and accessible mobility and enables economic growth.

Legislation enacted under the Constitutional Provision authorized the Commission to issue and sell obligations of the state and enter into related credit agreements that are payable from and secured by a pledge of and a lien on all or part of the money on deposit in the Mobility Fund. Subsequent legislation limited the purposes for which additional Mobility Fund obligations may be issued to refunding: (i) outstanding bonds for savings; and, (ii) outstanding variable rate bonds and to renew or replace credit agreements.

Budgetary Controls

Budgetary control is exercised through appropriated budgets. These budgets are entered in the statewide accounting system after the General Appropriations Act becomes law. The General Appropriations Act becomes law after passage by the Texas Legislature, certification by the Texas Comptroller of Public Accounts that the amounts appropriated are within the estimated collections and upon the signing of the bill by the governor. Controls are maintained at the agency level, with additional control at the fund and appropriation level to ensure expenditures do not exceed authorized limits. State budgets are established on a biennial cycle.

Acknowledgements

The preparation of the report requires the efforts of individuals throughout TxDOT, including the dedicated efforts of the management and staff of the TxDOT Financial Reports Section and Financial Management Division. I sincerely appreciate the efforts of all these individuals who continue to help make TxDOT a leader in quality financial reporting.

Sincerely,



James M. Bass
Executive Director

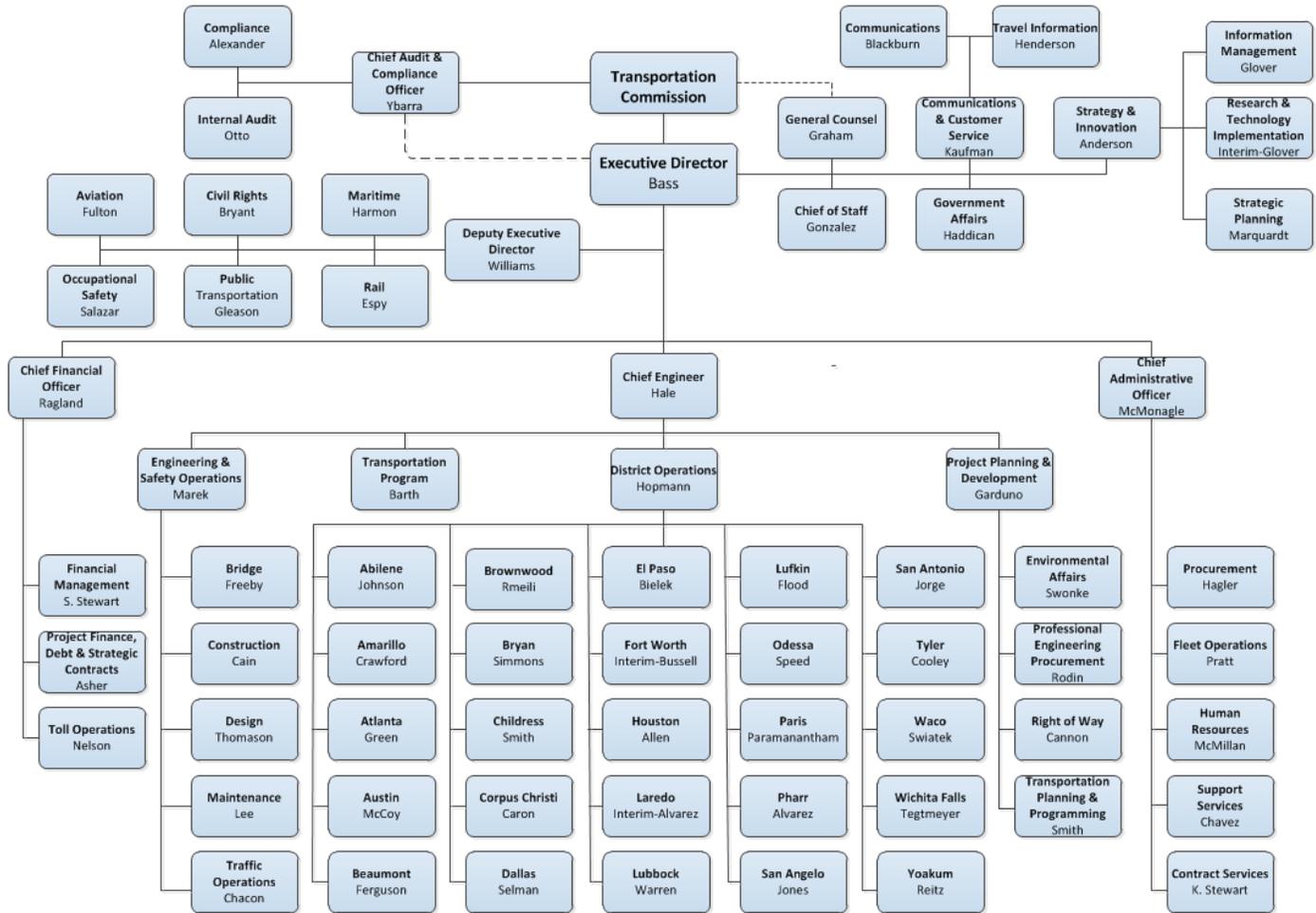
OUR VALUES: *People • Accountability • Trust • Honesty*

OUR MISSION: *Through collaboration and leadership, we deliver a safe, reliable, and integrated transportation system that enables the movement of people and goods.*

An Equal Opportunity Employer

Texas Department of Transportation

Organization Chart as of August 31, 2017



**Commission and Key Personnel
As of August 31, 2017**

TEXAS TRANSPORTATION COMMISSION

TRYON D. LEWIS.....Chair
Odessa

JEFF AUSTIN IIICommissioner
Tyler

J. BRUCE BUGG, JR.Commissioner
San Antonio

LAURA RYANCommissioner
Houston

VICTOR VANDERGRIFF.....Commissioner
Arlington

TEXAS DEPARTMENT OF TRANSPORTATION

JAMES M. BASS Executive Director

MARC D. WILLIAMS Deputy Executive Director

JESUS GONZALEZ.....Chief of Staff

BRIAN RAGLAND..... Chief Financial Officer

BENITO YBARRA Chief Audit and Compliance Officer

BILL HALE Chief Engineer

RICHARD MCMONAGLE Chief Administrative Officer

BOB KAUFMAN Director of Communications and Customer Service

JEFF GRAHAM General Counsel

JERRY HADDICAN Director of Government Affairs

DARRAN ANDERSON..... Director of Strategy and Innovation

Section Two
Financial Section

INDEPENDENT AUDITOR'S REPORT

*Members of the Texas Transportation Commission
State of Texas*

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the Texas Mobility Fund (Fund), a fund of the Texas Department of Transportation (TxDOT), an agency of the State of Texas, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Fund'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 accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Texas Mobility Fund, as of August 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the Fund, a debt service and capital project fund of the Texas Department of Transportation, an agency of the State of Texas and do not purport to, and do not, present fairly the financial position of TxDOT or the State of Texas as of August 31, 2017, and the changes in its financial position or, where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in Note 1, the Fund does not report entity-wide financial statements and as a result, the long-term liabilities are presented in Note 4. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 10-13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 auditing standards generally accepted in the United States of America, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements. The introductory section and the Texas Mobility Fund Dedicated Revenues schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section and the Texas Mobility Fund Dedicated Revenues schedule 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 December 15, 2017 on our consideration of the Fund'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 Fund's internal control over financial reporting and compliance.



Crowe Horwath LLP

Dallas, Texas
December 15, 2017

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Section Two (Continued)

**Management's Discussion and Analysis
(Unaudited)**

Management's Discussion and Analysis

As management of the Texas Department of Transportation (TxDOT), we offer readers of the Texas Mobility Fund's (Mobility Fund) financial statements this narrative overview and analysis of its financial activities for the fiscal years ended Aug. 31, 2017 and 2016 for comparative purposes. The information presented should be read in conjunction with our letter of transmittal, the financial statements and the accompanying notes to the financial statements.

Highlights

Bonds Issuance

In fiscal 2017, the Texas Transportation Commission issued Mobility Fund bonds totaling \$770.2 million to refinance \$884.0 million of outstanding parity debt for the purpose of achieving debt service savings and to pay the cost of issuing the bonds.

Function of Mobility Fund Bonds Issued

The Mobility Fund bonds are used to accelerate transportation projects across the state of Texas. The Mobility Fund has no ownership interest in the highway or other transportation projects that it is helping to fund and does not fund the maintenance of any such completed projects.

Governmental Fund

As of Aug. 31, 2017, the Mobility Fund's combined governmental fund balance was \$910.4 million, a decrease of \$170.9 million, or 15.8 percent, from fiscal 2016. The decrease in fund balance is largely attributed to the increase in capital outlay expenditures in fiscal 2017. The fiscal 2017 expenditures totaled \$649.9 million, which increased \$82.4 million, or 14.5 percent, as compared to fiscal 2016 expenditures.

Overview of the Financial Statements

The annual financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements with the notes to the financial statements and supplementary information.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. TxDOT, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Mobility Fund is reported in two governmental fund types: capital projects and debt service fund. See Note 1 for more information.

Financial reports of governmental funds, such as capital project funds, focus on how money flows into and out of the funds, and amounts remaining at year end for future spending. Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The fund financial statements provide a detailed short-term view of the Mobility Fund's operations.

Impact of Mobility Fund Activity on TxDOT's Entity-Wide Financial Statements

The assets, liabilities, revenues and expenditures not recognizable on the Mobility Fund's governmental fund financial statements are included within the governmental activities section of the TxDOT entity-wide financial statements. These statements consist of the statement of net position and statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. The activity of the Mobility Fund is considered a governmental activity for the purpose of the TxDOT statement of net position and statement of activities.

Financial Analysis

The Mobility Fund's overall financial position and operations for the past two years is summarized as follows:

Balance Sheet				
August 31, 2017 and 2016				
(Amounts in Thousands)				
	<u>2017</u>	<u>2016</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Change</u>
Assets	\$ 959,199	\$ 1,215,015	\$ (255,816)	(21.1) %
Total Assets	<u>959,199</u>	<u>1,215,015</u>	<u>(255,816)</u>	<u>(21.1) %</u>
Liabilities	48,818	133,736	(84,918)	(63.5) %
Total Liabilities	<u>48,818</u>	<u>133,736</u>	<u>(84,918)</u>	<u>(63.5) %</u>
Fund Balance:				
Restricted	910,381	1,081,279	(170,898)	(15.8) %
Total Fund Balance	<u>\$ 910,381</u>	<u>\$ 1,081,279</u>	<u>\$ (170,898)</u>	<u>(15.8) %</u>

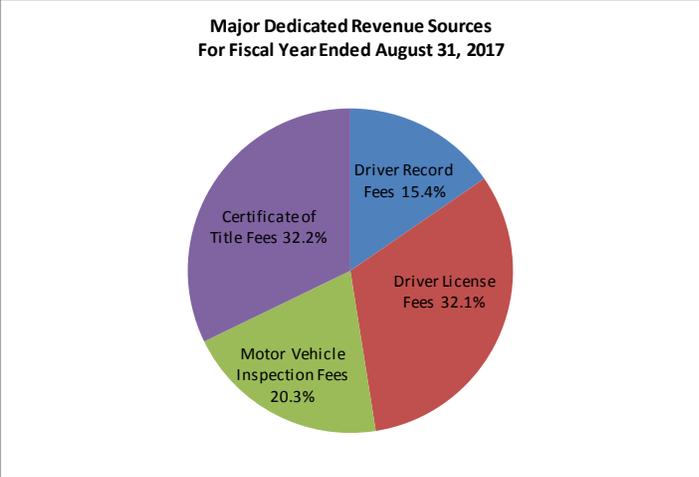
Total liabilities decreased by \$84.9 million, primarily due to the elimination of due to other funds balances in fiscal 2016 that no longer apply as of Aug. 31, 2017.

Statement of Revenues, Expenditures and Changes in Fund Balances				
For the Fiscal Years Ended August 31, 2017 and 2016				
(Amounts in Thousands)				
	<u>2017</u>	<u>2016</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Change</u>
Revenues				
Federal Revenue	\$ 21,700	\$ 21,722	\$ (22)	(0.1) %
Licenses, Fees and Permits	443,214	424,306	18,908	4.5 %
Interest and Investment Income	10,307	7,638	2,669	34.9 %
Settlement of Claims	0	179	(179)	n/a
Total Revenues	<u>475,221</u>	<u>453,845</u>	<u>21,376</u>	<u>4.7 %</u>
Expenditures				
Transportation	32	9,534	(9,502)	(99.7) %
Capital Outlay	291,033	207,830	83,203	40.0 %
Debt Service	358,803	350,079	8,724	2.5 %
Total Expenditures	<u>649,868</u>	<u>567,443</u>	<u>82,425</u>	<u>14.5 %</u>
Excess (Deficiency) of Revenues over Expenditures	(174,647)	(113,598)	(61,049)	53.7 %
Other Financing Sources (Uses)				
Bonds Issued for Refunding	770,155	1,165,465	(395,310)	(33.9) %
Premiums on Bonds Issued	143,780	173,977	(30,197)	(17.4) %
Payment to Escrow for Refunding	(910,186)	(1,335,153)	424,967	(31.8) %
Total Other Financing Sources (Uses)	<u>3,749</u>	<u>4,289</u>	<u>(540)</u>	<u>(12.6) %</u>
Change in Fund Balance	<u>(170,898)</u>	<u>(109,309)</u>	<u>(61,589)</u>	<u>56.3 %</u>
Fund Balance – Beginning	<u>1,081,279</u>	<u>1,190,588</u>	<u>(109,309)</u>	<u>(9.2) %</u>
Fund Balance – Ending	<u>\$ 910,381</u>	<u>\$ 1,081,279</u>	<u>\$ (170,898)</u>	<u>(15.8) %</u>

Capital Outlay expenditures increased by \$83.2 million, or 40.0 percent. The increase is largely due to the increase in construction project expenditures in fiscal 2017. Transportation expenditures decreased by \$9.5 million, or 99.7 percent. In fiscal 2016, a large grant payment was made to assist with the design and installation of park and ride facilities. These expenditures did not continue in fiscal 2017.

The major dedicated revenue sources of the Mobility Fund for the year ended Aug. 31, 2017, are summarized in the adjacent chart. A detailed listing of all dedicated revenue sources can be found in the supplementary information section of this report.

The state collects varied inspection-fee amounts at the time of registration, a portion of which is deposited to the Mobility Fund, based on the inspection category for the type of vehicle being registered. Mobility Fund collections saw a noticeable increase between fiscal 2016 and 2017. The increase in inspection-fee collections is largely attributable to the continued implementation of the single registration decal program. Depending on the registration and inspection periods, a given vehicle might have been registered in fiscal 2016 without having paid inspection fees in fiscal 2016. Then, in fiscal 2017, the same vehicle would have paid inspection and registration fees (at the time of registration). The volatility in the motor vehicle inspection fees revenues should reduce in future years.



Debt Administration

The Mobility Fund bonds are considered to be self-supporting general obligation debt. The issuance of Mobility Fund bonds is subject to debt service coverage requirements as prescribed in Section 201.943(e) of the Texas Transportation Code. Prior to a Mobility Fund debt issuance, the Texas Comptroller of Public Accounts (Comptroller) must certify that the projected dedicated revenues and money on deposit in the Mobility Fund will be equal to at least 110 percent of the annual debt service requirements.

All Mobility Fund debt issuances must be approved by the Texas Bond Review Board prior to issuance.

The Mobility Fund program is currently established in the aggregate principal amount of \$7.5 billion outstanding at any one time. As of Aug. 31, 2017, the principal amount of debt outstanding is \$6.7 billion.

House Bill 122, which was enacted during the regular session of the 84th Legislature and became effective on Jun. 10, 2015, amended the authority to provide that no additional program obligations may be issued or incurred after Jan. 1, 2015, except for obligations issued to refund outstanding obligations to provide savings to the state. Additionally, HB 122 provides that money in the Mobility Fund, in excess of the amounts required by the proceedings authorizing obligations and credit agreements to be retained in deposit, may not be used for toll roads.

Bonds payable balances are not reported in the accompanying governmental fund balance sheet which is presented on a current financial resources measurement focus and modified accrual basis of accounting. Governmental fund financial statements do not include long-term liabilities. Long-term liabilities are reported in the governmental activities of the TxDOT entity-wide financial statements. See Note 5 for additional information.

Bond Credit Ratings

The Mobility Fund bonds are rated by the major Nationally Recognized Statistical Rating Organizations.

As of Aug. 31, 2017, the bonds carried a long term rating of AAA, Aaa and AAA from Fitch Ratings (Fitch), Moody’s Investor Services (Moody’s) and Standard & Poor’s, respectively. The short term rating of variable rate demand bonds are usually reliant upon the supporting liquidity facility and its credit strength.

Long Term Credit Ratings as of August 31, 2017			
	Fitch	Moody’s	Standard & Poor’s
General Obligation Bonds	AAA	Aaa	AAA

Short Term Credit Ratings as of August 31, 2017			
	Fitch	Moody’s	Standard & Poor’s
Series 2006-B Variable Rate Demand Bonds	F1+	VMIG 1	n/a

An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the Commission makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating companies, if in the judgment of any or all companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the bonds.

Requests for Information

This financial report is designed to provide a general overview of the Mobility Fund’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the TxDOT Financial Management Division at the following address:

Texas Department of Transportation
Financial Management Division - Accounting Section
125 East 11th Street
Austin, Texas 78701-2483

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Section Two (Continued)

Basic Financial Statements

Texas Mobility Fund

Balance Sheet

August 31, 2017 (Amounts in Thousands)

	Debt Service Fund	Capital Projects Fund	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents:			
Cash in State Treasury	\$ 581,660	\$ 377,539	\$ 959,199
Total Assets	<u>\$ 581,660</u>	<u>\$ 377,539</u>	<u>\$ 959,199</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payables:			
Accounts	10,293	36,717	47,010
Unearned Revenues	<u>1,808</u>	<u> </u>	<u>1,808</u>
Total Liabilities	<u>12,101</u>	<u>36,717</u>	<u>48,818</u>
Fund Balances (Deficits):			
Restricted	<u>569,559</u>	<u>340,822</u>	<u>910,381</u>
Total Fund Balances	<u>569,559</u>	<u>340,822</u>	<u>910,381</u>
Total Liabilities and Fund Balances	<u>\$ 581,660</u>	<u>\$ 377,539</u>	<u>\$ 959,199</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

Texas Mobility Fund
Statement of Revenues, Expenditures and
Changes in Fund Balances

For the Fiscal Year Ended August 31, 2017 (Amounts in Thousands)

	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
REVENUES			
Federal Revenues	\$ 21,700	\$	\$ 21,700
Licenses, Fees and Permits	443,214		443,214
Interest and Investment Income	<u>5,264</u>	<u>5,043</u>	<u>10,307</u>
Total Revenues	<u>470,178</u>	<u>5,043</u>	<u>475,221</u>
EXPENDITURES			
Transportation		32	32
Capital Outlay		291,033	291,033
Debt Service:			
Principal on State Bonds	61,960		61,960
Interest on State Bonds	292,666		292,666
Other Financing Fees	<u>4,063</u>	<u>114</u>	<u>4,177</u>
Total Expenditures	<u>358,689</u>	<u>291,179</u>	<u>649,868</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	<u>111,489</u>	<u>(286,136)</u>	<u>(174,647)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In		123,154	123,154
Transfers Out	(123,154)		(123,154)
Bonds Issued for Refunding	770,155		770,155
Premiums on Bonds Issued	143,780		143,780
Payment to Escrow Refunding	<u>(910,186)</u>		<u>(910,186)</u>
Total Other Financing Sources (Uses)	<u>(119,405)</u>	<u>123,154</u>	<u>3,749</u>
Net Change in Fund Balances	<u>(7,916)</u>	<u>(162,982)</u>	<u>(170,898)</u>
Fund Balances, September 1, 2016	<u>577,475</u>	<u>503,804</u>	<u>1,081,279</u>
Fund Balances, August 31, 2017	<u>\$ 569,559</u>	<u>\$ 340,822</u>	<u>\$ 910,381</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

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Texas Mobility Fund
Notes to Financial Statements

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

These financial statements reflect the financial position of the Texas Mobility Fund (Mobility Fund). The Mobility Fund, an appropriated fund of the state of Texas, is managed by the Texas Department of Transportation (TxDOT). The Mobility Fund is part of the TxDOT reporting entity. The Texas Transportation Commission (Commission), the governing body of TxDOT, has the authority to commit the Mobility Fund to various legal agreements.

The Texas Legislature (Legislature) established the Mobility Fund to provide a method of financing the construction, reconstruction, acquisition and expansion of state highways, including costs of any necessary design and costs of acquisition of rights of way. The Mobility Fund may also be used to provide participation by TxDOT in the payment of a portion of the costs of constructing and providing publicly owned toll roads and other public transportation projects.

The Commission may sell obligations of the state that are payable from and secured by a pledge of and a lien on all or part of the money dedicated to and on deposit in the Mobility Fund.

The Legislature dedicated certain statutory fee revenues of the state to the Mobility Fund for purposes of providing funds for the debt service on the outstanding Mobility Fund obligations. The Commission has also elected to pledge the general obligation of the state as additional repayment security for the currently outstanding bonds. To date, the dedicated revenues of the Mobility Fund have been sufficient to meet the debt service requirements of the bonds without the necessity of calling on the general obligation pledge.

The Commission is subject to various covenants imposed by the bond resolutions. As of Aug. 31, 2017, the Commission and management believe that they were in compliance with all covenants.

Basis of Presentation

The accompanying financial statements were prepared in conformance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The Mobility Fund implemented the following new GASB pronouncements for fiscal 2017:

- *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* This statement establishes reporting requirements for reporting defined benefit OPEB plans and defined contribution OPEB plans administered through trusts or equivalent arrangements. It supersedes the remaining provisions of GASB Statements 25 and 50 as well as GASB Statement 43 and certain paragraphs of Statements 45 and 57.
- *GASB Statement No. 77, Tax Abatement Disclosures.* This statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. The Statement provides information about the nature and magnitude of tax revenue reductions via tax abatement programs.
- *GASB Statement No. 78, Pensions Provided through Certain Multiple-employer Defined Benefit Pension Plans.* This statement provides reporting guidance for employers whose employees are provided defined benefit pensions through cost-sharing multiple-employer plans with certain characteristics. The requirements include recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information.

- *GASB Statement No. 80, Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14.* This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. It requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.
- *GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73.* This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The data in this report is combined and consolidated by TxDOT and included in the TxDOT Annual Financial Report submitted to the Texas Comptroller of Public Accounts' office. The accompanying financial statements present only the financial position and changes in financial position of the Mobility Fund, and are not intended to and do not present fairly the financial position or changes in financial position of TxDOT.

The records of the Mobility Fund are maintained in accordance with the practices set forth in the provisions of the bond resolutions. Details on outstanding Mobility Fund Bonds are provided in Note 5.

Fund Structure

While the Mobility Fund is established as a single appropriated fund, it is reported in the following sub-accounts in two governmental fund types:

Debt Service Fund:

- Mobility Fund General Account (0365) – monies in this account may be used for any lawful purpose for which the Mobility Fund may be used.
- Mobility Fund Portfolio Account (0366) – any Transportation Assistance Bonds acquired for the Mobility Fund are to be promptly deposited into this account and held therein until paid. As of Aug. 31, 2017, no Transportation Assistance Bonds were held by the Mobility Fund.
- Mobility Fund Interest and Sinking Account (0367) – monies in this account are used to pay amounts due on or with respect to Parity Debt, including the principal of, premium, if any, and interest on Parity Debt as they become due and payable. This account is required as long as Parity Debt is outstanding.
- Rebate Account (0373) – the fifth Supplemental Resolution established the rebate account. Money on deposit in the rebate account, if any, is paid to the federal government in compliance with arbitrage earnings requirements. Money in the rebate account, if any, does not constitute security.
- Reserve Accounts or Subaccounts (0376) – these accounts are established as required by any supplements to the Resolution.
- Mobility Fund Refunding Bond Account (0379) – used to pay costs of issuance related to refunding bonds issued.

Capital Projects Fund:

- Mobility Fund Bond Proceeds Accounts (0375, 0377) - proceeds from the issuance of Parity Debt are deposited into this account upon the issuance of such Parity Debt. Such proceeds and the interest thereon remain in the bond proceeds accounts until expended to accomplish the purposes for which such Parity Debt was issued.

Basis of Accounting

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Measurement focus refers to the definition of the resource flows measured and relates to the types of transactions or events reported in the statement of revenues, expenditures, and changes in fund balances. Basis of accounting refers to the timing of the recognition of transactions or events. Under the modified accrual basis of accounting, amounts are recognized as revenues as they become susceptible to accrual (measurable and available). The Mobility Fund considers revenues available if they are collected within 60 days of the end of the fiscal year. Accruals whose receipt is due after the 60 day period are classified as deferred inflows of resources. Amounts are considered measurable if they can be estimated or otherwise determined. Expenditures are generally recognized when the related fund liability is incurred. However, principal and interest on bonds is recorded at the earlier of its due date or its payment date. The issuance of long-term debt is reported as other financing sources. Debt issuance costs are recognized as an expense in the year incurred.

Budgetary Information

The Mobility Fund budget is prepared biennially and represents appropriations authorized by the Legislature and approved by the governor (the General Appropriations Act). The Mobility Fund has committed revenue budgets for debt service and for costs associated with delivery of projects. After mobility-related expenditures are incurred in the State Highway Fund, the Mobility Fund reimburses cash and committed budget to the State Highway Fund.

Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

Assets, Liabilities and Fund Balance

Cash and Cash Equivalents in State Treasury

Cash and cash equivalents in the state treasury is the balance of funds held in the state Treasury Pool. See Note 3 for more information.

Federal Receivable

The Federal Receivable represents the portion of the Build America Bonds (BABs) federal interest rate subsidy payment that is owed from the federal government.

Accounts Payable

Accounts payable represents the liability for the value of assets or services received during the reporting period for which payment is pending.

Unearned Revenue

Unearned revenue represents the offset to cash received prior to it being earned.

Fund Balance

Fund balance classifications depict the nature of constraints on the use of net resources in a governmental fund. The Mobility Fund's fund balance is classified as restricted as of Aug. 31, 2017. Restricted fund balance includes those resources that have constraints placed on their use through external parties or by law through constitutional provisions.

The Mobility Fund's fund balance is restricted due to bond covenants and constitutional provisions. The majority of current year revenues relate to fees pledged for debt service on outstanding bonds. Proceeds from the sale of bonds and interest earned on the bond proceeds account are constitutionally restricted for the purpose of funding eligible transportation projects.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first and then unrestricted resources as they are needed. When only unrestricted resources are available for use, it is the Commission's policy to use committed resources first, then, assigned resources, and lastly unassigned resources.

Revenues and Expenditures

Licenses, Fees and Permits

The major sources of dedicated revenue to the Mobility Fund for fiscal 2017 were driver license fees, motor vehicle inspection fees, certificate of title fees, and driver record information fees. A list of all fiscal 2017 dedicated revenues can be found in the supplementary information section of this report.

Federal Revenue

Federal revenue relates to the federal interest rate subsidy provided in relation to the Mobility Fund's Build America Bond issuance. Although the amount is recognized as revenue on the financial statements, the subsidy is specifically restricted to use as an offset of debt service costs. Refer to Note 5 for more details on the Mobility Fund's involvement with the Build America Bond program.

Interest Income

Cash in the state treasury earns interest income at stated rates established by the Comptroller.

Expenditures

Expenditures include payments for debt service, professional fees, other financing fees and the funding of eligible transportation projects. Capital outlay represents Mobility Fund contributions to projects on the state highway system and owned by the state of Texas.

NOTE 2 – CAPITAL ASSETS

The Mobility Fund does not own the capital assets it finances. The state highway system infrastructure built using Mobility Fund resources becomes a capital asset of the governmental activities of the state of Texas. The capital assets of the state highway system are reported in the TxDOT Annual Financial Report.

NOTE 3 – DEPOSITS AND INVESTMENTS

Investments – Treasury Pool

The Mobility Fund is established in the state treasury, thus all monies are pooled with other state funds and invested under the direction of the Comptroller of Public Accounts' Treasury Operations Division (Treasury). The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires the Trust Company to maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those requirements throughout fiscal 2017. The Comptroller has delegated investment authority to the Trust Company and utilizes the Trust Company to manage and invest funds in the Treasury Pool.

State statutes authorize the Treasury to invest state funds in fully collateralized time deposits; direct security repurchase agreements; reverse repurchase agreements; obligations of the United States and its agencies and instrumentalities; banker's acceptances; commercial paper; and contracts written by the Comptroller, which are commonly known as covered call options. Funds held in the Treasury Pool have not been categorized as to credit risk because TxDOT does not own individual securities. Detail on the nature of these deposits and investments are available within the state of Texas Comprehensive Annual Financial Report.

As of Aug. 31, 2017 the Mobility Fund's pro rata share of participation in the Treasury Pool was \$959.2 million. No further detail of this balance is available due to the management policies of the Treasury.

NOTE 4 – SUMMARY OF LONG-TERM LIABILITIES

The Mobility Fund bonds are recorded as long-term liabilities within the governmental activities balances in the TxDOT Annual Financial Report. During the fiscal year ended Aug. 31, 2017, the following changes occurred in the long-term liabilities.

Long-Term Liabilities Activity (Amounts in Thousands)							
For the Fiscal Year Ended August 31, 2017							
Governmental Activities	Beginning Balance 9/1/16	Adjustments*	Additions	Deductions	Ending Balance 8/31/17	Amounts Due Within One Year	Amounts Due Thereafter
General Obligation Bonds	\$6,818,208	\$72,392	\$770,155	(\$945,965)	\$6,714,790	\$111,853	\$6,602,937

*Includes amortization of premiums and discounts

NOTE 5 – BONDED INDEBTEDNESS

Texas Constitution, Article III, Section 49-k and Transportation Code, Chapter 201, Subchapter M authorize the Commission to issue general obligation bonds payable from a pledge of and lien on all or part of the money in the Mobility Fund. The Mobility Fund bonds are designed to be self-supporting, but the full faith and credit of the state is pledged in the event the revenue and money dedicated to the Mobility Fund is insufficient to pay debt service on the bonds. As of Aug. 31, 2017, major sources of pledged revenue to the Mobility Fund include driver license fees, motor vehicle inspection fees, certificate of title fees, and driver record information fees.

The Resolution currently allows for \$7.5 billion of principal amount outstanding at any time. Prior to a Mobility Fund debt issuance, the Texas Comptroller of Public Accounts must certify and project that money dedicated to the Fund and on deposit in the Fund will be at least 110 percent coverage of debt service requirements during the period that the debt will be outstanding. House Bill 122 (HB 122), which was enacted during the regular session of the 84th Legislature and became effective on June 10, 2015, amended the authority to provide that no additional program obligations may be issued or incurred after Jan. 1, 2015, except for obligations issued to refund outstanding obligations to provide savings or to renew or replace credit agreements relating to outstanding variable rate obligations. Additionally, HB 122 provides that money in the Mobility Fund, in excess of amounts required by the proceedings authorizing obligations and credit agreements to be retained on deposit, and may not be used for toll roads.

Bond proceeds are to be used for the purpose of refunding existing bonds and related credit agreements, creating reserves for payment of bonds and related credit agreements, paying bond issuance costs and paying interest on the bonds and related credit agreements.

Mobility Fund Bond Information

As of August 31, 2017 (Amounts in Thousands)

Description of Issue	Bonds Issued to		Range of Interest		Maturities		
	Date (Par)	Date Issued	Rates		First Year	Last Year	First Call Date
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds							
Series 2006-A Fixed Rate Bonds*	\$ 1,040,275	10/31/2006	4.0000%	5.0000%	2007	2035	4/1/2017
Series 2006-B Variable Rate Bonds	150,000	12/13/2006	variable**		2036	2036	***
Series 2007 Fixed Rate Bonds*	1,006,330	6/21/2007	4.0000%	5.0000%	2008	2037	4/1/2017
Series 2008 Fixed Rate Bonds	1,100,000	2/28/2008	4.0000%	5.0000%	2009	2037	4/1/2018
Series 2009-A Taxable Fixed Rate Bonds	1,208,495	8/26/2009	5.3670%	5.5170%	2029	2039	***
Series 2014 Fixed Rate Refunding Bonds	973,775	7/2/2014	4.0000%	5.0000%	2016	2034	4/1/2024
Series 2014-A Fixed Rate and Refunding Bonds	1,580,160	12/18/2014	4.0000%	5.0000%	2017	2044	10/1/2024
Series 2014-B SIFMA Bonds	250,000	12/18/2014	variable**		2040	2041	4/1/2018
Series 2015-A Fixed Rate and Refunding Bonds	911,360	9/30/2015	3.2000%	5.0000%	2018	2036	10/1/2025
Series 2015-B Fixed Rate and Refunding Bonds	254,105	10/7/2015	5.0000%	5.0000%	2031	2036	10/1/2025
Series 2017-A Fixed Rate and Refunding Bonds	296,020	2/1/2017	5.0000%	5.0000%	2030	2034	10/1/2027
Series 2017-B Fixed Rate and Refunding Bonds	474,135	2/1/2017	5.0000%	5.0000%	2029	2036	10/1/2027
Total	<u>\$ 9,244,655</u>						

*These bonds are not outstanding as of 08/31/2017.

**Average interest rates on the Series 2006-B and Series 2014-B variable rates bond are 0.52 percent and 0.74 percent, respectively.

***Subject to redemption prior to their respective maturities at the option of the Commission.

As of Aug. 31, 2017, the debt service requirements are as follows.

Debt Service Requirements (Amounts in Thousands)			
Mobility Fund Bonds			
Year	Principal	Interest*	Total
2018	\$ 68,410	\$ 287,246	\$ 355,656
2019	81,635	283,115	364,750
2020	93,315	278,755	372,070
2021	105,730	273,778	379,508
2022	118,880	268,198	387,078
2023-2027	820,975	1,231,897	2,052,872
2028-2032	1,232,645	981,186	2,213,831
2033-2037	1,723,130	639,393	2,362,523
2038-2042	1,370,605	229,285	1,599,890
2043-2047	477,850	35,092	512,942
Total	6,093,175	4,507,945	10,601,120
Unamortized Premium	621,615	-	621,615
Total Requirements	<u>\$ 6,714,790</u>	<u>\$ 4,507,945</u>	<u>\$ 11,222,735</u>

* The interest rate in effect as of Aug. 31, 2017, for the Series 2006-B and the 2014-B variable rate bonds used to calculate the interest debt service requirements were 0.78 and 1.17 percent, respectively.

Pledged Future Revenues

Pledged revenues are those specific revenues that are formally committed to directly secure the payment of bond debt service. The table below provides information on pledged revenue and pledged future revenue of the self-supporting general obligation bonds.

Pledged Future Revenues (Amounts in Thousands)	
	Mobility Fund Bonds
Pledged Revenue Required for Future Principal and Interest on Existing General Obligation Bonds	\$10,601,120
Term of Commitment, Ending	10/1/2044
Percentage of Revenue Pledged	100%
Current Year Pledged Revenue	\$470,178
Current Year Principal and Interest Paid	\$340,997

Build America Bonds

The interest payments shown above do not reflect the federal interest rate subsidy payment related to the Mobility Fund Build America Bonds Series 2009-A, which will be used to offset debt service cost. The American Recovery and Reinvestment Act of 2009 granted municipal debt issuers access to a broader investor base in the taxable market by providing a federal interest rate subsidy payment to offset debt service costs through the Build America Bonds (BABs) program. Direct Payment BABs provide for a federal reimbursement to TxDOT equal to 35 percent of the interest paid on the BABs.

As a result of budget sequestration, the federal government reduced subsidy payments for BABs by 6.9 percent effective Oct. 1, 2016 through Sept. 30, 2017 for BABs subsidy payments paid in federal fiscal year 2017. See the table below for details on the Commission's Direct Payment BABs outstanding at Aug. 31, 2017.

Direct Payment Build America Bonds			
As of August 31, 2017 (Amounts in Thousands)			
	Issue Date	Par Amount Issued	Amount Outstanding
Governmental Activities			
General Obligation Bonds			
Texas Mobility Fund Series 2009-A	8/26/2009	\$1,208,495	\$1,208,495
Total		\$1,208,495	\$1,208,495

Variable Rate Bonds

The Mobility Fund has two variable rate bond issues outstanding at Aug. 31, 2017. The interest rates in effect as of Aug. 31, 2017 for the Series 2006-B and Series 2014-B used to calculate the debt service requirements were 0.78 and 1.17 percent, respectively. These rates reset every seven days.

Put Bonds

The Series 2014-B bonds were issued in an initial index floating rate mode, which terminates on a mandatory tender date. At the termination of the initial period, the bonds are subject to mandatory tender and purchase. Upon such mandatory tender and purchase, the bonds are expected to be remarketed unless otherwise redeemed. The Commission has not provided any credit or liquidity facility for the payment of the purchase price of the bonds payable upon the mandatory tender date. The principal portion of the purchase price for the bonds is expected to be obtained from the remarketing proceeds. The obligation of the Commission to purchase the bonds on the mandatory tender date is subject to the successful remarketing of such bonds. The Commission has no obligation to purchase bonds except from remarketing proceeds. If the bonds are not remarketed or otherwise redeemed, the interest rate on the bond will be increased to the stepped coupon rate from the mandatory tender date until purchased or redeemed.

Put Bonds (Amount in Thousands)					
Governmental Activities	Mandatory Tender Date	Initial Rate	Initial Period Interest	Stepped Coupon Rate	Stepped Rate Period Interest**
General Obligation Bonds					
Series 2014-B	10/1/2018	SIFMA + 0.38%	Variable*	8.00% per annum	\$ 20,000
* Index Floating Rate Mode/resets weekly					
** Assumes a full year of interest					

Demand Bonds

The Series 2006-B variable rate bonds are demand bonds. A bondholder may tender any of the bonds for repurchase prior to maturity at a price equal to principal plus accrued interest. Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or, if not successfully remarketed, from amounts drawn under the standby bond purchase agreements. The following tables provide details for outstanding demand bonds and the related standby bond purchase agreements as of Aug. 31, 2017.

Demand Bonds		
As of August 31, 2017 (Amount in Thousands)		
Governmental Activities	Bonds Held by Liquidity Providers	Principal Balance Outstanding
General Obligation Bonds		
Series 2006-B	None	\$150,000
Total		\$150,000

Demand Bonds – Standby Bond Purchase Agreement Provisions			
As of August 31, 2017			
Governmental Activities	Counterparties	Annual Liquidity Fee	Agreement Termination Date
General Obligation Bonds			
Series 2006-B	Texas Comptroller of Public Accounts	0.12%	8/31/2019

The standby bond purchase agreement provides liquidity in the event demand bonds are tendered for purchase and such bonds are not remarketed by the remarketing agent.

Refunding

On Jan. 28, 2016, the Commission approved the Texas Mobility Fund Twelfth Supplemental Resolution which authorized, among other things, issuance of general obligation refunding bonds to refund outstanding bonds. The Commission issued General Obligation Mobility Fund Refunding Bonds, Series 2017-A and General Obligation Mobility Fund Refunding Bonds, Series 2017-B, with total par amounts of \$296.0 million and \$474.1 million, respectively. The premium associated with the Series 2017-A bonds was \$55.6 million and the underwriter's discount amounted to \$1.2 million resulting in a net proceeds amount of \$350.4 million. The premium associated with the Series 2017-B bonds was \$88.2 million and the underwriter's discount amounted to \$1.8 million resulting in a net proceeds amount of \$560.5 million. The issuances closed on Feb. 2, 2017.

Refunding Issue (Amounts in Thousands)						
Governmental Activities	Type of Refunding	Par Value Refunded	Par Value of Refunding Issue		Cash Flow Increase/(Decrease)	Economic Gain/(Loss)
			Series 2017-A	Series 2017-B		
Series 2006-A	Current	\$194,300	\$166,080		\$39,996	\$21,575
Series 2007	Current	153,495	129,940		32,931	19,643
Series 2008	Advanced	536,210		\$474,135	101,761	56,586
TOTAL		\$884,005	\$296,020	\$474,135	\$174,688	\$97,804

Defeased Bonds

The Commission defeased various existing issues by placing bonds and securities in irrevocable trusts to provide for all future debt service payments on the bonds through the earlier of the maturity date or the first call date. The trust account assets and the liability for the defeased bonds are not included in these financial statements. As of Aug. 31, 2017, the amounts of defeased bonds, at par, that remain outstanding are presented in the table below.

Defeased Bonds Outstanding (Amounts in Thousands)	
Governmental Activities	Par Value
Series 2008	\$990,870
Total	\$990,870

NOTE 6 - EMPLOYEE'S RETIREMENT PLAN

The Mobility Fund is part of the TxDOT's reporting entity. The Mobility Fund does not have any employees and does not make contributions to any retirement plans. TxDOT employees provide all accounting and administrative services for The Mobility Fund. Those employees are members of the Employee Retirement System of Texas defined benefit pension plan (ERS Plan). The Mobility Fund is not obligated in any form for the funding of the pension benefits provided by the ERS Plan. Allocation of the pension liabilities and expense for The Mobility Fund is deemed unnecessary and not required.

The ERS Plan is considered a single employer defined benefit plan under GASB Statement 68. The defined benefit provisions of the ERS Plan are authorized by state law and may be amended by the Texas Legislature. The details of the pension plans are disclosed in TxDOT's Note 8, Employees' Retirement Plan.

NOTE 7 – INTERFUND ACTIVITY

Interfund activity refers to financial interactions between funds and is restricted to internal events. Interfund transfers represent the flow of assets (cash or goods) without equivalent flow of assets in return or a requirement for repayment. The Mobility Fund interfund activity detail is as follows.

Transfer In/Transfer Out Other Fund		
As of August 31, 2017 (Amounts in Thousands)		
	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>
Transfer In Other Funds		
Mobility Fund Capital Projects Funds		\$123,154
Transfer Out Other Funds		
Mobility Fund Debt Service Funds	(\$123,154)	
	<u>(\$123,154)</u>	<u>\$123,154</u>

A total of \$123.2 million was transferred from the General Account (FD 0365) of the Debt Service Fund to the Bond Issue Account (FD 0377) of the Capital Projects Fund for capital outlay and other expenditures.

NOTE 8 – CONTINUANCE SUBJECT TO REVIEW

TxDOT is currently subject to a continuance review. Under the Texas Sunset Act, TxDOT will be abolished effective Sept. 1, 2029, unless continued in existence by the 91st Legislature as provided by the Act. If abolished, TxDOT may continue until Sept. 1, 2030, to close out its operations. In the event that TxDOT is abolished pursuant to the Texas Sunset Act or other law, Texas Government Code, Section 325.017(f), acknowledges that such action will not alter the obligation of the state to pay bonded indebtedness and all other obligations of the abolished agency.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Rebatable arbitrages defined by Internal Revenue Code (IRC), Section 148, is earnings on tax exempt bond proceeds in excess of the yield on the bond. The rebatable arbitrage must be repaid to the federal government. Pursuant to the applicable bond resolution, a Rebate Fund will be established under the resolution to which deposits will be made upon the determination by a verification agent that a rebate payment may be due. The amount of rebate due to the federal government is determined and payable during each five-year period and upon final payment of the tax-exempt bonds. IRC Section 148 also provides for certain rebate exceptions, including an exception if certain spend-out requirements of the bond proceeds are met. TxDOT estimates that rebatable arbitrage liability, if any, will be immaterial to the Mobility Fund's overall financial condition.

NOTE 10 - RISK MANAGEMENT

The Mobility Fund does not have any employees. TxDOT provides all accounting, debt financing and administrative services. In addition, TxDOT's risk financing and insurance programs apply to the Mobility Fund.

TxDOT is exposed to various risks of loss related to property, general and employer liability, net income, and personnel. TxDOT and its employees are covered by various immunities and defenses that limit some of these risks of loss, particularly in liability actions brought against TxDOT or its employees. Remaining exposures are managed by self-insurance arrangements.

Property and Liability

TxDOT administers a self-insured workers compensation program. Due to the nature of worker compensation claims, amounts are not reasonably estimable. Claims are paid as they become due.

Health, Life and Dental

Insurance coverage is provided to active state employees and their dependents by one of three health plan administrators. All TxDOT employees are included in the Texas Employees Group Benefit Program (GBP) administered by the Employees Retirement System of Texas (ERS).

Claims for health, life, accidental death and dismemberment, disability and dental insurance coverages are established under GBP. These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, health maintenance organization contracts and dental health maintenance organizations contracts.

Commitments

TxDOT incurs commitments related to outstanding construction contracts and comprehensive development agreements.

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Section Two (Continued)

Other Supplementary Information

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Texas Mobility Fund Dedicated Revenues
For the Fiscal Year Ended August 31, 2017

<u><i>Major Sources of Funds</i></u>	
Driver License Fees	\$ 141,279,149
Motor Vehicle Inspection Fees	89,510,903
Certificate of Title Fees	141,798,251
Driver Record Information Fees	<u>67,506,733</u>
	440,095,036
<u><i>Miscellaneous Sources</i></u>	
Motor Carrier Act Penalties	3,116,179
Motor Vehicle Registration Fees	2,524
Depository Interest	<u>10,306,801</u>
	13,425,504
<i>Total Dedicated Revenues</i>	\$ <u><u>453,520,540</u></u>

Note:

The total above does not include the Build America Bonds federal interest rate subsidy.

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