

TEXAS DEPARTMENT OF TRANSPORTATION

Texas Mobility Fund

(A Governmental Fund of the Texas Department of Transportation)



Financial Statements - For the Fiscal Year Ended August 31, 2013

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

FINANCIAL STATEMENTS
For the Fiscal Year Ended
August 31, 2013

Prepared by:
Finance Division of the Texas Department of Transportation

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**Texas Mobility Fund
FINANCIAL STATEMENTS
For the Fiscal Year Ended
August 31, 2013**

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Texas Mobility Fund
INTRODUCTORY SECTION

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December 16, 2013

cc: The Citizens of the State of Texas and the Creditors of the Texas Mobility Bonds

The audited financial statements of the Texas Mobility Fund (Mobility Fund) for the year ended August 31, 2013, are submitted herewith. The Master Resolution, dated as of May 4, 2005, as amended and supplemented by the first through tenth Supplemental Master Resolutions (Resolution) requires the preparation and submission of audited annual financial statements. This report was prepared by the Accounting section of the Finance division of the Texas Department of Transportation (TxDOT).

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.

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.

The Texas State Auditor's Office 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, 2013. The audit opinion is presented in this report preceding the financial statements.

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. The functions of TxDOT have evolved over time due to statutory changes, with the most recent being the creation of the Texas Department of Motor Vehicles in 2009. Headquartered in Austin, TxDOT is organized by administration, districts, divisions, and offices.

TxDOT also maintains a comprehensive public interest website that outlines the agency's policies, plans, projects status and major initiatives at www.txdot.gov.

TxDOT is managed by an executive director and is governed by the five-member Texas Transportation Commission. All members of the Commission are appointed by the governor.

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.

OUR GOALS
MAINTAIN A SAFE SYSTEM • ADDRESS CONGESTION • CONNECT TEXAS COMMUNITIES • BEST IN CLASS STATE AGENCY
An Equal Opportunity Employer

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. As of August 31, 2013, the Commission had issued a par amount of \$6.26 billion in Mobility Fund bonds.

The Mobility Fund is administered by the Commission as a revolving fund 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 publicly-owned toll roads and other 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 goals to maintain a safe system, address congestion, connect Texas communities and become a best-in-class state agency.

Information Useful in Assessing 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.

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.

The Commission established the following sub-accounts of the Mobility Fund:

- Mobility Fund General Account – monies in this account may be used for any lawful purpose for which the Mobility Fund may be used.
- Mobility Fund Portfolio Account – any Transportation Assistance Bonds acquired for the Mobility Fund are to be promptly deposited into this account and held therein until paid. As of August 31, 2013, no Transportation Assistance Bonds were held by the Mobility Fund.
- Mobility Fund Interest and Sinking Account – 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.
- Mobility Fund Bond Proceeds Account – 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 account until expended to accomplish the purposes for which such Parity Debt was issued.

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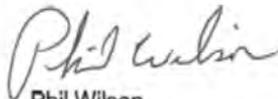
- **Rebate Account** – the fifth Supplemental Resolution established the rebate account. Money on deposit in the rebate account, if any, is paid to the federal government in compliance with arbitrage earnings requirements. Money in the rebate account, if any, does not constitute security.
- **Purchase Account** – monies obtained from the remarketing of the bonds and from draws under a liquidity facility are deposited to the purchase account. Money on deposit in the purchase account is used solely to pay the purchase price of the bonds or to reimburse a liquidity facility issuer for a drawing on the liquidity facility to pay the purchase price of the bonds.
- **Reserve Accounts or Subaccounts** – these accounts are established as required by any supplements to the Resolution.

TxDOT is responsible for ensuring that accounts maintain the proper minimum balances as set forth in the Resolution and for investing in securities required to meet liquidity requirements.

Acknowledgements

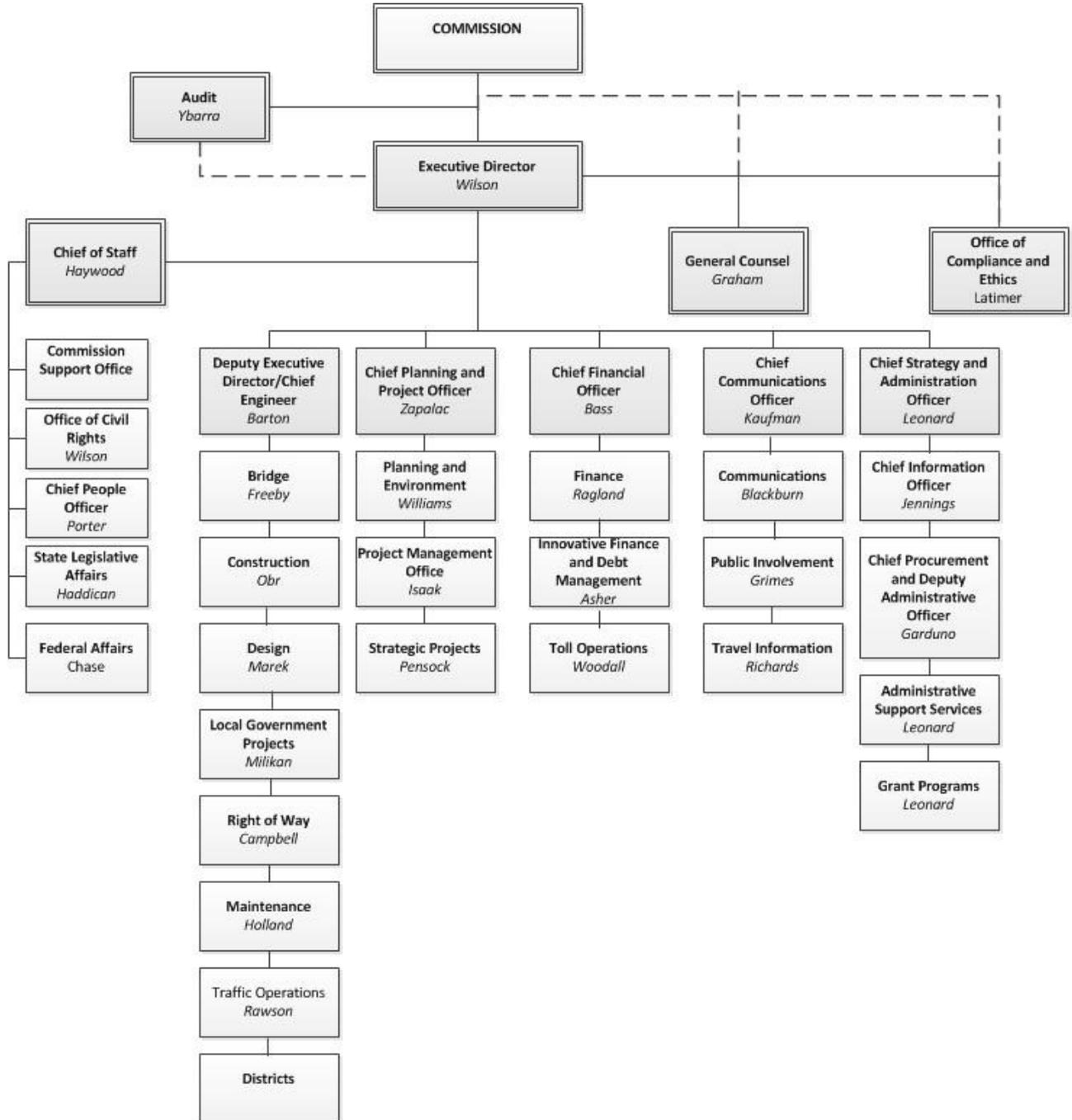
The preparation of the report requires the efforts of individuals throughout TxDOT, including the dedicated efforts of the management and staff of the TxDOT Financial Reports Section and Finance Division, and the management and staff of the State Auditor's Office. I sincerely appreciate the efforts of all these individuals who continue to strive for improvements that will make TxDOT a national leader in quality financial reporting.

Sincerely,



Phil Wilson
Executive Director

Texas Department of Transportation Organization Chart as of August 31, 2013



**Commission and Key Personnel
As of August 31, 2013**

TEXAS TRANSPORTATION COMMISSION

TED HOUGHTONChair
El Paso

JEFF AUSTIN IIICommissioner
Tyler

JEFF MOSELEYCommissioner
Houston

FRED UNDERWOODCommissioner
Lubbock

VICTOR VANDERGRIFFCommissioner
Fort Worth

TEXAS DEPARTMENT OF TRANSPORTATION

PHIL WILSON.....Executive Director

JOHN A. BARTON, P.E.Deputy Executive Director and Chief Engineer

SCOTT HAYWOOD.....Chief of Staff

BOB KAUFMAN.....Chief Communications Officer

JAMES M. BASS Chief Financial Officer

TIM JENNINGS..... Chief Information Officer

DEE PORTER.....Chief People Officer

RUSSELL ZAPALAC.....Chief Planning and Project Officer

SCOTT LEONARD.....Chief Strategy and Administration Officer

LAUREN GARDUNO, P.E.....Chief Procurement and Deputy Administrative Officer

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**Texas Mobility Fund
FINANCIAL SECTION**



Independent Auditor's Report

Members of the Texas Transportation Commission

Mr. Ted Houghton, Chair
Mr. Jeff Austin III
Mr. Jeff Moseley
Mr. Fred Underwood
Mr. Victor Vandergriff

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Texas Mobility Fund (Fund) of the Department of Transportation (Department), as of and for the year ended August 31, 2013, 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.

SAO Report No. 14-309

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Texas Mobility Fund, as of August 31, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Fund Financial Statements

As discussed in Note 1, the Department elected to modify its presentation of the financial statements in fiscal year 2013. The financial statements no longer present entitywide financial statements and, as a result, its \$6.0 billion long-term liability is now presented in Note 10.

As discussed in Note 1, the financial statements present only the Fund, a debt service and capital project fund of the Department and the State of Texas, and do not purport to, and do not, present fairly the financial position of the Department or the State of Texas as of August 31, 2013, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis as listed in the table of contents 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 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.

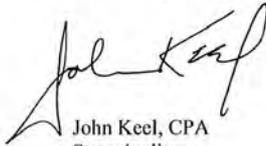
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's financial statements. The introductory section and supplementary information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The introductory section and supplementary information 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 16, 2013 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.



John Keel, CPA
State Auditor

December 16, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2013 and 2012. 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

Change in Presentation of Financial Statements

The presentation of the accompanying financial statements was revisited in 2013 and changed to more clearly report the dual purpose of activities taking place within the Mobility Fund. The Mobility Fund bonds issued are used for transportation projects, while the revenues dedicated to the fund are restricted for payment of debt service on the outstanding debt. To aid in the distinction of these different activities, the Mobility Fund activity are now split into two fund types. There is no longer a presentation of entity-wide financial statements because the Mobility Fund is not a separate entity. Finally, these financial statements report the expenditures funded by the Mobility Fund within these statements. Reimbursement activity between the state highway fund and the Mobility Fund is no longer reported as interfund activity. Please see Note 7 for additional information on these changes.

Reimbursement from Grand Parkway Transportation Corporation (GPTC)

In August 2013 the GPTC, a blended component unit of TxDOT, issued bonds to fund several segments of the Grand Parkway (State Highway 99) project. Per project agreement with TxDOT, the GPTC reimbursed the Mobility Fund Capital Projects fund for \$306.5 million of costs incurred by the Mobility Fund prior to the date of the GPTC bond issuance. Of this amount, \$145.2 million was for costs incurred in periods prior to fiscal 2013. Please see Note 7 for additional detail of this activity.

Function of Mobility Fund Bonds Issued

The Mobility Fund bonds issued 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. The following page on TxDOT's website provides detailed reports on the Mobility Fund including a listing of projects that received funding from the Mobility Fund:

<http://www.txdot.gov/inside-txdot/forms-publications/publications/finance/mobility-fund-reports.html>

Governmental Fund

As of Aug. 31, 2013, the Mobility Fund's combined governmental fund balance was approximately \$1.2 billion, an increase of \$87.6 million from fiscal 2012. Expenditures in the capital projects fund for fiscal 2013 totaled \$149 million, a decrease of \$91 million, or 38 percent, when compared to fiscal 2012 expenditures of this type. Expenditures of the capital projects fund continue to decrease for most projects as their allocated funds are exhausted. The overall decrease is primarily attributable to the conversion of the funding for the Grand Parkway segments now funded by the GPTC bonds issued.

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 fund and a debt service fund. See Note 1 for more information.

Financial reports of governmental 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:

Condensed Balance Sheet				
August 31, 2013 and 2012				
(Amounts in Thousands)				
	2013	2012	Amount of Increase (Decrease)	Percent Change
Assets	\$1,208,093	\$1,128,793	\$79,300	7%
Total Assets	1,208,093	1,128,793	79,300	7%
Liabilities	11,636	19,967	(8,331)	(42)%
Total Liabilities	11,636	19,967	(8,331)	(42)%
Fund Balance:				
Restricted – Debt Service	562,353	472,643	89,710	19%
Restricted – Capital Projects	634,104	636,183	(2,079)	(0.3)%
Total Fund Balance	\$1,196,457	\$1,108,826	\$87,631	8%

Liabilities decreased primarily due to the return of collateral to previous counterparty on the CMS Basis Swaps.

Condensed Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Years Ended August 31, 2013 and 2012

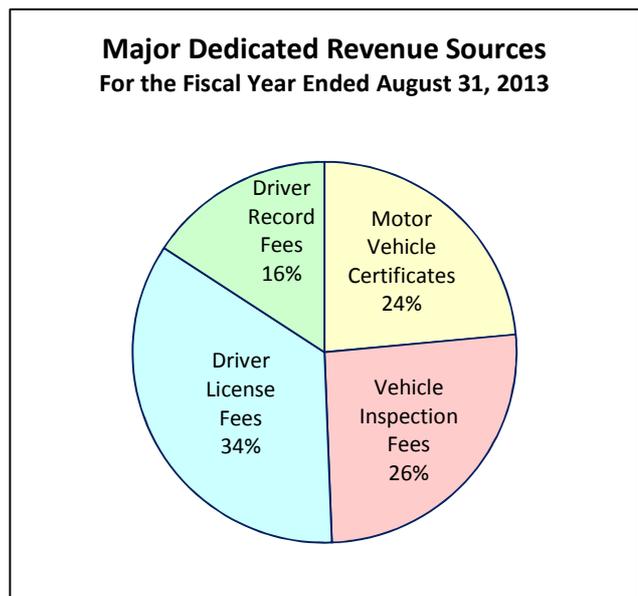
(Amounts in Thousands)

	<u>2013</u>	<u>2012</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Change</u>
Revenues				
Licenses, Fees and Permits	\$383,423	\$372,942	\$10,481	3%
Federal Revenue	21,445	23,304	(1,859)	(8)%
Interest and Investment Income	27,983	7,131	20,852	292%
Total Revenues	432,851	403,377	29,474	7%
Expenditures				
Debt Service Function	341,429	334,792	6,638	2%
Transportation	93,607	17,003	76,603	451%
Capital Outlay	55,356	222,978	(167,622)	(75)%
Total Expenditures	490,392	574,773	(84,381)	(15)%
Deficiency of Revenues over Expenditures	(57,541)	(171,396)	113,855	66%
Change in Fund Balance	(57,541)	(171,396)	113,855	66%
Fund Balance – beginning	1,108,826	1,280,222	(171,396)	(13)%
Restatement	145,172		145,172	
Fund Balance – Ending	\$1,196,457	\$1,108,826	\$87,631	8%

The increase in total revenues is largely due to receipt of termination payments on the CMS basis swaps of \$22.5 million. The Commission exited the CMS basis swap agreements in fiscal 2013. See Note 4 for more information. Federal revenue decreased due to the impact of the federal government sequester on the Build America Bond Program. See Note 10 for details.

The major dedicated revenue sources of the Mobility Fund for the year ended Aug. 31, 2013, 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.

Expenditures for transportation increased due to award and distribution of \$92 million grant to VIA Metropolitan Transit Authority in fiscal 2013.



Debt Administration

The Mobility Fund bonds are considered to be self-supporting general obligation debt. The issuance of Mobility Fund bonds is limited by debt service coverage requirements as prescribed in Article III, Section 49-k (d) of the Texas Constitution. Prior to a mobility fund debt issuance, the Texas Comptroller of Public Accounts must certify that there will be sufficient future resources on deposit in the mobility fund to meet the debt service coverage requirements. As of Aug. 31, 2013, the approved amount of aggregate principal outstanding at any time is \$7.2 billion. As of Aug. 31, 2013, the principal amount of debt outstanding is \$5.96 billion. All Mobility Fund debt issuances must be approved by the Texas Bond Review Board prior to issuance. Bonds payable balances are not reported in the accompanying financial statements as long-term liabilities are not reported in governmental fund financial statements. See Note 10 for additional information.

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 Finance Division at the following address:

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

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BASIC FINANCIAL STATEMENTS

Texas Mobility Fund**Balance Sheet**

August, 31, 2013

	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Total Texas Mobility Fund</u>
ASSETS			
Cash in State Treasury (Note 3)	\$ 552,997,425	\$ 645,320,840	\$ 1,198,318,265
Federal Receivable	8,865,205		8,865,205
Due From Other Funds (Note 9)	890,388	19,037	909,425
Total Assets	<u>562,753,018</u>	<u>645,339,877</u>	<u>1,208,092,895</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable		10,345,176	10,345,176
Due to Other Funds (Note 9)	400,000	890,388	1,290,388
Total Liabilities	<u>400,000</u>	<u>11,235,564</u>	<u>11,635,564</u>
Fund Balances:			
Restricted - Debt Service	562,353,018		562,353,018
Restricted - Capital Projects		634,104,313	634,104,313
Total Fund Balances	<u>562,353,018</u>	<u>634,104,313</u>	<u>1,196,457,331</u>
Total Liabilities and Fund Balances	<u>\$ 562,753,018</u>	<u>\$ 645,339,877</u>	<u>\$ 1,208,092,895</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, 2013

	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Total Texas Mobility Fund</u>
REVENUES			
Licenses, Fees and Permits	\$ 383,422,457	\$	\$ 383,422,457
Federal Revenues	21,445,445		21,445,445
Interest and Investment Income	25,790,908	2,192,091	27,982,999
Total Revenues	<u>430,658,810</u>	<u>2,192,091</u>	<u>432,850,901</u>
EXPENDITURES			
Transportation	315	93,606,621	93,606,936
Debt Service:			
Principal	53,190,000		53,190,000
Interest	287,770,649		287,770,649
Other Financing Fees		468,456	468,456
Capital Outlay		55,356,085	55,356,085
Total Expenditures	<u>340,960,964</u>	<u>149,431,162</u>	<u>490,392,126</u>
Excess (Deficiency) of Revenues over Expenditures	<u>89,697,846</u>	<u>(147,239,071)</u>	<u>(57,541,225)</u>
Net Change in Fund Balances	<u>89,697,846</u>	<u>(147,239,071)</u>	<u>(57,541,225)</u>
Fund Balances, September 1, 2012	1,108,826,725		1,108,826,725
Restatements (Note 7)	(636,171,553)	781,343,384	145,171,831
Fund Balances, September 1, 2012 as restated	<u>472,655,172</u>	<u>781,343,384</u>	<u>1,253,998,556</u>
Fund Balances, August 31, 2013	<u>\$ 562,353,018</u>	<u>\$ 634,104,313</u>	<u>\$ 1,196,457,331</u>

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements reflect the financial position of the Texas Mobility Fund (Mobility Fund). The Mobility Fund is an appropriated fund of the state of Texas that is managed and reported by the Texas Department of Transportation (TxDOT). 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. As of Aug. 31, 2013, a total of \$6,255,100,000 par value of general obligation bonds had been issued. The proceeds of the Mobility Fund bonds are used to pay for eligible expenditures on transportation projects across the state of Texas.

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 may also elect to pledge the general obligation of the state as additional repayment security for the 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, 2013, the Commission and management believe that they were in compliance with all significant covenants.

The Mobility Fund does not have any employees or equipment. TxDOT employees provide all accounting, debt management and administrative services. In addition, TxDOT's risk financing and insurance programs apply to the Mobility Fund. TxDOT is exposed to a wide range of risks due to the size, scope and nature of its activities. Some of these risks include, but not limited to, property and casualty losses, workers' compensation and health benefit claims, thefts, damage of assets, etc. The state highway fund retains these risks and manages them through self-insurance and safety programs, which are the responsibility of TxDOT's occupational safety division.

Basis of Presentation and Basis of Accounting

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

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, has been implemented by the Mobility Fund in this fiscal 2013 report. Implementation of GASB 62 was a codification of pre-November 30, 1989 FASB and AICPA Pronouncements did not have an impact on the presentation of the financial statement.

The data in this report is combined and consolidated by TxDOT and included in the TxDOT Annual Financial Report submitted to the Texas Comptroller's office.

The records of the Mobility Fund are maintained in accordance with the practices set forth in the provisions of the bond resolutions. 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 presentation of the accompanying financial statements was modified in fiscal 2013 to provide a clearer presentation of the Mobility Fund's financial balances and report in a format in greater alignment with the principles for governmental fund financial statements. This includes eliminating the presentation of entity wide financial statements. The long term liabilities of the Mobility Fund are reported in the governmental activities section of the TxDOT Annual Financial Report. Details on outstanding Mobility Fund Bonds are provided in Note 10.

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

- Debt Service fund – Debt service funds are used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest. Dedicated revenues received and debt service related expenditures paid are recorded in these funds.
- Capital Projects fund – Capital projects funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays. Bond proceeds associated with Mobility Fund bond issuances as well as the related expenditure of the bond proceeds for eligible transportation projects are recorded in these funds.

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 revenue. 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. Proceeds of long-term debt are reported as other financing sources.

Budgets and Budgetary Accounting

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 in-house design, contracted design, construction and right of way. 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 and Liabilities

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. The federal subsidy due is 35 percent of the interest expense accrued in fiscal 2013 for the Series 2009-A bonds. Further details are provided in Note 10.

Accounts Payable

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

Due To/Due From Other Funds

Please see Note 9 for additional information on these line items.

Revenues and Expenditures

Licenses, Fees and Permits

The major sources of dedicated revenue to the Mobility Fund for fiscal 2013 were driver license fees, motor vehicle inspection fees, certificate of title fees and driver record information fees. A list of all fiscal 2013 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 10 for more details on the Mobility Fund's involvement with the Build America Bond program.

Interest and Investment Income

Cash in the state treasury earns interest income at stated rates established by the Texas Comptroller of Public Accounts. Investment income reported is related to activity of CMS Basis Swaps. The swap contracts were terminated in January 2013. See Note 4 for more information.

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.

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, 2013. 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 Mobility Fund'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 Mobility Fund's policy to use committed resources first, then assigned resources, and lastly unassigned resources.

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 2013. 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, 2013 the Mobility Fund's pro rata share of participation in the Treasury Pool was \$1,198,318,264.60. No further detail of this balance is available due to the management policies of the Treasury Pool.

NOTE 4 – DERIVATIVE INSTRUMENTS

Derivative instruments are financial instruments which derive their value, in whole or part, from the value of any one or more underlying assets or an index of asset values. In October 2006, the Commission entered into constant maturity basis swap transactions (CMS basis swaps) with the expectation of reducing the interest to be paid to the Commission over the term of the Texas Mobility Fund 2006-A fixed-rate bonds.

The Commission terminated the CMS basis swap contracts in January 2013. Prior to termination of the swaps, \$1.4 million of investment income was recognized in fiscal 2013. Termination payments from the swap counterparties totaled \$22.5 million. These payments served to offset the interest payments on the related bonds. There are no outstanding derivatives related to the Mobility Fund as of Aug. 31, 2013.

NOTE 5 – CONTINUANCE SUBJECT TO REVIEW

TxDOT is currently subject to a continuance review. Under the Texas Sunset Act, TxDOT will be abolished effective Sept. 1, 2017, unless continued in existence by the 85th Legislature as provided by the Act. If abolished, TxDOT may continue until Sept. 1, 2018, 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 6 – COMMITMENTS AND CONTINGENCIES

Rebatable arbitrage 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 or Indenture of Trust, a Rebate Fund will be

established under the Indenture 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 agency's overall financial condition.

NOTE 7 – ADJUSTMENTS AND RESTATEMENTS

Restatement of Fund Balances

During fiscal 2013, certain accounting changes and adjustments were made that required the restatement of fund balances. The impact of these adjustments is summarized below.

Restatements to Fund Balances			
Texas Mobility Fund	September 1, 2012 As Previously Reported	Restatements	September 1, 2012 As Restated
Debt Service Fund	\$1,108,826,725	\$(636,171,553)	\$472,655,172
Capital Projects Fund		\$781,343,384	\$781,343,384
	<u>\$1,108,826,725</u>	<u>\$145,171,831</u>	<u>\$1,253,998,556</u>

Restatements are grouped into the following two categories:

Restatements By Type			
Restatements	Debt Service Fund	Capital Project Fund	Total Restatements
(A) Establish Beginning Balance	\$(636,171,553)	\$636,171,553	\$0
(B) Grand Parkway Project		145,171,831	145,171,831
	<u>\$(636,171,553)</u>	<u>\$781,343,384</u>	<u>\$145,171,831</u>

(A) In fiscal 2013 the overall financial statement presentation of the Mobility Fund was reassessed resulting in the decision to separately report on the Mobility Fund's debt service and capital project funds. This restatement does not change the overall beginning fund balance of the Mobility Fund.

(B) On Aug. 1, 2013, the Grand Parkway Transportation Corporation (GPTC), a blended component unit of TxDOT, issued bonds to fund the design, construction, operation and maintenance of a portion of segment D, and segments E, F1, F2 and G of the Grand Parkway (State Highway 99) project in the Houston area. As directed by the project agreement between GPTC and TxDOT, GPTC reimbursed the Mobility Fund for its prior costs incurred on these projects.

The Mobility Fund did not accrue a due from GPTC in prior periods because the reimbursement

was contingent upon the successful issuance of the GPTC bonds and the timing and amount of such issuance was not estimable at prior reporting dates. The impact of the reimbursement related to prior fiscal year costs resulted in a restatement of beginning fund balance of \$145.2 million.

Adjustments to Presentation of Financial Statements

The presentation of the financial statements was changed to reflect the fact that the Mobility Fund is a governmental fund of the TxDOT and not a separate entity or special purpose government. As such the financial statements no longer combine the presentation of fund financial and government-wide financial statements.

The Mobility Fund was split into two fund types to clearly align its activity with the definitions established in generally accepted accounting principles. In addition, the separation of the debt service and capital projects activities is consistent with how other TxDOT bond funds are reported. Transfers are no longer reported between the Mobility Fund and the state highway fund because the nature of the activity was one of reimbursement and reimbursements should not be displayed in the financial statements per generally accepted accounting principles for governments.

NOTE 8 – SUBSEQUENT EVENTS

On Sept. 27, 2013, Standard & Poor's upgraded the financial strength of the State of Texas to "AAA" from "AA+". As a result, on Sept. 30, 2013, Standard & Poor's also issued an upgrade to "AAA" from "AA+" for the Commission's outstanding General Obligation Mobility Fund Bonds that are rated by Standard & Poor.

The federal subsidy payments will be reduced by the fiscal year 2014 sequestration rate of 7.2 percent, effective Oct. 1, 2013 through Sept. 30, 2014. The sequestration reduction rate will be applied until a law is enacted that cancels or impacts the budget sequester, at which time the reduction rate is subject to change.

The termination date of the liquidity agreement on the Series 2006-B bond has been extended to Dec. 13, 2016.

NOTE 9 – INTERFUND ACTIVITY

Interfund activity refers to financial interactions between funds and is restricted to internal events. Certain transactions processed during fiscal 2013 were paid out of the incorrect fund and require accrual of due to and due from other funds so the activity is correctly presented on the financial statements of each fund. The Mobility Fund interfund activity detail is as follows.

Interfund Activity			
As of August 31, 2013			
	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Total</u>
Due From Other Funds			
Mobility Fund Capital Projects Funds	\$ 890,388	\$	\$ 890,388
Central Texas Turnpike System Fund		19,037	19,037
	<u>890,388</u>	<u>19,037</u>	<u>909,425</u>
Due to Other Funds			
Mobility Fund Debt Service Funds		890,388	890,388
State Highway Fund	400,000		400,000
	<u>\$ 400,000</u>	<u>\$ 890,388</u>	<u>\$ 1,290,388</u>

NOTE 10 – MOBILITY FUND BOND INFORMATION

Texas Constitution, Article III, Section 49-k and Transportation Code Chapter 201, Subchapter M authorize the Commission to issue general obligation bonds 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 from the revenues pledged to and deposited in the Mobility Fund, but the full faith and credit of the state is pledged in the event the revenues and money in the Mobility Fund is insufficient to pay debt service on the bonds.

The Mobility Fund bond resolutions may be amended by the Commission without bondholder consent, as long as pledged revenues are sufficient to pay debt service as required by Article III, Section 49-k (d) of the Texas Constitution. As of Aug. 31, 2013, up to \$7.2 billion of outstanding principal on Mobility Fund debt was authorized. Prior to issuance of Parity debt, the Texas Comptroller of Public Accounts must certify that there will be sufficient future resources on deposit in the Mobility Fund to ensure 110 percent coverage of debt service requirements during the period that the debt will be outstanding. The Texas Bond Review Board (BRB) must approve proposed debt issuances before new Mobility Fund debt can be issued. As of Aug. 31, 2013, the following general obligation Mobility Fund bonds were issued and outstanding.

Mobility Fund Bond Information								
As of August 31, 2013								
Description of Issue	Bonds Issued to Date (Par)	Date Issued	Range of Interest Rates		Maturities		First Call Date	Final Maturity Date
					First Year	Last Year		
GOVERNMENTAL ACTIVITIES								
General Obligation Bonds								
Series 2005-A Fixed Rate Bonds	\$900,000,000	6/08/2005	3.90%	5.00%	2006	2035	4/1/2015	4/1/2035
Series 2005-B Variable Rate Bonds	100,000,000	6/08/2005	variable*		2030	2030	**	4/1/2030
Series 2006 Fixed Rate Bonds	750,000,000	6/08/2006	3.63%	5.00%	2007	2036	4/1/2016	4/1/2036
Series 2006-A Fixed Rate Bonds	1,040,275,000	10/31/2006	4.00%	5.00%	2007	2035	4/1/2017	4/1/2035
Series 2006-B Variable Rate Bonds	150,000,000	12/13/2006	variable*		2036	2036	**	4/1/2036
Series 2007 Fixed Rate Bonds	1,006,330,000	6/21/2007	4.00%	5.00%	2008	2037	4/1/2017	4/1/2037
Series 2008 Fixed Rate Bonds	1,100,000,000	2/28/2008	4.00%	5.00%	2009	2037	4/1/2018	4/1/2037
Series 2009-A Fixed Rate Bonds	1,208,495,000	8/26/2009	5.37%	5.52%	2029	2039	**	4/1/2039
Total	<u>\$6,255,100,000</u>							

* Average interest rates on the Series 2005-B and Series 2006-B variable rate bonds are 2.33 percent and 0.69 percent, respectively.

** The variable rate bonds and the Series 2009-A fixed rate bonds are subject to redemption prior to their respective maturities at the option of the Commission.

The interest rates on the Series 2005-B and Series 2006-B variable rate bonds reset every seven days. The potential volatility for related debt service increases with these interest rate reset provisions.

Information on 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, 2013, the following changes occurred in the long-term liabilities for the Mobility Fund bonds.

TxDOT Governmental Activities	Beginning Balance 09/01/12	Reductions*	Ending Balance 08/31/13	Amounts Due Within One	Amounts Due Thereafter
Mobility Fund General Obligation Bonds	\$6,141,868,628	\$(61,664,585)	\$6,080,204,043	\$68,734,534	\$6,011,469,509

*Reductions include principal payments and \$8,474,585 of amortization of premiums and discounts.

The debt service of the Mobility Fund bonds is paid out of the mobility fund debt service fund. As of Aug. 31, 2013, the Mobility Fund bonds debt service requirements are as follows.

Debt Service Requirements Mobility Fund Bonds			
Year	Principal	Interest*	Total
2014	60,385,000	285,736,860	346,121,860
2015	67,925,000	283,060,605	350,985,605
2016	75,930,000	279,963,148	355,893,148
2017	84,400,000	276,526,785	360,926,785
2018	93,935,000	272,741,939	366,676,939
2019-2023	629,375,000	1,289,023,680	1,918,398,680
2024-2028	981,450,000	1,105,835,680	2,087,285,680
2029-2033	1,442,000,000	828,809,387	2,270,809,387
2034-2038	2,035,390,000	440,781,290	2,476,171,290
2039-2043	486,930,000	26,863,928	513,793,928
Total Requirements	5,957,720,000	5,089,343,302	11,047,063,302

* The interest rate in effect as of Aug. 31, 2013, for the Series 2005-B and Series 2006-B variable rate bonds used to calculate the interest debt service requirements were 0.07 percent and 0.06 percent, respectively.

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 (ARRA) 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. ARRA provides federal reimbursements to the Mobility Fund equal to 35 percent of the interest paid on the Direct Payment BABs. As a result of budget sequestration, the federal government reduced subsidy payments for BABs by 8.7 percent effective Mar. 1, 2013 through Sept. 30, 2013. See Note 8 for further details.

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 Mobility Fund's general obligation bonds.

	Mobility Fund Bonds
Pledged Revenue Required for Future Principal and Interest on Existing General Obligation Bonds	\$11,047,063,302
Term of Commitment	Fiscal Year Ending Aug. 31, 2039
Percentage of Revenue Pledged	100%
Current Year Pledged Revenue	\$430,658,810
Current Year Principal and Interest Paid	\$340,960,964

Demand Bonds

The Mobility Fund Series 2005-B and Series 2006-B variable rate bonds are demand bonds. A bondholder may tender any of these 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 related standby bond purchase agreements as of Aug. 31, 2013.

Demand Bonds		
Governmental Activities	Bonds Held by Liquidity Providers	Principal Balance Outstanding
General Obligation Bonds		
Series 2005-B	None	\$ 75,840,000
Series 2006-B	None	<u>150,000,000</u>
Total		\$ 225,840,000

Demand Bonds – Standby Bond Purchase Agreement Provisions			
Governmental Activities	Counterparties	Annual Liquidity Fee	Agreement Termination Date
General Obligation Bonds			
Series 2005-B	Royal Bank of Canada	0.30%	03/01/15
Series 2006-B	State Street Bank and Trust Company & California Public Employees' Retirement System	0.10%	12/13/13

Liquidity facilities provide liquidity in the event demand bonds are tendered for purchase and such bonds are not remarketed by the remarketing agent. The standby bond purchase agreements contain takeout provisions that provide an alternative debt instrument to replace any repurchased bonds that are not remarketed within the prescribed time constraints. The table shown below provides the estimated impact of such an event.

Demand Bonds – Takeout Provisions				
Governmental Activities	Estimated Debt Service	Rate	Basis	Replacement Debt Terms
General Obligation Bonds				
Series 2005-B	\$ 87,203,571	10.0%	2% + greater of: bank prime rate + 1.5%, daily fed funds rate + 2%, or 8%	Quarterly payments over three years starting on the first day of the third month following commencement
Series 2006-B	<u>160,008,810</u>	4.25%	1% + greater of: 0.5% + daily fed funds rate, or bank prime rate	Semi-annual payments over three years starting the first day of the month following commencement
Total	\$247,212,381			

Bond Credit Ratings

The Mobility Fund bonds were rated by the major Nationally Recognized Statistical Rating Organizations. Long term ratings do not normally change unless the credit or insurance enhancement deteriorates or improves substantially.

As of Aug. 31, 2013, the Mobility Fund bonds carried a long term rating of AAA, Aaa and AA+ from Fitch Ratings (Fitch), Moody's Investor Services (Moody's) and Standard & Poor's, respectively. Effective Sept. 27, 2013, Standard & Poor's upgraded their long term rating. See Note 8 for more information.

Short term ratings are usually reliant upon the supporting liquidity facility and its strength. The Mobility Fund variable rate demand bonds carried the following short term credit ratings as of Aug. 31, 2013.

	Fitch	Moody's	Standard & Poor's
Series 2005-B Variable Rate Interest Bonds	AAA/F1+	Aaa/VMIG 1	AA+/A-1+
Series 2006-B Variable Rate Interest Bonds	AAA/F1+	Aaa/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.

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Texas Mobility Fund
SUPPLEMENTARY INFORMATION

Texas Mobility Fund Dedicated Revenues
For the Fiscal Year Ended August 31, 2013
(UNAUDITED)

<u>Major Sources of Funds</u>	
Driver License Fees	\$ 131,490,444
Motor Vehicle Inspection Fees	98,020,097
Certificate of Title Fees	89,923,812
Driver Record Information Fees	61,126,711
	<u>\$ 380,561,064</u>
 <u>Miscellaneous Sources</u>	
Motor Carrier Act Penalties	\$2,857,470
Motor Vehicle Registration Fees	3,922
Depository Interest	4,063,331
	<u>\$6,924,723</u>
 <i>Total Dedicated Revenues</i>	 <u>\$ 387,485,787</u>

Note:

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

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