TEXAS DEPARTMENT OF TRANSPORTATION

Texas Mobility Fund

(A Debt Service Fund of the Texas Department of Transportation)

Financial Statements - For Fiscal Year Ended August 31, 2012

Texas Mobility Fund

A Debt Service Fund of the Texas Department of Transportation

FINANCIAL STATEMENTS
For the Fiscal Year Ended
August 31, 2012

Prepared by:
Finance Division of the Texas Department of Transportation

Texas Mobility Fund
FINANCIAL STATEMENTS
For the Fiscal Year Ended
August 31, 2012

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Texas Mobility Fund
INTRODUCTORY SECTION

Texas Department of Transportation®

DEWITT C. GREER STATE HIGHWAY BLDG. • 125 E. 11TH STREET • AUSTIN, TEXAS 78701-2483 • (512) 463-8585

December 12, 2012

TO: 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, 2012, 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, 2012. 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. Four regional support centers provide operational and project delivery support for the agency's 25 geographical districts.

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. The Commission is authorized to issue general obligation and revenue bonds per statutory and constitutional provisions.

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, 2012, 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, 2012, 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.

- 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.

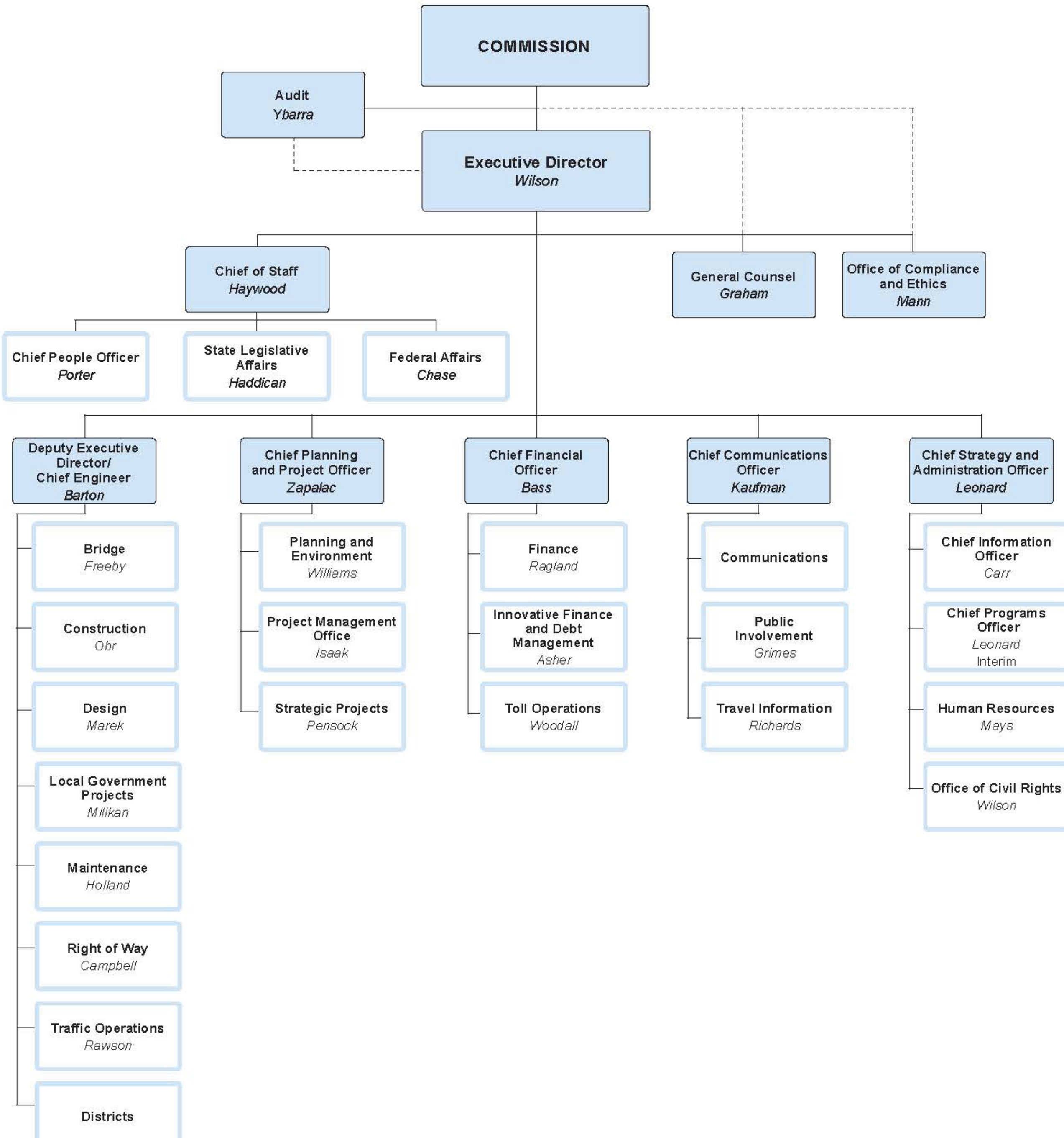
Acknowledgements

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, 2012



Commission and Key Personnel
As of August 31, 2012

TEXAS TRANSPORTATION COMMISSION

TED HOUGHTON ....Chair
El Paso

JEFF AUSTIN III ....Commissioner
Tyler

WILLIAM MEADOWS ....Commissioner
Fort Worth

JEFF MOSELEY ....Commissioner
Houston

FRED UNDERWOOD ....Commissioner
Lubbock

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
LOUIS CARR...Chief Information Officer
DEE PORTER..Chief People Officer
RUSSELL ZAPALAC...Chief Planning and Project Officer
SCOTT LEONARD..Chief Strategy and Administration Officer
SCOTT LEONARD (Interim)...Chief Programs Officer

Texas Mobility Fund
FINANCIAL SECTION

State Auditor's Office
John Keel, CPA
State Auditor

INDEPENDENT AUDITOR'S REPORT

Members of the Texas Transportation Commission
Mr. Ted Houghton, Chair
Mr. Jeff Austin III
Mr. William Meadows
Mr. Jeff Moseley
Mr. Fred Underwood

We have audited the accompanying financial statements of the governmental activities and the major fund of the Texas Mobility Fund (Fund), as of and for the year ended August 31, 2012, which collectively comprise the Fund's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department of Transportation's (Department) management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Fund's fiscal year 2011 financial statements and, in our report dated December 12, 2011, we expressed an unqualified opinion on the governmental activities and the major fund.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Fund, a debt service 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, 2012, or the changes in the Department's or the State's financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Fund, as of August 31, 2012, 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.

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SAO Report No. 13-306

In accordance with *Government Auditing Standards,* we will issue a separate report 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11-14 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.

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 supplementary information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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 it.

John Keel, CPA
State Auditor

December 12, 2012

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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, 2012, 2011 and 2010. 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

Net Assets

Overall the Mobility Fund continues to report a deficit net assets balance. The deficit net asset balance reported as of Aug. 31, 2012, was approximately $5.1 billion, an increase of $117.3 million from fiscal 2011. The deficit continues to increase because the proceeds of long-term debt issuances are transferred to the state highway fund to accelerate transportation projects, while dedicated fees are used to pay debt service on the Mobility Fund bonds over a 30-year period. The Mobility Fund has no ownership interest in the highway projects that it is helping to accelerate in the state highway fund and is not responsible for the maintenance of these roadways, which will become part of the Texas state highway system. The following page on TxDOT's website lists projects which received funding from the Mobility Fund:

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

Governmental Fund

As of Aug. 31, 2012, the Mobility Fund's governmental fund balance was approximately $1.1 billion, a decrease of $171.4 million from fiscal 2011. Transfers to the state highway fund for fiscal 2012 totaled $240 million, an increase of $98.3 million, or 69 percent, when compared to fiscal 2011 transfers. Transfers to the state highway fund continue to decrease for most projects as their allocated funds are exhausted; however, in 2012, this was more than offset by commencement of major work on the Grand Parkway toll project.

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.

The Mobility Fund's financial statements combine two types of financial statements into one statement. These two types of financial statements are the fund financial statements and the entity-wide financial statements. The fund financial statements are presented on the first column of the statements and the entity-wide financial statements on the last column. Adjustments between the fund financial statements and the entity-wide financial statements are presented in the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

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 as a governmental fund.

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. The reconciliations following the financial statements explain the differences between the Mobility Fund's activities reported in the entity-wide financial statements and the governmental fund financial statements.

The Mobility Fund's $1.1 billion positive fund balance as of Aug. 31, 2012, represents a 13.4 percent decrease from fiscal 2011. Contributing to the lower balance was the decrease in cash in state treasury, which continues to decline as funds are transferred to the state highway fund and debt service payments increase.

Entity-Wide Financial Statements

The focus of the entity-wide financial statements is on the overall financial position and activities of the Mobility Fund. These statements consist of the statement of net assets and statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. The statement of net assets combines the Mobility Fund's current financial resources with its long-term obligations. The statement of activities focuses on both the gross and net costs of various activities; these costs are paid by the Mobility Fund's revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific governmental services and includes all current year revenues and expenses. The activity of the Mobility Fund is considered a governmental activity for the purpose of the statement of net assets and statement of activities.

Financial Analysis

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

Condensed Statement of Net Assets

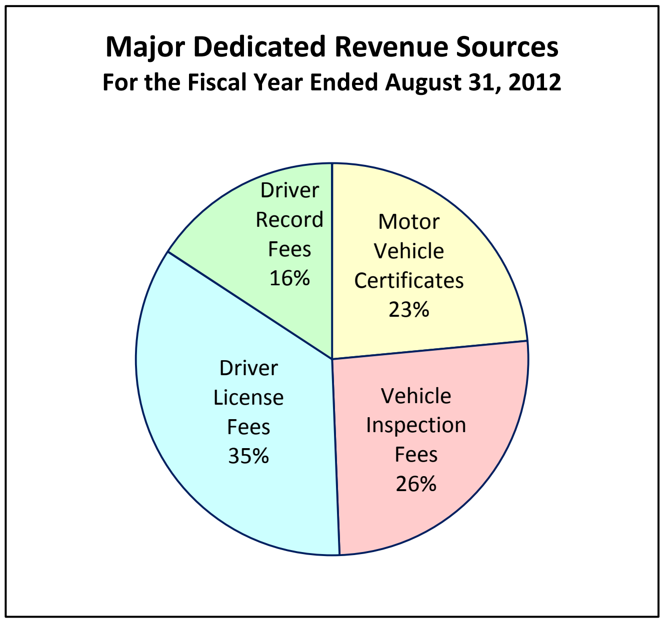
August 31, 2012, 2011 and 2010

	Governmental Activities		
	2012	**2011**	**2010**
Current Assets	$1,128,793,747	$1,291,632,643	$1,400,554,008
Noncurrent Assets	49,030,810	51,137,381	34,757,455
Total Assets	1,177,824,557	1,342,770,024	1,435,311,463
Current Liabilities	201,637,659	187,648,271	211,942,995
Noncurrent Liabilities	6,080,204,043	6,141,868,627	6,197,224,909
Total Liabilities	6,281,841,702	6,329,516,898	6,409,167,904
Net Assets (Deficit):			
Unrestricted	(5,104,017,145)	(4,986,746,874)	(4,973,856,441)
Total Net Assets (Deficit)	$(5,104,017,145)	$(4,986,746,874)	$(4,973,856,441)

Condensed Changes in Net Assets For the Fiscal Years Ended August 31, 2012, 2011 and 2010	2012	2011	2010
Revenues			
Charges for Services -			
Licenses, Fees and Permits	372,942,321	355,808,529	320,404,949
Operating Grants and Contributions -			
Federal Revenue	23,303,934	23,303,934	23,303,934
Interest and Investment Income	5,999,561	28,603,330	20,418,021
Total Revenues	402,245,816	407,715,793	364,126,904
Expenses			
Professional Fees & Services	165,550	18,014	420,361
Debt Service	279,369,155	278,898,592	279,804,292
Other Expenses	638		4,937
Total Expenses	279,535,343	278,916,606	280,229,590
Excess of Revenues over Expenses	122,710,473	128,799,187	83,897,314
Transfers Out to the State Highway Fund	(239,980,744)	(141,689,620)	(263,724,988)
Change in Net Assets	(117,270,271)	(12,890,433)	(179,827,674)
Total Net Assets (Deficit) – beginning	(4,986,746,874)	(4,973,856,441)	(4,800,780,520)
Restatement			6,751,753
Total Net Assets (Deficit) – ending	$(5,104,017,145)	$(4,986,746,874)	$(4,973,856,441)

Net assets continue to decrease due to transfers out of cash in state treasury to the state highway fund for the funding of eligible transportation projects. Revenues decreased by 1.3 percent from fiscal 2011, due to a 4.3 percent decrease in the fair value of investment derivatives in fiscal 2012. This was partly offset by a 4.8 percent increase in dedicated fee revenues.

The major dedicated revenue sources of the Mobility Fund for the year ended Aug. 31, 2012, 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.



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, 2012, the approved debt capacity of the Mobility Fund is $7.2 billion. As of Aug. 31, 2012, the Commission has issued $6 billion outstanding towards that amount. All Mobility Fund debt issuances must be approved by the Texas Bond Review Board prior to issuance. On March 1, 2012, the

Commission remarketed $82,315,000 remaining principal of the Mobility Fund Series 2005-B bonds. Such bonds remain variable-rate demand bonds. See Note 4 for additional information on the Mobility Fund's outstanding debt.

The balances of bonds payable for fiscal 2012, 2011 and 2010, respectively, are presented below.

	Bonds Payable 2012	2011	2010
Current Liabilities:			
General Obligation Bonds Payable	$ 53,190,000	$ 46,770,000	$ 39,645,000
Premium/Discount	8,474,585	8,586,282	8,682,901
Subtotal – Current Liabilities	61,664,585	55,356,282	48,327,901
Noncurrent Liabilities:			
General Obligation Bonds Payable	5,957,720,000	6,010,910,000	6,057,680,000
Premium/Discount	122,484,043	130,958,627	139,544,909
Subtotal – Noncurrent Liabilities	6,080,204,043	6,141,868,627	6,197,224,909
Total Bonds Payable	$6,141,868,628	$6,197,224,909	$6,245,552,810

Bond Credit Ratings

The Mobility Fund bonds were rated by each of the three 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, 2012, 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.

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, 2012.

	Fitch	Moody's	Standard & Poor's
Series 2005-B Variable Rate Interest Bonds	F1+	VMIG 1	A-1+
Series 2006-B Variable Rate Interest Bonds	F1+	VMIG 1	n/a

Effective Mar. 1, 2012, the liquidity provider for the 2005-B variable rate bonds was changed to Royal Bank of Canada. As a result, Moody's and Standard & Poor's upgraded the enhanced short term rating for the 2005-B bonds from VMIG 3 to VMIG1 and A-2 to A-1+, respectively. See Note 4 for details of the new agreement.

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

Requests for Information

This financial report is designed to provide a general overview of the Mobility Fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the TxDOT 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

EXHIBIT I
TEXAS MOBILITY FUND
Statement of Net Assets and Governmental Fund Balance Sheet
August 31, 2012

	Debt Service Fund	Adjustments	Statement of Net Assets
ASSETS			
Current Assets:			
Cash and Cash Equivalents in State Treasury (Note 3)	$ 1,118,551,107	$	$ 1,118,551,107
Federal Receivable	9,709,973		9,709,973
Accrued Swap Payment Receivable	532,667		532,667
Total Current Assets	1,128,793,747		1,128,793,747
Noncurrent Assets:			
Deferred Charges		23,909,801	23,909,801
Investment Derivative Instruments (Notes 3 & 5)		25,121,009	25,121,009
Total Noncurrent Assets		49,030,810	49,030,810
TOTAL ASSETS	1,128,793,747	49,030,810	1,177,824,557
LIABILITIES			
Current Liabilities:			
Accounts Payable	11,907		11,907
Interest Payable		120,006,052	120,006,052
Unearned Revenue	400,000		400,000
Due to State Highway Fund	19,555,115		19,555,115
General Obligation Bonds Payable (Note 4)		53,190,000	53,190,000
Premium/Discount (Note 4)		8,474,585	8,474,585
Total Current Liabilities	19,967,022	181,670,637	201,637,659
Noncurrent Liabilities:			
General Obligation Bonds Payable (Note 4)		5,957,720,000	5,957,720,000
Premium/Discount (Note 4)		122,484,043	122,484,043
Total Noncurrent Liabilities	0	6,080,204,043	6,080,204,043
TOTAL LIABILITIES	19,967,022	6,261,874,680	6,281,841,702
FUND BALANCE			
Restricted	1,108,826,725	(1,108,826,725)	
TOTAL FUND BALANCE	1,108,826,725	(1,108,826,725)	
TOTAL LIABILITIES AND FUND BALANCE	$ 1,128,793,747		
Net Assets (Deficit):			
Unrestricted		(5,104,017,145)	(5,104,017,145)
TOTAL NET ASSETS (DEFICIT)		(6,212,843,870)	$ (5,104,017,145)

August 31, 2011

	Debt Service Fund	Adjustments	Statement of Net Assets
ASSETS			
Current Assets:			
Cash and Cash Equivalents in State Treasury (Note 3)	$ 1,291,097,973	$	$ 1,291,097,973
Accrued Swap Payment Receivable	532,668		532,668
Prepaid Assets	2,002		2,002
Total Current Assets	1,291,632,643		1,291,632,643
Noncurrent Assets:			
Deferred Charges		24,885,198	24,885,198
Investment Derivative Instruments (Notes 3)		26,252,183	26,252,183
Total Noncurrent Assets		51,137,381	51,137,381
TOTAL ASSETS	1,291,632,643	51,137,381	1,342,770,024
LIABILITIES			
Current Liabilities:			
Accounts Payable	32,350		32,350
Interest Payable		120,882,113	120,882,113
Unearned Revenue	1,941,995		1,941,995
Due to State Highway Fund	9,435,531		9,435,531
General Obligation Bonds Payable (Note 4)		46,770,000	46,770,000
Premium/Discount (Note 4)		8,586,282	8,586,282
Total Current Liabilities	11,409,876	176,238,395	187,648,271
Noncurrent Liabilities:			
General Obligation Bonds Payable (Note 4)		6,010,910,000	6,010,910,000
Premium/Discount (Note 4)		130,958,627	130,958,627
Total Noncurrent Liabilities	0	6,141,868,627	6,141,868,627
TOTAL LIABILITIES	11,409,876	6,318,107,022	6,329,516,898
FUND BALANCE			
Nonspendable	2,002	(2,002)	
Restricted	1,280,220,765	(1,280,220,765)	
TOTAL FUND BALANCE	1,280,222,767	(1,280,222,767)	
TOTAL LIABILITIES AND FUND BALANCE	$ 1,291,632,643		
Net Assets (Deficit):			
Unrestricted		(4,986,746,874)	(4,986,746,874)
TOTAL NET ASSETS (DEFICIT)		$ (6,266,969,641)	$ (4,986,746,874)

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

EXHIBIT II

TEXAS MOBILITY FUND

Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance

For the fiscal year ended August 31, 2012

		Debt Service Fund		Adjustments		Statement of Activities
REVENUES						
Charges for Services -						
Licenses, Fees and Permits	$	372,942,321			$	372,942,321
Operating Grants and Contributions -						
Federal Revenue		23,303,934				23,303,934
Interest and Investment Income		7,130,735		(1,131,174)		5,999,561
TOTAL REVENUES		403,376,990		(1,131,174)		402,245,816
EXPENDITURES/EXPENSES						
Professional Fees & Services		165,550				165,550
Debt Service:						
Principal		46,770,000		(46,770,000)		0
Interest		284,760,436		(876,063)		283,884,373
Amortization of Premium/Discount				(8,586,281)		(8,586,281)
Amortization of Bond Issue Costs				975,399		975,399
Arbitrage Rebate (Note 7)		2,581,436				2,581,436
Other Financing Fees		514,228				514,228
Other Expenditures		638				638
TOTAL EXPENDITURES/EXPENSES		334,792,288		(55,256,945)		279,535,343
Excess of Revenues over Expenditures/Expenses		68,584,702		54,125,771		122,710,473
OTHER FINANCING USES						
Operating Transfers Out to the State Highway Fund		(239,980,744)				(239,980,744)
Excess (deficiency) of revenues over expenditures and transfers out		(171,396,042)		54,125,771		(117,270,271)
Fund Balance/Net Assets (Deficit):						
FUND BALANCE/NET ASSETS (DEFICIT), September 1, 2011		1,280,222,767		(6,266,969,641)		(4,986,746,874)
FUND BALANCE/NET ASSETS (DEFICIT), August 31, 2012	$	1,108,826,725	$	(6,212,843,870)	$	(5,104,017,145)

For the fiscal year ended August 31, 2011

		Debt Service Fund		Adjustments		Statement of Activities
REVENUES						
Charges for Services -						
Licenses, Fees and Permits		355,808,529				355,808,529
Operating Grants and Contributions -						
Federal Revenue		23,303,934				23,303,934
Interest and Investment Income		11,248,004		17,355,326		28,603,330
TOTAL REVENUES		390,360,467		17,355,326		407,715,793
EXPENDITURES/EXPENSES						
Professional Fees & Services		18,014				18,014
Debt Service:						
Principal		39,645,000		(39,645,000)		0
Interest		286,925,264		(730,964)		286,194,300
Amortization of Premium/Discount				(8,682,901)		(8,682,901)
Amortization of Bond Issue Costs				975,399		975,399
Other Financing Fees		411,794				411,794
TOTAL EXPENDITURES/EXPENSES		327,000,072		(48,083,466)		278,916,606
Excess of Revenues over Expenditures		63,360,395		65,438,792		128,799,187
OTHER FINANCING USES						
Operating Transfers Out to the State Highway Fund		(141,689,620)				(141,689,620)
Excess (deficiency) of revenues over expenditures and transfers out		(78,329,225)		65,438,792		(12,890,433)
Fund Balance/Net Assets (Deficit):						
FUND BALANCE/NET ASSETS (DEFICIT), September 1, 2010		1,358,551,992		(6,332,408,433)		(4,973,856,441)
FUND BALANCE/NET ASSETS (DEFICIT), August 31, 2011	$	1,280,222,767	$	(6,266,969,641)	$	(4,986,746,874)

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

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets

The Mobility Fund's governmental fund financial statement is prepared on the modified accrual basis of accounting. Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental fund. Interest on long-term debt that is payable more than 30 days after fiscal year end is not accrued in the fund financial statements. Deferred charges associated with bond issuances are considered a noncurrent resource. Investment derivatives are not reported on the fund financial statements as they are long term in nature. The following reconciliation outlines the line items that create the difference between fund balance and net assets.

	2012	2011
Total Fund Balance - Governmental Fund	$1,108,826,725	$1,280,222,767
Deferred Charges	23,909,801	24,885,198
Investment Derivative Instruments	25,121,009	26,252,183
Interest Payable	(120,006,051)	(120,882,113)
General Obligation Bonds Payable	(6,010,910,000)	(6,057,680,000)
Premium/Discount	(130,958,629)	(139,544,909)
Total Net Assets (Deficit) - Governmental Activities	$(5,104,017,145)	$(4,986,746,874)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to the Statement of Activities

The issuance of long-term debt provides current financial resources to the governmental fund, while the repayment of the principal of long-term debt consumes the current financial resources of governmental fund. The governmental fund also reports the effect of bond issue costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The following reconciliation details the reasons for the difference between the net change in fund balance and the change in net assets.

	2012	2011
Net Change in Fund Balance - Governmental Fund	$(171,396,042)	$(78,329,225)
Interest and Investment Income	(1,131,174)	17,355,326
Debt Service Principal	46,770,000	39,645,000
Debt Service Interest	876,063	730,964
Amortization of Premium/Discount	8,586,281	8,682,901
Amortization of Bond Issue Costs	(975,399)	(975,399)
Change in Net Assets - Governmental Activities	$(117,270,271)	$(12,890,433)

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 a debt service fund of the Texas Department of Transportation (TxDOT), an agency of the state of Texas. 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, 2012, 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, or reimburse the state highway fund for, eligible expenditures.

The Legislature has dedicated to the Mobility Fund certain statutory fee revenues of the state. 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 Mobility Fund does not have any employees or equipment. TxDOT employees provide all accounting, debt financing and administrative services.

Basis of Presentation

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 Mobility Fund fiscal 2012 financial statements incorporate the implementation of GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Transactions Termination Provisions- an amendment to GASB Statement No. 53 and GASB Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. The implementation of these statements did not require modifications to this report, as the Mobility Fund does not report any derivatives that qualify for hedge accounting and does not administer or participate in an agent multiple-employer OPEB plan.

Measurement Focus and Basis of Accounting

The basis of accounting determines when revenues and expenditures are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Mobility Fund’s dedicated revenues are restricted to paying debt service on the outstanding Mobility Fund bond obligations.

The Mobility Fund is reported as a debt service fund. A debt service fund is a type of governmental fund used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest. Debt service funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. Expenditures are generally recognized when the related fund liability is incurred.

The entity-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental adjustments that are necessary to convert fund balance to net assets are accounted for using the economic resources measurement focus and the accrual basis of accounting.

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 collected 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 transfers cash and collected budget as reimbursement to the state highway fund. Since the Mobility Fund budgets are collected budgets, budgets can be increased up to the amount of receipts collected in the Mobility 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 2012 for the Series 2009-A bonds.

Accrued Swap Payment Receivable

Accrued swap payment receivable represents the August 2012 swap receivable, which was outstanding at the end of the fiscal year. See Notes 4 and 5 for more information on the Mobility Fund's outstanding interest rate swap agreements.

Deferred Charges

Deferred charges consists of the unamortized bond issuance costs incurred on the Mobility Fund bond issuances. Deferred charges related to the unamortized bond issuance costs are amortized using the straight-line method over the life of the bonds. See Note 4 for more details.

Investment Derivative Instruments

Investment derivative instruments represents the fair value at Aug. 31, 2012, of the Constant Maturity Swaps

(CMS) that are associated with the Mobility Fund's Series 2006-A fixed-rate bonds. See Note 3 for more details.

Accounts Payable

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

Interest Payable

Interest payable represents the amount of interest expense accrued for fiscal 2012 that was paid more than one month after the fiscal year end. Interest payable and expenditure related to long-term debt is not recognized in the fund financial statements until the payment is due.

Unearned Revenue

Unearned revenue represents funds posted as collateral by a counterparty to a swap agreement. See Note 3.

Due to State Highway Fund

Due to state highway fund represents the amount owed for the costs of certain projects incurred as of Aug. 31, 2012, that will receive reimbursement from the Mobility Fund after fiscal year end.

General Obligation Bonds Payable

General obligation bonds are reported at par value and are shown as either current or noncurrent in the statement of net assets. See Note 4 for more details.

Premium/Discount

Premium/discount represents the net of the unamortized premiums and discounts. Premiums and discounts are amortized over the life of the bonds using the bonds outstanding method of amortization and are reported separately as either current or noncurrent in the statement of net assets.

Fund Balance/Net Assets

The Mobility Fund's fund balance is classified as restricted as of Aug. 31, 2012. 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 transportation projects. The Mobility Fund records transfers out to the state highway fund, which reflect the expenditures associated with the projects funded with Mobility Fund resources.

The Mobility Fund's fiscal 2012 ending fund balance is further disaggregated by category and amount in the table to the right.

Mobility Fund Fund Balance Classification as of August 31, 2012	
Restricted – for Debt Service	472,643,266
Restricted – for Future Mobility Projects	636,183,459
Total Fund Balance	$ 1,108,826,725

Fund balance classifications depict the nature of constraints on the use of net resources in a governmental fund. On the accrual basis of accounting, the Mobility Fund's liabilities exceed its assets, creating a deficit net assets balance. As such, the net assets as of Aug. 31, 2012, are classified as unrestricted.

Revenues, Expenditures/Expenses and Transfers

Charges for Services - Licenses, Fees and Permits

The major sources of dedicated revenue to the Mobility Fund for fiscal 2012 were driver license fees, motor vehicle inspection fees, certificate of title fees and driver record information fees. A list of all fiscal 2012 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 4 for more information 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 the change in fair value of investment derivative instruments.

Expenditures/Expenses

Expenditures/expenses include payments for professional fees, debt service and other financing fees and the amortization of bond premium, discount and issue costs. The receipts associated with the Mobility Fund's investment derivative instruments reduce expenditures by offsetting debt service costs. See Note 5 for more information on these derivative instruments.

Operating Transfers Out to the State Highway Fund

Operating transfers out to the state highway fund reflect the transfer of cash to reimburse the state highway fund for eligible expenditures.

NOTE 2 – CAPITAL ASSETS

The Mobility Fund does not have ownership of any capital assets. The infrastructure built with transfers from the Mobility Fund to the state highway fund becomes part of the state highway system and a capital asset to the state highway fund.

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 2012. 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, 2012, and Aug. 31, 2011, the Mobility Fund's pro rata share of participation in the Treasury Pool was $1,118,551,107 and $1,291,097,973, respectively. No further detail of this balance is available due to the management policies of the Treasury Pool.

Investment Derivative Instruments

Texas Government Code, Chapter 1371, as amended, authorizes the Commission to enter into credit agreements that include interest rate swap and other similar agreements. The purpose of these agreements is not for speculation or investment purposes. Such agreements are instead used to manage the Commission's asset/liability portfolio by balancing risk exposures related to fluctuating interest rates and other economic variables; minimizing debt service cost; balancing or rebalancing the ratio of fixed and variable rate debt; responding to market conditions or interest rate cycles that offer value to the Commission; and hedging future interest rate conditions.

Per this policy, the Commission is a party to three pay-variable, receive-variable constant maturity swaps (CMS basis swaps) associated with the Texas General Obligation Mobility Fund Series 2006-A bonds. These CMS basis swaps are reported as investment derivatives in this financial report because they do not meet the definition of an effective hedge for accounting purposes.

The CMS basis swaps are reported at their fair value on the statement of net assets. The changes in fair value of investment derivative instruments are reported as investment revenue in the statement of activities. As of Aug. 31, 2012, and Aug. 31, 2011, the fair value of the investment derivative instruments in the Mobility Fund was $25,121,009 and $26,252,183, respectively. The aggregate positive fair value of investment derivatives represents the maximum amount of loss that would be recognized at Aug. 31, 2012, if all counterparties failed to perform as contracted.

In late calendar year 2009, the slope of the 10-year London Interbank Offered Rate (LIBOR) swap yield curve steepened, which allowed the Commission to negotiate a fixed monthly cash flow annuity benefit on the three CMS basis swaps. The suspension period began in December 2009. During the three year suspension period, the exchange of payments will cease and the Mobility Fund will receive a fixed monthly annuity as consideration for the suspension.

CMS Basis Swaps Notional Amounts and Terms			
	JPMorgan Chase Bank, N.A.	Goldman Sachs Mitsui Marine Derivative Products, L.P.	Morgan Stanley Capital Services Inc.
Notional Amount	$200,000,000	$100,000,000	$100,000,000
Original Terms			
Pay	100% of SIFMA	100% of SIFMA	100% of SIFMA
Receive	69.42% of 10-yr LIBOR	69.42% of 10-yr LIBOR	69.42% of 10-yr LIBOR
Suspension Period Terms			
Pay	$0	$0	$0
Receive	1.590% of notional value	1.637% of notional value	1.575% of notional value

Credit Risk: Credit risk is the risk that a counterparty will not fulfill its obligations according to the swap agreement. The Commission mitigates credit risk associated with swap transactions by only entering into transactions with highly rated counterparties. Upon entering a derivative transaction, the Commission requires that counterparties have a minimum credit rating of AA-/Aa3 by at least one of the three nationally recognized rating agencies and not be on rating/credit watch where a rating downgrade below AA-/Aa3 may be imminent.

Additionally, the Commission diversifies exposure to counterparty credit risk through multiple awards. Although the original notional award amount for the CMS basis swap was $400 million, the actual award was split among three counterparties.

CMS Basis Swaps Counterparty Credit Ratings as of August 31, 2012

Counterparty	Moody's/Standard & Poor's/Fitch
JPMorgan Chase Bank, N.A.	Aa3/A+/A+
Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aa2/AAA/NR*
Morgan Stanley Capital Services Inc.	Baa1/A-/A

*Not Rated

CMS basis swap agreements contain provisions for collateral posting by counterparties in the event of a credit rating downgrade. Collateral postings are required if a credit rating downgrade causes a counterparty's derivative fair value to exceed contractual thresholds.

Acceptable forms of collateral include cash in the form of U.S. dollars, negotiable debt obligations issued by the U.S. Treasury Department and agency securities. Agency securities include negotiable debt obligations which are fully guaranteed as to both principal and interest by the Federal National Mortgage Association, the Government National Mortgage Association or the Federal Home Loan Mortgage Corporation, excluding interest-only and principal-only securities and collateralized mortgage obligations, real estate mortgage investment conduits and similar derivative securities.

On Sept. 2, 2011, Morgan Stanley Capital Services Inc. posted $3 million in cash collateral. The amount of collateral held by the Mobility Fund is based upon the fair market value of the trade which is subject to daily market movements. Thus, the amount of collateral required to be held fluctuates daily. The amount held at Aug. 31, 2012, was $400,000. No collateral was held at Aug. 31, 2011.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the CMS basis swaps or cash flows of those swaps. The fair values and the cash flows of the CMS basis swaps are sensitive to interest rate risk. The interest rate risk on the cash flows was eliminated during the suspension period by establishing the fixed annuity for that period. The Commission mitigates interest rate risk by maintaining the unilateral option to terminate any or all of the swaps at any time should interest rates cause sustained negative cash flows or fair values that warrant termination of the swaps.

NOTE 4 – LONG-TERM LIABILITIES

Changes in Long-Term Liabilities

During the fiscal year ended Aug. 31, 2012, the following changes occurred in the Mobility Fund's long-term liabilities (including the amortization of premiums and discounts).

Governmental Activities	Beginning Balance 09/01/11	Additions	Amortization	Principal Payments	Ending Balance 08/31/12	Amounts Due Within One Year	Amounts Due Thereafter
General Obligation Bonds	$6,057,680,000			$(46,770,000)	$6,010,910,000	$53,190,000	$5,957,720,000
Premium (Discount)	139,544,909		(8,586,281)		130,958,628	8,474,585	122,484,043
Total Bonds Payable	$6,197,224,909		$(8,586,281)	$(46,770,000)	$6,141,868,628	$61,664,585	$6,080,204,043

During the fiscal year ended Aug. 31, 2011, the following changes occurred in the Mobility Fund's long-term liabilities (including the amortization of premiums and discounts).

Governmental Activities	Beginning Balance 09/01/10	Additions	Amortization	Principal Payments	Ending Balance 08/31/11	Amounts Due Within One Year	Amounts Due Thereafter
General Obligation Bonds	$6,097,325,000			$(39,645,000)	$6,057,680,000	$46,770,000	$6,010,910,000
Premium (Discount)	148,227,810		(8,682,901)		139,544,909	8,586,282	130,958,627
Total Bonds Payable	$6,245,552,810		$(8,682,901)	$(39,645,000)	$6,197,224,909	$55,356,282	$6,141,868,627

General Obligation Bonds Payable

The outstanding debt of the Mobility Fund is designed to be self-supporting from the revenues dedicated to and deposited in the Mobility Fund. The full faith and credit of the state is pledged if such dedicated revenues are not sufficient to make payments due on the debt obligations.

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, 2012, 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. On July 19, 2012, the BRB approved the issuance of a maximum par amount of $2.6 billion in proposed new and refunding Mobility Fund bonds.

The $82,315,000 remaining principal of the Mobility Fund Series 2005-B Variable Rate Bonds (Series 2005-B bonds) was successfully remarketed on March 1, 2012. Upon initial issuance of the Series 2005-B bonds, TxDOT entered into a standby bond purchase agreement with Depfa Bank plc, to provide for the purchase of Series 2005-B bonds that were tendered for purchase but not remarketed. The Series 2005-B bonds were remarketed to allow for the replacement of the original standby bond purchase agreement. More detail regarding the terms and current liquidity agreement in place for the Series 2005-B bonds can be found in the Demand Bonds section of this note.

The Commission is subject to various covenants imposed by the bond resolutions. As of Aug. 31, 2012, the Commission and management believe that they were in compliance with all significant covenants.

Miscellaneous Bond Information As of August 31, 2012							
					Maturities		
Description of Issue	**Bonds Issued to Date (Par)**	**Date Issued**	**Range of Interest Rates**		**First Year**	**Last Year**	**First Call Date**
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds							
Series 2005-A Fixed Rate Bonds	$900,000,000	06/08/2005	3.90%	5.00%	2006	2035	04/01/2015
Series 2005-B Variable Rate Bonds	100,000,000	06/08/2005	variable*		2030	2030	**
Series 2006 Fixed Rate Bonds	750,000,000	06/08/2006	3.63%	5.00%	2007	2036	04/01/2016
Series 2006-A Fixed Rate Bonds	1,040,275,000	10/31/2006	4.00%	5.00%	2007	2035	04/01/2017
Series 2006-B Variable Rate Bonds	150,000,000	12/13/2006	variable*		2035	2036	**
Series 2007 Fixed Rate Bonds	1,006,330,000	06/21/2007	4.00%	5.00%	2008	2037	04/01/2017
Series 2008 Fixed Rate Bonds	1,100,000,000	02/28/2008	4.00%	5.00%	2009	2037	04/01/2018
Series 2009-A Fixed Rate Bonds	1,208,495,000	08/26/2009	5.37%	5.52%	2029	2039	**
Total	$6,255,100,000						

* Average interest rates on the Series 2005-B and Series 2006-B variable rate bonds are 2.63 percent and 0.81 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.

The interest payments shown below 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.

Debt Service Requirements **Governmental Activities**			
	General Obligation Bonds		
Year	**Principal**	**Interest***	**Total**
2013	53,190,000	288,447,264	341,637,264
2014	60,385,000	286,020,176	346,405,176
2015	67,925,000	283,339,754	351,264,754
2016	75,930,000	280,237,994	356,167,994
2017	84,400,000	276,797,186	361,197,186
2018-2022	572,690,000	1,317,218,088	1,889,908,088
2023-2027	902,605,000	1,150,470,054	2,053,075,054
2028-2032	1,340,400,000	894,036,570	2,234,436,570
2033-2037	1,904,930,000	527,203,172	2,432,133,172
2038-2039	948,455,000	79,190,191	1,027,645,191
Total Requirements	$6,010,910,000	$5,382,960,449	$11,393,870,449

* The interest rate in effect as of Aug. 31, 2012, for the Series 2005-B and Series 2006-B variable rate bonds used to calculate the interest debt service requirements was 0.19 percent.

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	**Governmental Activities**
Pledged Revenue Required for Future Principal and Interest on Existing General Obligation Bonds	$11,393,870,449
Term of Commitment	Fiscal Year Ending Aug 31, 2039
Percentage of Current Year Revenue Pledged	98%
Current Year Pledged Revenue*	$395,565,839
Current Year Principal and Interest Paid	$331,530,436

*Current year pledged revenue excludes $7,130,735 of interest income and is net of $680,416 of operating expenses.

Build America Bonds

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. The Commission issued $1,208,495,000 of Direct Payment BABs during fiscal 2009 (Series 2009-A bonds). The full amount issued remains outstanding at Aug. 31, 2012. ARRA provides federal reimbursements to the Mobility Fund equal to 35 percent of the interest paid on the Direct Payment BABs.

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. Effective March 1, 2012, the agreement with Depfa Bank plc covering the 2005-B variable rate bonds terminated and was replaced by an agreement with Royal Bank of Canada. The following tables provide details for outstanding demand bonds and related standby bond purchase agreements as of Aug. 31, 2012.

Demand Bonds

Governmental Activities	**Bonds Held by Liquidity Providers**	**Principal Balance Outstanding**
General Obligation Bonds		
Series 2005-B	None	$ 79,130,000
Series 2006-B	None	150,000,000
Total		$229,130,000

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	$ 90,997,625	10.0%	2% + greater of: bank prime rate + 1.5%, daily fed funds rate + 2%, or 8%	Semi-annual payments over three years starting on the first day of the third month following commencement
Series 2006-B	158,500,000	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	$249,497,625			

Interest Rate Swaps

Using rates as of Aug. 31, 2012, the debt service requirements of the Series 2006-A bonds and associated net swap payments were estimated and are presented in the following table.

The swap payments were projected assuming the current fixed annuity rates, average historical rates and swap index relationships remain the same for their terms. Interest payments and net swap payments will vary in the future in correlation with the underlying interest rate indexes.

CMS Basis Swaps:
Estimated Debt Service Requirements of Fixed Rate Debt Outstanding and Net Swap Payments

	Series 2006-A Fixed-Rate Bonds		**Constant Maturity Swaps**	
Year	**Principal**	**Interest**	**Payments**	**Net Debt Service**
2013	4,185,000	49,506,900	(5,753,600)	47,938,300
2014	5,115,000	49,339,500	(5,540,800)	48,913,700
2015	6,045,000	49,134,900	(5,540,800)	49,639,100
2016	6,955,000	48,893,100	(5,540,800)	50,307,300
2017	8,895,000	48,614,900	(5,540,800)	51,969,100
2018-2022	102,985,000	232,640,250	(27,704,000)	307,921,250
2023-2027	223,925,000	195,721,950	(22,624,933)	397,022,017
2028-2032	381,200,000	127,826,100		509,026,100
2033-2035	293,585,000	26,330,250		319,915,250
Total	$1,032,890,000	$828,007,850	$(78,245,733)	$1,782,652,117

NOTE 5 – DERIVATIVE INSTRUMENTS

Derivatives are financial instruments which derive their value, in whole or part, from the value of any one or more underlying assets or index of asset values. Derivatives include swap contracts, futures contracts, options, options on futures contracts and forward contracts.

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 by the Commission over the term of the Texas Mobility Fund 2006-A fixed-rate bonds. The basis swaps are scheduled to terminate on Sept. 1, 2027, which is before the final maturity of the related bonds.

By entering into the derivative contracts the Commission is able to achieve spread income, preserve call option and advance refunding capability, lower net interest cost by layering tax risk on top of a traditional fixed rate financing and preserve liquidity capacity. Specific risks and the current terms of the CMS basis swaps are detailed in Note 3.

Derivative instruments are recorded at their fair value in the statement of net assets. Changes in fair value are reported as investment income in the statement of activities. The fair values of the basis swaps were estimated using a proprietary pricing service. The fair values are largely dependent on the relationship of certain indexes and an estimate of where those indexes will be in the future. Given the duration of the swaps, the valuations can change considerably over time.

The $6.4 million cash payment received in fiscal 2012 reduced the interest expense paid on the related bonds. The fair values and notional amounts of the basis swaps and the changes in fair value of such derivative instruments for the year ended Aug. 31, 2012, are as follows:

Summary of Derivative Activity – CMS Basis Swaps
Governmental Activities

Counterparty	Change in Fair Value	Fair Value As of 8/31/2012	Notional Amount
JPMorgan Chase Bank, N.A.	$ (549,643)	$ 12,555,173	$ 200,000,000
Goldman Sachs Mitsui Marine Derivative Products, L.P.	(321,657)	6,293,248	100,000,000
Morgan Stanley Capital Services Inc.	(259,874)	6,272,588	100,000,000
Total	$ (1,131,174)	$ 25,121,009	$400,000,000

NOTE 6 – CONTINUANCE SUBJECT TO REVIEW

TxDOT is currently subject to a continuance review. Under the Texas Sunset Act, TxDOT will be abolished effective Sept. 1, 2015, unless continued in existence by the 84th Legislature as provided by the Act. If abolished, TxDOT may continue until Sept. 1, 2016, 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 7 –COMMITMENTS AND CONTINGENCIES

Rebatable arbitrage is defined by Internal Revenue Code Section 148 as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investment were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government.

TxDOT monitors its investments to restrict earnings to a yield less than the bond issue and, therefore, limit any arbitrage liability. TxDOT estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial conditions.

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Texas Mobility Fund
SUPPLEMENTARY INFORMATION

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Texas Mobility Fund Dedicated Revenues
For the Fiscal Year Ended August 31, 2012
(UNAUDITED)

Major Sources of Funds		
Driver License Fees	$	129,017,521
Motor Vehicle Inspection Fees		95,837,353
Certificate of Title Fees		87,060,097
Driver Record Information Fees		58,380,511
	$	370,295,482
Miscellaneous Sources		
Motor Carrier Act Penalties	$	2,641,440
Motor Vehicle Registration Fees		5,399
Depository Interest		7,130,735
	$	9,777,574
Total Dedicated Revenues	$	380,073,056

Note:
The total above does not include the Build America Bonds federal interest rate subsidy and the investment revenue attributed to the change in fair value of the investment derivative instruments.

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