

Texas Mobility Fund

(A Government Fund of the Texas Department of Transportation)



Back of Cover

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

FINANCIAL STATEMENTS
For the Fiscal Year Ended
August 31, 2014

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, 2014**

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Texas Mobility Fund
INTRODUCTORY SECTION

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December 17, 2014

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, 2014, are submitted herewith. The Master Resolution, dated as of May 4, 2005, as amended and supplemented by the first through ninth 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.

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, 2014. 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 initiative at www.txdot.gov.

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.

OUR GOALS

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

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.

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, 2014, the Commission had issued a par amount of \$7.22 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, 2014, 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

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Debt as they become due and payable. This account is required as long as Parity Debt is outstanding.

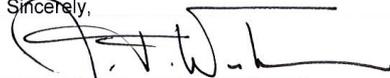
- Mobility Fund Bond Proceeds Account – proceeds from the issuance of Parity Debt are deposited into this account upon the issuance of such Parity Debt. Such proceeds and the interest thereon remain in the bond proceeds account until expended to accomplish the purposes for which such Parity Debt was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

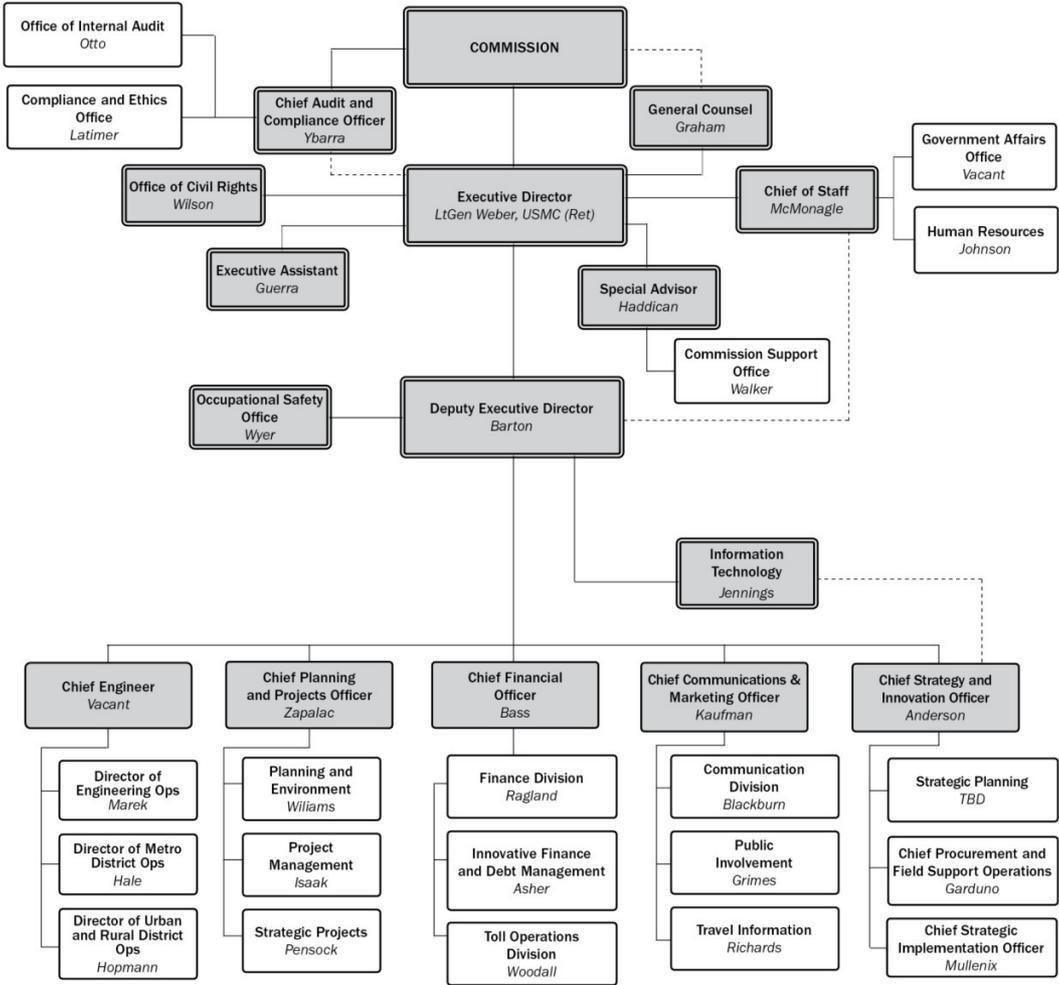
Sincerely,



LtGen J. F. Weber, USMC (Ret)

Executive Director

Texas Department of Transportation Organization Chart as of August 31, 2014



**Commission and Key Personnel
As of August 31, 2014**

TEXAS TRANSPORTATION COMMISSION

TED HOUGHTONChair
El Paso

JEFF AUSTIN IIICommissioner
Tyler

JEFF MOSELEYCommissioner
Houston

FRED UNDERWOODCommissioner
Lubbock

VICTOR VANDERGRIFF.....Commissioner
Fort Worth

TEXAS DEPARTMENT OF TRANSPORTATION

LT GEN JOE WEBER, USMC (RET) Executive Director

JOHN A. BARTON, P.E. Deputy Executive Director

RICHARD McMONAGLEChief of Staff

BOB KAUFMAN Chief Communications and Marketing Officer

JAMES M. BASS Chief Financial Officer

TIM JENNINGS Chief Information Officer

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

DARRAN ANDERSON.....Chief Strategy and Innovation 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
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, 2014, 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.

Opinions

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 2014, 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, 2014, and the changes in its financial position 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 7. 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 12-15 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.

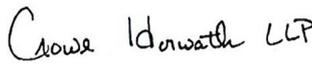
Supplementary Information

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 17, 2014 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 17, 2014

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**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, 2014 and 2013 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 Issued for Refunding

In fiscal year 2014, the Commission issued bonds totaling \$973 million. These bonds were issued to refinance \$1,072 million of outstanding Parity Debt for the purpose of achieving debt service savings and to pay the costs of issuing the Bonds.

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 link to 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, 2014, the Mobility Fund's combined governmental fund balance was approximately \$353 million, a decrease of \$843 million from fiscal 2013. Expenditures for fiscal 2014 totaled \$1.3 billion, an increase of \$782 million, or 159 percent, when compared to fiscal 2013 expenditures of this type. The increase of the expenditure is primarily due to a \$500 million capital grant in fiscal 2014 to Camino Real Regional Mobility Authority (CRRMA) related to the Loop 375 Border Highway West Extension Project in El Paso.

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:

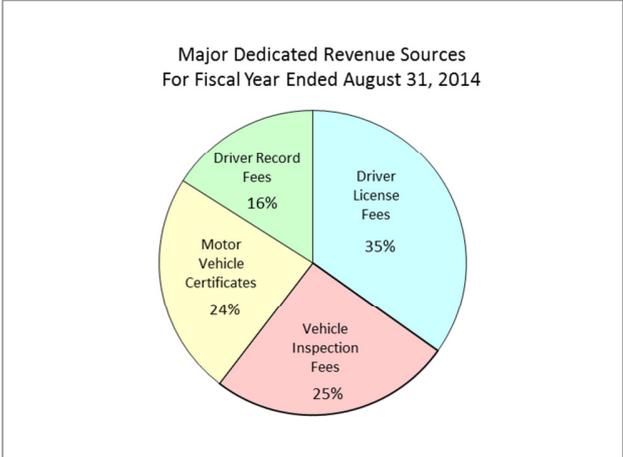
Condensed Balance Sheet				
August 31, 2014 and 2013				
(Amounts in Thousands)				
	2014	2013	Amount of Increase (Decrease)	Percent Change
Assets	\$373,165	\$1,208,093	(\$834,928)	(69)%
Total Assets	373,165	1,208,093	(834,928)	(69)%
Liabilities	19,369	11,636	7,733	66%
Total Liabilities	19,369	11,636	7,733	66%
Fund Balance:				
Restricted – Debt Service	372,892	562,353	(189,461)	(34)%
Restricted – Capital Projects		634,104	(634,104)	(100)%
Unassigned - Capital Projects	(19,096)		(19,096)	n/a
Total Fund Balance	\$353,796	\$1,196,457	(\$842,661)	(70)%

Total Assets decreased by \$835 million, or 69%, due to using cash in state treasury for payments of expenditures and contributions to state highway projects.

<u>Condensed Statement of Revenues, Expenditures and Changes in Fund Balances</u>				
For the Fiscal Years Ended August 31, 2014 and 2013				
(Amounts in Thousands)				
	<u>2014</u>	<u>2013</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Change</u>
Revenues				
Licenses, Fees and Permits	\$399,401	\$383,423	\$15,978	4%
Federal Revenue	21,561	21,445	116	1%
Interest and Investment Income	4,326	27,983	(23,657)	(85)%
Total Revenues	425,288	432,851	(7,563)	(2)%
Expenditures				
Debt Service Function	532,815	341,429	191,386	56%
Transportation	501,014	93,607	407,407	435%
Capital Outlay	238,640	55,356	183,284	331%
Total Expenditures	1,272,469	490,392	782,077	159%
Deficiency of Revenues over Expenditures	(847,181)	(57,541)	(789,640)	1372%
Other Financing Sources (Uses)				
Bonds Issued for Refunding	973,775		973,775	n/a
Premiums on Bonds Issued	157,760		157,760	n/a
Payment to Escrow for Refunding	(1,127,015)		(1,127,015)	n/a
Total Other Financing Sources (Uses)	4,520	-	4,520	n/a
Change in Fund Balance	(842,661)	(57,541)	(785,120)	1364%
Fund Balance – beginning	1,196,457	1,108,826	87,631	8%
Restatement		145,172	(145,172)	(100)%
Fund Balance – Ending	\$353,796	\$1,196,457	(\$842,661)	(70)%

The decrease in total revenues is largely due to the elimination of investment income. The Commission exited the CMS basis swap agreements in fiscal 2013.

The major dedicated revenue sources of the Mobility Fund for the year ended Aug. 31, 2014, 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 \$500 million grant to Camino Real Regional Mobility Authority. In fiscal 2014 the capital outlay expenditure increased by \$183 million. The increase is attributed to the fiscal 2013 adjustment of transfer in for the amount of \$145 million related to the Grand Parkway Transportation Corporation reimbursement. The adjustment resulted in a reduction of the capital outlay expenditure in fiscal 2013 and therefore created a large fluctuation between the two fiscal years.

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 Section 201.943(e) of the Texas Transportation Code. 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, 2014, the approved amount of aggregate principal outstanding at any time is \$7.2 billion. As of Aug. 31, 2014, the principal amount of debt outstanding is \$5.65 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 7 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, 2014

	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Total Texas Mobility Fund</u>
ASSETS			
Cash in State Treasury (Note 3)	\$ 364,216,191	\$ (26,378)	\$ 364,189,813
Federal Receivable	8,974,811		8,974,811
Total Assets	<u>373,191,002</u>	<u>(26,378)</u>	<u>373,164,624</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	298,792	14,035,108	14,333,900
Due to Other Funds (Note 9)		5,034,655	5,034,655
Total Liabilities	<u>298,792</u>	<u>19,069,763</u>	<u>19,368,555</u>
Fund Balances:			
Restricted - Debt Service	372,892,210		372,892,210
Unassigned - Capital Projects		(19,096,141)	(19,096,141)
Total Fund Balances	<u>372,892,210</u>	<u>(19,096,141)</u>	<u>353,796,069</u>
Total Liabilities and Fund Balances	<u>\$ 373,191,002</u>	<u>\$ (26,378)</u>	<u>\$ 373,164,624</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, 2014

	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Total Texas Mobility Fund</u>
REVENUES			
Licenses, Fees and Permits	\$ 399,401,049	\$	\$ 399,401,049
Federal Revenues	21,560,878		21,560,878
Interest Income	1,917,107	2,408,779	4,325,886
Total Revenues	<u>422,879,034</u>	<u>2,408,779</u>	<u>425,287,813</u>
EXPENDITURES			
Transportation	84,962,164	416,051,476	501,013,640
Debt Service:			
Principal	210,385,000		210,385,000
Interest	317,376,278		317,376,278
Other Financing Fees	4,136,231	917,035	5,053,266
Capital Outlay		238,640,722	238,640,722
Total Expenditures	<u>616,859,673</u>	<u>655,609,233</u>	<u>1,272,468,906</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(193,980,639)</u>	<u>(653,200,454)</u>	<u>(847,181,093)</u>
OTHER FINANCING SOURCES (USES)			
Bonds Issued for Refunding	973,775,000		973,775,000
Premiums on Bonds Issued for Refunding	157,759,600		157,759,600
Payment to Escrow for Refunding	(1,127,014,769)		(1,127,014,769)
Total Other Financing Sources (Uses)	<u>4,519,831</u>	<u>-</u>	<u>4,519,831</u>
Net Change in Fund Balances	<u>(189,460,809)</u>	<u>(653,200,454)</u>	<u>(842,661,263)</u>
Fund Balances, September 1, 2013	562,353,018	634,104,313	1,196,457,331
Fund Balances, August 31, 2014	<u>\$ 372,892,210</u>	<u>\$ (19,096,141)</u>	<u>\$ 353,796,069</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, 2014, a total of \$7,228,875,000 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, refund existing Mobility Fund Bonds and the costs of issuance.

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, 2014, the Commission and management believe that they were in compliance with all 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). In fiscal 2014 the Mobility Fund adopted GASBS No. 65, *Items Previously Reported as Assets and*

Liabilities. GASBS 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. It also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The Mobility Fund also implemented the following new GASB pronouncements for fiscal 2014. Adoption of these statements had no impact on the Mobility Fund's financial position.

- GASB Statement No. 66, Technical Corrections — 2012 — an amendment of GASB Statements No. 10 and No. 62
- GASB Statement No. 67, Financial Reporting for Pension Plans — an amendment of GASB Statement No. 25
- GASB Statement No. 69, Government Combinations and Disposals of Government Operations
- GASB Statement No. 70, Accounting and Financial Reporting for Non-exchange Financial Guarantees

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 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 7.

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. Debt service funds include the Mobility Fund General Account, the Mobility Fund Interest and Sinking Account, the Rebate Account, and the Bond Refunding Account.
- 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. Capital projects fund accounts include the Mobility Fund Bond Proceeds Account.

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.

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 2014 for the Series 2009-A bonds. Further details are provided in Note 7.

Accounts Payable

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

Revenues and Expenditures

Licenses, Fees and Permits

The major sources of dedicated revenue to the Mobility Fund for fiscal 2014 were driver license fees, motor vehicle inspection fees, motor vehicle certificate fees, and driver record information fees. A list of all fiscal 2014 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 7 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 Texas Comptroller of Public Accounts.

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, 2014. 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 2014. 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, 2014 the Mobility Fund's pro rata share of participation in the Treasury Pool was \$364,189,813. No further detail of this balance is available due to the management policies of the Treasury Pool.

NOTE 4 – 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 5 – 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 agency's overall financial condition.

NOTE 6 – SUBSEQUENT EVENTS

The Commission plans to issue the following bonds as of the date of this report, through February 2015:

Bond Issuance	Series	Estimated/Actual Par Amount (Amount in Thousands)	Estimated/Actual Date of Issuance	Purpose
State of Texas General Obligation Mobility Fund and Refunding Bonds	2014A&B	\$1.83 billion	12/18/14	To pay or reimburse the State Highway Fund or Mobility Fund for authorized purposes, refund Parity debt, and/or pay costs of issuance

NOTE 7 – 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 may be pledged in the event the revenues and money in the Mobility Fund is insufficient to pay debt service on the bonds. All currently outstanding Mobility Fund bonds have received the pledge of the full faith and credit of the state.

The Mobility Fund bond resolutions may be amended by the Commission without bondholder consent under certain circumstances. As of Aug. 31, 2014, the master resolution authorizes up to \$7.2 billion of outstanding principal on Mobility Fund debt at any time. 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, 2014, the following general obligation Mobility Fund bonds were issued.

Mobility Fund Bond Information							
Description of Issue	Bonds Issued to Date (Par)	Date Issued	Range of Interest Rates		Maturities		First Call Date
					First Year	Last Year	
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds							
Series 2005-A Fixed Rate Bonds	\$900,000,000	06/08/2005	3.9000%	5.0000%	2006	2035	4/1/2015
Series 2005-B Variable Rate Bonds	100,000,000	06/08/2005	VAR*	VAR*	2006	2030	**
Series 2006 Fixed Rate Bonds	750,000,000	06/08/2006	3.6250%	5.0000%	2007	2036	4/1/2016
Series 2006-A Fixed Rate Bonds	1,040,275,000	10/31/2006	4.0000%	5.0000%	2007	2035	4/1/2017
Series 2006-B Variable Rate Bonds	150,000,000	12/13/2006	VAR*	VAR*	2036	2036	**
Series 2007 Fixed Rate Bonds	1,006,330,000	06/21/2007	4.0000%	5.0000%	2008	2037	4/1/2017
Series 2008 Fixed Rate Bonds	1,100,000,000	02/28/2008	4.0000%	5.0000%	2009	2037	4/1/2018
Series 2009-A Fixed Rate Bonds	1,208,495,000	08/26/2009	5.3670%	5.5170%	2029	2039	**
Series 2014 Fixed Rate Bonds	973,775,000	07/02/2014	4.0000%	5.0000%	2016	2034	4/1/2024
Total	<u>\$7,228,875,000</u>						
* Average interest rates on the Series 2005-B and Series 2006-B variable rate bonds are 2.08 percent and 0.60 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, 2014, the following changes occurred in the long-term liabilities for the Mobility Fund bonds.

Long-Term Liabilities Activity							
For the Fiscal Year Ended August 31, 2014							
Governmental Activities	Beginning Balance 9/1/13	Adjustments*	Additions	Deductions	Ending Balance 8/31/14	Amounts Due Within One Year	Amounts Due Thereafter
General Obligation Bonds	\$6,080,204,043	\$108,353,789	\$973,775,000	(\$1,282,835,000)	\$5,879,497,832	\$150,081,651	\$5,729,416,181
*Includes 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, 2014, the Mobility Fund bonds debt service requirements are as follows.

Debt Service Requirements			
Mobility Fund Bonds			
Year	Principal	Interest*	Total
2015	\$65,780,000	\$258,903,831	\$324,683,831
2016	52,270,000	267,743,034	320,013,034
2017	65,615,000	264,862,262	330,477,262
2018	72,000,000	261,908,196	333,908,196
2019	88,645,000	258,379,738	347,024,738
2020-2024	634,750,000	1,214,695,955	1,849,445,955
2025-2029	1,027,910,000	1,023,324,116	2,051,234,116
2030-2034	1,516,145,000	733,685,667	2,249,830,667
2035-2039	2,125,545,000	339,636,767	2,465,181,767
Total	\$5,648,660,000	\$4,623,139,566	\$10,271,799,566
Unamortized Premium	230,840,896		230,840,896
Unamortized Discount	(3,063)		(3,063)
Total Requirements	\$5,879,497,833	\$4,623,139,566	\$10,502,637,399
* The interest rate in effect as of Aug. 31, 2014, for the Series 2005-B and Series 2006-B variable rate bonds used to calculate the interest debt service requirements were 0.04 percent and 0.05 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 Mobility Fund's general obligation bonds.

Pledged Future Revenues	
	Mobility Fund Bonds
Pledged Revenue Required for Future Principal and Interest on Existing General Obligation Bonds	\$10,271,799,566
Term of Commitment	Fiscal Year Ending Aug. 31, 2039
Percentage of Revenue Pledged	100%
Current Year Pledged Revenue	\$422,879,034
Current Year Principal and Interest Paid	\$346,105,867

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 7.2 percent effective Oct. 1, 2013 through Sept. 30, 2014. See the table below for details on the Commission’s Direct Payment BABs outstanding at Aug. 31, 2014.

Direct Payment Build America Bonds			
	Issue Date	Par Amount	Amount Outstanding at 08/31/14
Governmental Activities			
General Obligation Bonds			
Texas Mobility Fund Series 2009-A	8/26/2009	\$1,208,495,000	\$1,208,495,000
Total		\$1,208,495,000	\$1,208,495,000

Variable Rate Bonds

The Mobility Fund has two variable rate bond issues outstanding at Aug. 31, 2014. The interest rates in effect as of Aug. 31, 2014 for the Texas Mobility Fund Series 2005-B and Texas Mobility Fund Series 2006-B used to calculate the interest debt service requirements were 0.04 and 0.05 percent, respectively. These rates reset every seven days.

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, 2014.

Demand Bonds		
Governmental Activities	Bonds Held by Liquidity Providers	Principal Balance Outstanding
General Obligation Bonds		
Series 2005-B	None	\$70,740
Series 2006-B	None	150,000
Total		\$220,740

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%	03/01/2015
Series 2006-B	State Street Bank and Trust Company & California Public Employees' Retirement System	0.30%	12/13/2016

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	\$ 81,340,429	10.00%	2% + the greater of: Bank Prime rate + 1.5%, Daily Fed Fds Rate + 2% or 8%	Semi-annual payments over three years starting on the first day of the third month of that period
Series 2006-B	170,095,058	8.50%	1% + greater of: 3% + Daily Fed Fds Rate, Bank Prime Rate plus 2% or 7.5%	Semi-annual payments over three years starting the first day of the second month of that period
Total	\$ 251,435,487			

Outstanding principal balances on variable rate demand bonds that have standby bond purchase agreements in place may be classified as non-current liabilities. The outstanding principal balance for the Series 2005-B is classified as a current liability as the agreement in place is set to expire in the next fiscal year.

Early Extinguishment of Debt

On May 14, 2014, the Commission used \$169 million in available Texas Mobility funds for the early extinguishment of parity debt. Of this amount, \$150 million was applied to the par value while the remaining \$19 million was deposited into escrow for future interest payments. The par value of the extinguished debt is listed below.

Early Extinguishment of Debt	
Description	Par Value
Series 2005-A	\$17,040,000
Series 2005-B	1,700,000
Series 2007	36,130,000
Series 2008	95,130,000
Total	\$150,000,000

Refunding

On January 30, 2014, the Commission approved the Texas Mobility Fund Ninth Supplemental Resolution which authorized issuance of general obligation refunding bonds. The Commission issued General Obligation Mobility Fund Refunding Bonds, Series 2014, with a par value of \$973,775,000. The issuance closed on July 2, 2014.

Refunding Issue					
Description	Type of Refunding	Par Value of Refunding Issue	Par Value Refunded	Cash Flow Increase/(Decrease)	Economic Gain/(Loss)*
Series 2005-A	Advanced	\$640,005,000	\$707,870,000	\$49,391,509	\$36,103,960
Series 2006	Advanced	333,770,000	364,580,000	104,297,556	84,092,128
		\$973,775,000	\$1,072,450,000	\$153,689,065	\$120,196,088

Defeased Bonds

The Commission defeased various existing issues by placing funds in irrevocable trusts to provide for all future debt service payments on the bonds. The trust account assets and the liability for the defeased bonds are not included in these financial statements. As of Aug. 31, 2014, the amounts of defeased bonds, at par, that remain outstanding are presented in the table below.

Defeased Bonds Outstanding	
Description	Par Value
Series 2005-A	\$724,910,000
Series 2006	364,580,000
Series 2007	36,130,000
Series 2008	95,130,000
Total	\$1,220,750,000

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, 2014, the Mobility Fund 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.

Variable rate bonds with short term ratings are usually reliant upon the supporting liquidity facility and its credit strength. The Mobility Fund variable rate demand bonds carried the following short term credit ratings as of Aug. 31, 2014.

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

NOTE 8 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The capital project fund has a deficit fund balance due to the accrued expenditure exceeding revenue. As a whole, the Mobility Fund, however, has a fund balance of \$354 million. The Commission plans to issue bonds of \$1.83 billion in fiscal 2015. The proceeds of the bonds will be available for the use of the capital project fund.

NOTE 9 – INTERFUND ACTIVITY

Interfund activity refers to financial interactions between funds and is restricted to internal events. Certain transactions processed during fiscal 2014 were paid with intent to reimburse and require accrual due to 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, 2014	
	Capital Projects Funds
Due to Other Funds	
TxDOT State Highway Fund	\$5,035
	<u>\$5,035</u>

Texas Mobility Fund
SUPPLEMENTARY INFORMATION
(Unaudited)

**Texas Mobility Fund Dedicated Revenues
For the Fiscal Year Ended August 31, 2014**

<i>Major Sources of Funds</i>	
Driver License Fees	\$ 137,869,817
Motor Vehicle Inspection Fees	101,145,275
Motor Vehicle Certificates	93,293,340
Driver Record Information Fees	63,381,898
	<hr/> \$ 395,690,330
 <i>Miscellaneous Sources</i>	
Motor Carrier Act Penalties	\$3,707,286
Motor Vehicle Registration Fees	3,434
Depository Interest	4,325,886
	<hr/> \$8,036,606
 <i>Total Dedicated Revenues</i>	 \$ 403,726,936 <hr/> <hr/>

Note:

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

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