

# Annual Financial Report

(Unaudited)





**Texas Department of Transportation**  
**Annual Financial Report**  
**(Unaudited)**  
For the Fiscal Year Ended August 31, 2012



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## **Introductory Section**







November 20, 2012

TO: The Honorable Rick Perry, Governor  
The Honorable Susan Combs, Texas Comptroller  
Ms. Ursula Parks, Director, Legislative Budget Board  
Mr. John Keel, CPA, State Auditor

I am pleased to submit the unaudited annual financial report of the Texas Department of Transportation (TxDOT) for the year ended August 31, 2012, in compliance with Government Code, Section 2101.011. Texas Transportation Code, Chapter 201, Section 2041, requires the preparation and submission of audited financial statements to the Texas Sunset Commission as part of the TxDOT sunset review process. The State Auditor's Office is currently auditing the fiscal 2012 TxDOT annual financial report and the audited fiscal 2012 Annual Financial Report is expected to be finalized and distributed in December 2012. This report was prepared by the accounting staff in the Finance Division of TxDOT.

TxDOT's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

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

#### **Profile of the Government**

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 currently comprised of 19 divisions and 12 offices. Four regional support centers provide operational and project delivery support for the agency's 25 geographical districts. TxDOT also maintains a comprehensive public interest website that outlines the agency's policies, plans, projects status and major initiatives at [www.txdot.gov](http://www.txdot.gov).

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

#### **OUR GOALS**

MAINTAIN A SAFE SYSTEM • ADDRESS CONGESTION • CONNECT TEXAS COMMUNITIES • BEST IN CLASS STATE AGENCY

*An Equal Opportunity Employer*

The Commission is authorized to issue general obligation and revenue bonds per statutory and constitutional provisions. Detail regarding the outstanding long-term liabilities of TxDOT is disclosed in Notes 4 and 5.

The financial reporting entity includes three blended component units, the Texas Private Activity Bond Surface Transportation Corporation, Grand Parkway Association and Grand Parkway Transportation Corporation. Because of the closeness of their relationships with TxDOT these legally separate entities are blended as though they are part of the primary government of TxDOT.

TxDOT has the statutory responsibility to coordinate planning, development, and operation of the state's highway system and other transit services. The mission of TxDOT is to work with others to provide safe and reliable transportation solutions for Texas. TxDOT's goals are to maintain a safe system, address congestion, connect Texas communities and become a best-in-class state agency. TxDOT values trust, integrity, responsibility and service. This report reflects the operation of TxDOT and its blended component units.

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

### **Budgetary Controls**

Budgetary control is exercised through expenditure budgets. These budgets are entered on the statewide accounting system after the General Appropriations Act becomes law. The General Appropriations Act becomes law after passage by the Legislature and certification by the Texas Comptroller of Public Accounts that the amounts appropriated are within the estimated collections and the signing of the bill by the governor. Controls are maintained at the agency level, with additional control at the fund and appropriation level to ensure expenditures do not exceed authorized limits. State budgets are established on a biennial cycle. Further detail on budgetary accounting for the state is found in the required supplementary information in addition to the MD&A section of this report.

### **State Economy**

The services provided by TxDOT directly impact the state's economy. Investments in highway maintenance and construction serve as an immediate boost to the economy through the employment of workers and the production of construction materials. Over the long-term, the Texas economy benefits in many more ways from TxDOT's transportation network enhancements, including the positive impacts on business costs and productivity, labor market access, attractiveness to new business, residents and tourists and property values.

**Long-Term Financial Planning**

Texas' population is expected to grow from 25 million people now to 40 million people by 2035. Population growth brings more congestion to urban areas, increases the stress on roads and bridges and places greater demand on rural highways to support freight movement and travel connections between farms, ranches, homes jobs and markets. Highway infrastructure continues to age and income from traditional transportation funding sources (taxes and fees) is no longer sufficient to keep pace with the demand for current and projected highway construction and maintenance needs.

Motor fuel taxes, TxDOT's primary state funding source, shows a slight increase into fiscal year 2012 over 2011. The motor fuel user fee on gasoline and diesel is 20 cents per gallon and 15 cents per gallon for liquefied gas. The motor fuels tax rates were last raised in 1991.

TxDOT received federal funds through the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) that was enacted by Congress on Aug. 10, 2005 and expired on Sept. 30, 2009. On July 6, 2012, the Moving Ahead for Progress in the 21<sup>st</sup> Century Act (MAP-21) was signed into law and will fund surface transportation projects for federal fiscal years 2013 and 2014. In the interim, TxDOT operated under continuing resolutions based on federal fiscal 2010 appropriations.

On Feb. 17, 2009 the U.S. Congress passed the American Recovery and Reinvestment Act (ARRA) to stimulate the U.S. economy and create jobs. TxDOT received an allocation of \$1.7 billion in ARRA highway funds and \$50 million in ARRA transit funds. Additional funding for Texas was provided directly to the state's metropolitan planning organizations and Texas urban transit providers. All of these projects are expected to be completed by Sept. 30, 2015. Any funds unspent as of Sept. 30, 2015 will be lost. The Commission and staff worked in conjunction with local partners to quickly identify projects eligible for this funding.

Constitutionally authorized bond issuances provide additional funding for transportation projects across the state. See the MD&A and Notes 4 and 5 of this report for more detail on TxDOT's bond programs and related debt service requirements.

**Major Initiatives**

TxDOT manages \$3-4 billion in annual construction and maintenance contract lettings. TxDOT operates on a two year letting schedule with longer range planning provided by the Statewide Transportation Improvement Program (4 years), the Unified Transportation Program (10 years) as well as the Metropolitan Transportation and Rural Transportation Plans (20 years) and the Statewide Long-Range Transportation Plan (24 years).

Annual Financial Report

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November 20, 2012

*Innovative Financing Efforts*

TxDOT serves as a national leader in efforts to utilize innovative financing to deliver much needed transportation improvements faster than would be possible using only traditional financing options. TxDOT utilizes public/private partnerships, federal loan programs, concession agreements and other techniques to maximize our ability to provide important new routes, enhancements to existing routes or other services to the traveling public. TxDOT also works closely with and provides financial assistance via grants and loans to Regional Mobility Authorities and major tolling authorities. TxDOT works together with these and other local government partners to prioritize projects and deliver transportation solutions to the public.

*Modernization Project*

The TxDOT Modernization Project wrapped up its work and successfully reached its goal to establish a foundation for change at TxDOT in June 2012. After receiving input from the independent audit firm of Grant Thornton and the Texas Transportation Commission-created Restructure Council, TxDOT focused on what was needed for effective and lasting changes. TxDOT hired Kaoppel Consulting from San Antonio as the change management firm to assist with the planning and implementation of the recommendations from the Restructure Council.

An internal leadership team made up of diverse leaders from across TxDOT was committed to leading the Modernization effort. They and TxDOT employees worked diligently to ensure positive improvements were made and that our industry stakeholders and partners were involved along the way.

Our vision is to be a trusted, performance-driven organization committed to collaborating with internal and external partners to deliver a modern, interconnected and multimodal transportation system that enhances the quality of life for Texans and increases the competitive position for Texas industry.

**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.

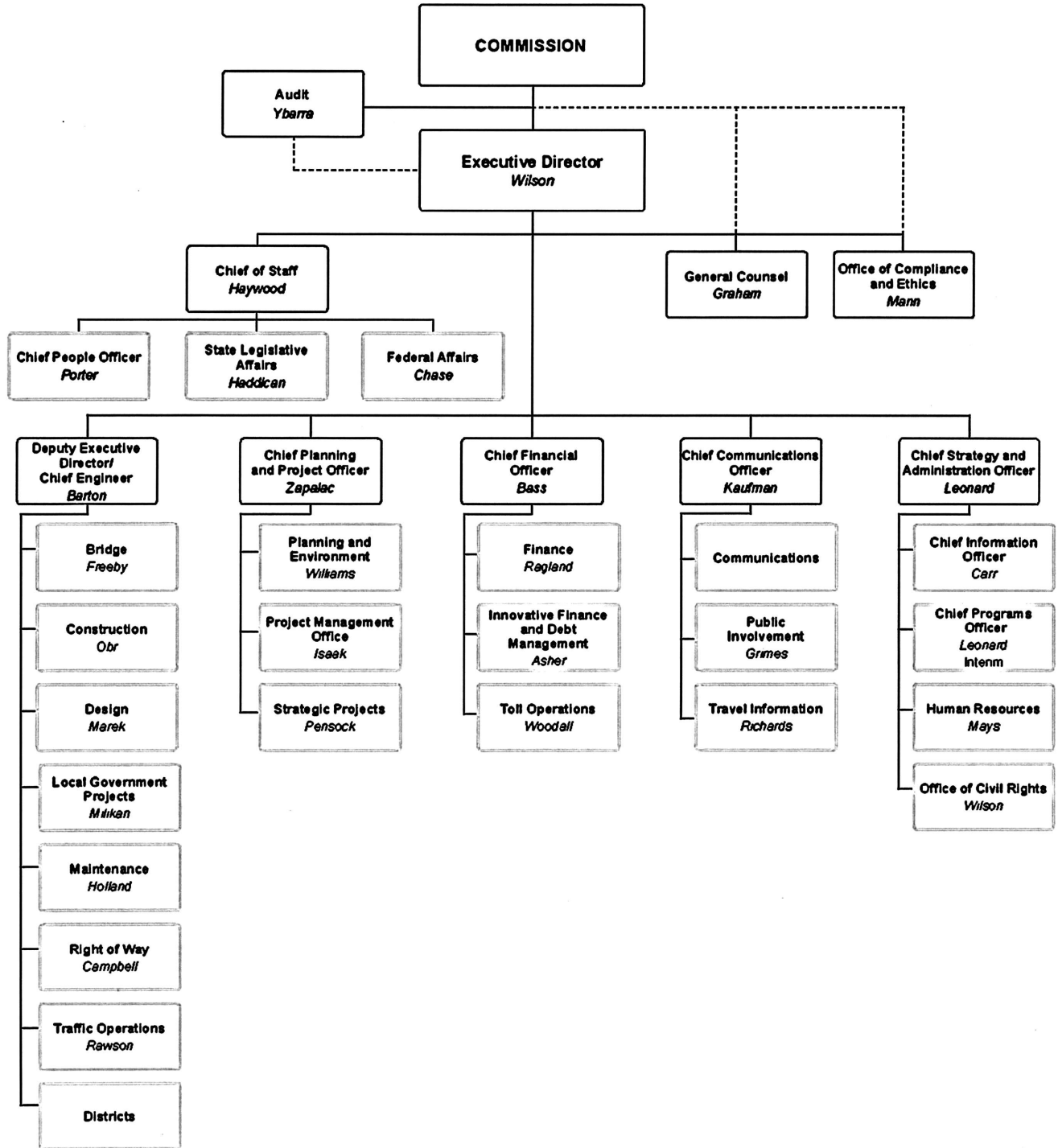
Sincerely,



James M. Bass  
Chief Financial Officer

Enclosure

## 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

**FINANCIAL SECTION**

*Reserved for Audit Opinion Letter – Audit of these financial statements is pending.*



*Reserved for Audit Opinion Letter – Audit of these financial statements is pending*

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## **Management's Discussion and Analysis**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Texas Department of Transportation (TxDOT) annual financial statements presents our discussion and analysis of TxDOT's financial performance during the fiscal year ended Aug. 31, 2012. Use this section in conjunction with the TxDOT's basic financial statements.

GASB Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis - for State and Local Governments*, establishes reporting requirements for state and local governments to report in full compliance with accounting principles generally accepted in the United States of America (GAAP). TxDOT implemented the GASB 34 reporting requirements beginning with this fiscal 2012 annual financial report. Consequently, for this 2012 implementation year, the presentation of complete comparative data is not available or required. Comparative data will be available and presented for the 2013 TxDOT annual financial report, if a fiscal 2013 GASB 34 based report is produced.

### Overview of Financial Statements

TxDOT's financial reporting for fiscal 2012 uses a substantially revised format as compared to previous years. The GASB 34 reporting focus is on TxDOT as a whole, and on the major individual funds. This focus presents a more comprehensive view of TxDOT's financial activities and makes it easier to compare the performance of TxDOT to that of other state departments of transportation.

The financial section of this annual financial report consists of five parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, (3) notes to the financial statements and (4) required supplementary information and (5) other supplementary information presenting combining statements. The report also includes TxDOT's schedule of expenditures of federal awards, schedule of state pass-through grants from/to state agencies and bond schedules.

TxDOT's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applied to governmental units. The basic financial statements include entity-wide financial statements, fund financial statements and notes to financial statements that provide more detailed information to supplement the basic financial statements.

### Reporting on TxDOT as a Whole

The entity-wide financial statements are designed to present an overall picture of the financial position of TxDOT. These statements consist of the statement of net assets and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private sector companies.

The statement of net assets combines and consolidates TxDOT's current financial resources with capital assets and long-term obligations. This statement includes all of TxDOT's assets and liabilities. Net assets are the difference between TxDOT's assets and liabilities and represent one measure of TxDOT's financial health.

The statement of activities focuses on both the gross and net cost of various activities (governmental and business-type); these costs are paid by general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services, and includes all current year revenues and expenses.

The statement of net assets and the statement of activities divide TxDOT's activities into two types.

- *Governmental Activities:* TxDOT's basic services are reported here including the activity of all the governmental funds.
- *Business-Type Activities:* The financial activity associated with the Central Texas Turnpike System (CTTS) is reported here.

## Reporting on TxDOT's Most Significant Funds

Fund financial statements present financial information with a focus on the most significant funds. Use these statements to find more detailed information about TxDOT's most significant activities. A fund is a separate accounting entity with a self-balancing set of accounts. TxDOT uses funds to keep track of sources of funding and spending related to specific activities.

### Governmental Funds

A majority of TxDOT's activities is reported in governmental funds. Reporting of these funds focuses 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 governmental fund statements provide a detailed short-term view of TxDOT's general governmental operations and the basic services it provides. This information should be helpful to determine whether there are more or less resources available for TxDOT's programs. The reconciliation following the fund financial statements explains the differences between the government's activities, reported in the entity-wide statement of net assets and entity-wide statement of activities, and the governmental funds. The state highway fund and Texas mobility fund are reported as major funds.

### Proprietary Funds

When TxDOT charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the entity-wide financial statements but are reported here to provide information at the fund level. The CTTS fund is the only proprietary fund reported.

## Reporting on TxDOT's Fiduciary Responsibilities

All fiduciary activities are reported in separate statements of fiduciary net assets and schedule of changes in agency fund assets and liabilities. The activities are reported separately from other financial activities because TxDOT cannot use these assets to finance operations and is holding these funds in a purely custodial capacity.

## Financial Analysis of TxDOT as a Whole

### Net Assets

*Net Assets* - The assets of TxDOT exceeded its liabilities as of Aug. 31, 2012 by \$64.2 billion (presented as net assets). The largest component (98.1 percent) of TxDOT's net assets reflects its investment in capital assets less any related debt outstanding (excluding debt proceeds that have yet to be expended for infrastructure construction) that was needed to acquire or construct the assets. TxDOT uses these capital assets to provide services to the citizens and businesses in the state; consequently, these assets are not available for future spending. Although reported net of related debt, capital assets themselves cannot be used to liquidate liabilities.

*Capital Assets* - Capital assets, net of depreciation and amortization, were approximately \$77.3 billion as of Aug. 31, 2012. Additions to capital assets totaled \$3.2 billion for the fiscal year ended Aug. 31, 2012. Construction in progress on state infrastructure accounted for the majority of these additions. See the capital assets section of this management's discussion and analysis for more information on the accounting treatment of capital assets.

*Long-term Liabilities* - TxDOT's total long-term obligations decreased by \$75 million during the current fiscal year to \$15 billion. This change is attributable to the repayment of principal on existing long-term debt. For more information on long-term liabilities see Notes 4 and 5 of this report.

**Statement of Net Assets**

August 31, 2012 (Amounts in Thousands)

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>Total Primary Government</u>
<b>ASSETS</b>			
Assets Other Than Capital Assets	\$ 6,907,743	\$ 491,703	\$ 7,399,446
Capital Assets	<u>74,732,279</u>	<u>2,614,813</u>	<u>77,347,092</u>
Total Assets	<u>81,640,022</u>	<u>3,106,516</u>	<u>84,746,538</u>
<b>LIABILITIES</b>			
Current Liabilities	5,930,042	12,008	5,942,050
Non-current Liabilities	<u>11,949,103</u>	<u>2,667,339</u>	<u>14,616,442</u>
Total Liabilities	<u>17,879,145</u>	<u>2,679,347</u>	<u>20,558,492</u>
<b>NET ASSETS</b>			
Invested in Capital Assets,			
Net of Related Debt	62,447,552	512,058	62,959,610
Restricted	975,625	7,247	982,872
Unrestricted	<u>337,700</u>	<u>(92,136)</u>	<u>245,564</u>
Total Net Assets	<u>\$ 63,760,877</u>	<u>\$ 427,169</u>	<u>\$ 64,188,046</u>

**Changes in Net Assets**

TxDOT earned program revenues of \$3.7 billion and general revenues of \$2.5 billion, for total revenues of \$6.2 billion. The expenses of TxDOT were \$5.1 billion. As a result of revenues exceeding expenses, the total net assets were \$64.2 billion. Revenues and expenses of TxDOT's governmental and business-type activities are detailed on the following page.

**Annual Financial Report (Unaudited)**

**Changes in Net Assets**

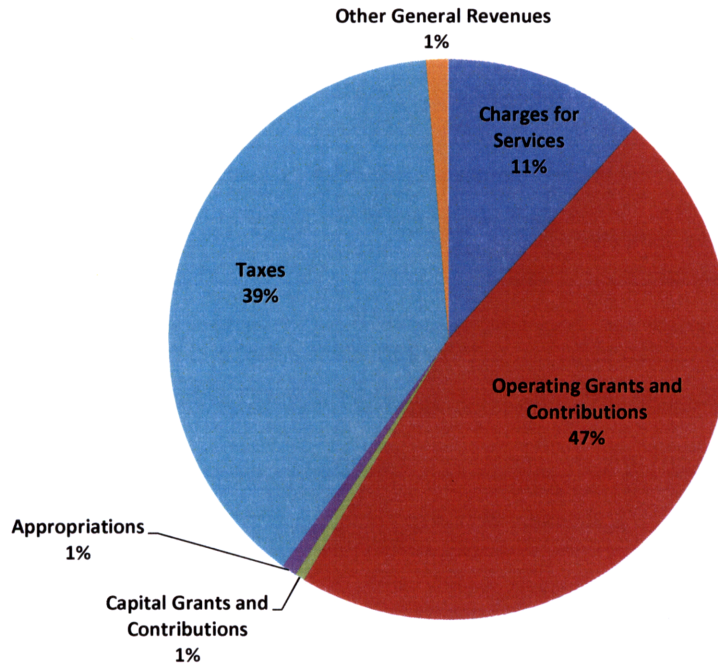
For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total Primary Government</b>
<b>REVENUES</b>			
Program Revenues:			
Charges for Services	\$ 706,887	\$ 85,819	\$ 792,706
Operating Grants and Contributions	2,897,896		2,897,896
Capital Grants and Contributions	34,705	14	34,719
<b>Total Program Revenues</b>	<b>3,639,488</b>	<b>85,833</b>	<b>3,725,321</b>
General Revenues:			
Appropriations	52,901		52,901
Taxes	2,378,221		2,378,221
Unrestricted Investment Earnings	47,823	6,855	54,678
Settlement of Claims	22,715	377	23,092
Gain on Sale of Capital Assets	5,303		5,303
Other General Revenues	2,447		2,447
<b>Total General Revenues</b>	<b>2,509,410</b>	<b>7,232</b>	<b>2,516,642</b>
<b>EXPENSES</b>			
Transportation:			
Planning and Construction	1,036,448	147,555	1,184,003
Maintenance and Preservation	2,901,155	68,221	2,969,376
Public Transportation and Safety	251,680	67	251,747
Administration	193,113		193,113
Indirect Interest on Long-Term Debt	524,963		524,963
<b>Total Expenses</b>	<b>4,907,359</b>	<b>215,843</b>	<b>5,123,202</b>
Excess (Deficiency) Before Special Items and Transfers	1,241,539	(122,778)	1,118,761
Transfers - Internal Activities (Note 12)	(55,242)	55,242	
Transfers in from other state agencies (Note 12)	592,303		592,303
<b>Change in Net Assets</b>	<b>1,778,600</b>	<b>(67,536)</b>	<b>1,711,064</b>
Net Assets, September 1, 2011	61,982,277	495,095	62,477,372
Restatements		(390)	(390)
<b>Net Assets, September 1, 2011, as Restated</b>	<b>61,982,277</b>	<b>494,705</b>	<b>62,476,982</b>
<b>Net Assets, August 31, 2012</b>	<b>\$ 63,760,877</b>	<b>\$ 427,169</b>	<b>\$ 63,188,046</b>

Over time, increases and decreases in net assets measures whether TxDOT's financial position is improving or deteriorating. Overall, the net assets of governmental activities increased by \$710.7 million or 1.1 percent from fiscal 2011, primarily due to TxDOT's continued efforts to maintain, improve and expand the state's infrastructure network.

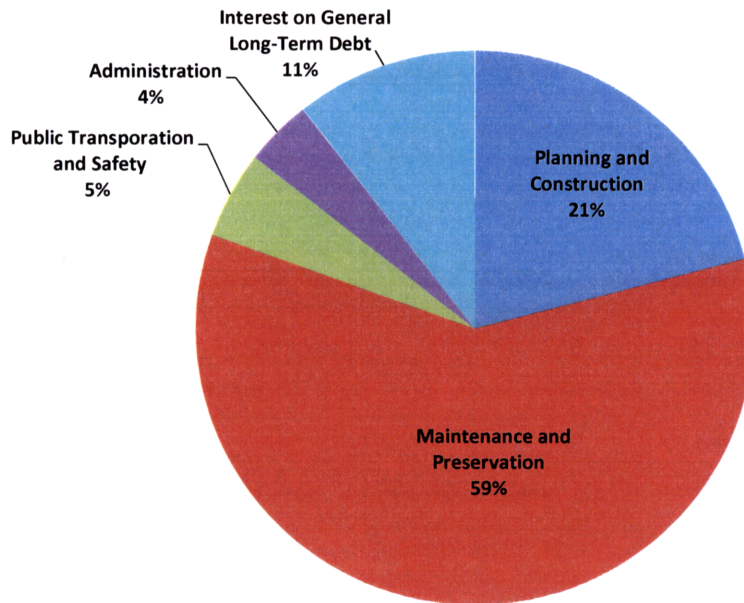
### Revenues by Source: Governmental Activities

For the Fiscal Year Ended August 31, 2012



### Expenses by Function: Governmental Activities

For the Fiscal Year Ended August 31, 2012

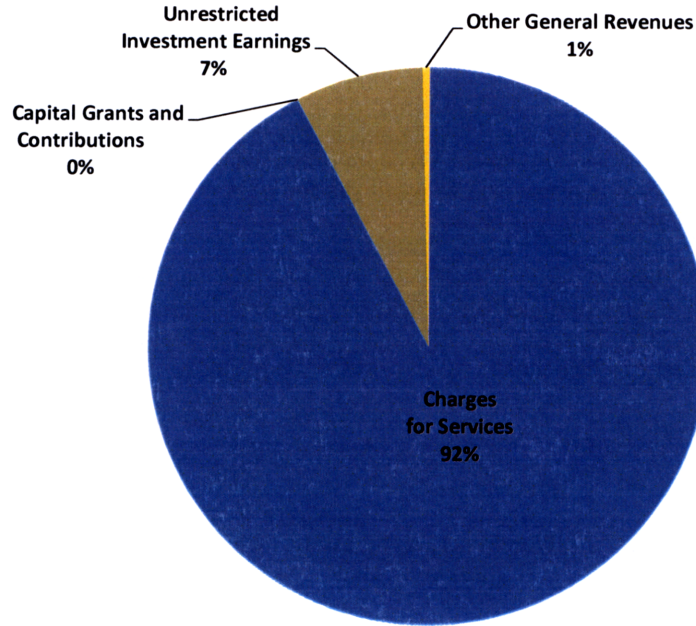


Note: Totals may not add due to rounding.



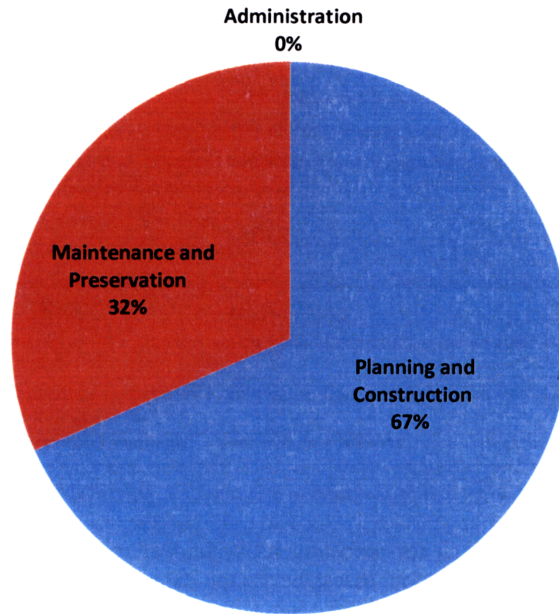
### Revenues by Source: Business-Type Activities

For the Fiscal Year Ended August 31, 2012



### Expenditures by Function: Business-Type Activities

For the Fiscal Year Ended August 31, 2012



Note: Totals may not add due to rounding.

## Financial Analysis of TxDOT's Funds

TxDOT's governmental funds reported a combined ending fund balance, as of Aug. 31, 2012 of \$2.2 billion. Expenditures exceeded revenues by \$1.5 billion. Not all expenditure activity is supported by revenues. Some project expenditures are funded by bond proceeds and up-front concession payments. The revenue recognition on up-front concession payments is generally much slower than the timing of project expenditures.

### Budgetary Highlights

#### *Variances for the State Highway Fund*

The differences from original and final revenue budgets are due to both economic and legislative reasons. Budget mechanisms allow budget revisions for certain revenues when collected exceed the original budget. Accordingly, revisions were made to both revenues and expenditures for a net decrease of deficiency of revenues under expenditures of \$322.7 million.

There was a negative \$712.5 million variance between the actual to final budget revenues. The variance is primarily due to changes in actual federal revenue below final budget. Actual results for expenditures were \$1 billion less than the final budget revision. This variance is primarily due to the large unexpended balanced in the state highway fund during the first year of a biennium.

### Capital Assets and Debt Administration

#### *Capital Assets*

As of Aug. 31, 2012, TxDOT had \$77.3 billion in net capital assets, including roads, bridges, buildings, land, equipment and intangible capital assets.

<b>Capital Assets - Net of Depreciation and Amortization</b>			
August 31, 2012 (in Thousands)			
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total Primary Government</b>
Land and Land Improvements	\$ 9,108,873	\$ 631,109	\$ 9,739,982
Infrastructure - Nondepreciable	50,661,186	1,629,379	52,290,565
Infrastructure - Depreciable	8,567,495	331,751	8,899,246
Construction in Progress	5,684,374		5,684,374
Buildings and Building Improvements	274,244	6,047	280,291
Furniture and Equipment	51,584		51,584
Vehicles, Boats and Aircraft	290,360		290,360
Other Capital Assets	5,793		5,793
Land Use Rights - Permanent	67,495	16,526	84,021
Land Use Rights - Term	14,671		14,671
Computer Software	6,205		6,205
<b>Total Capital Assets</b>	<b>\$ 74,732,279</b>	<b>\$ 2,614,812</b>	<b>\$ 77,347,091</b>

TxDOT adopted the modified approach for reporting its system of roads and highways. As required by the modified approach, TxDOT conducts condition assessments on its roadways through the Texas Maintenance Assessment Program (TxMAP). TxMAP is conducted on a yearly basis and results in overall condition level ratings.

TxDOT's policy is to maintain its interstate highways at a condition level of 80 percent, its non-interstate highways (farm-to-market and other road systems) at a condition level of 75 percent and 80 percent for the CTTS. The condition assessment results for fiscal 2012 reflect condition levels of 82 percent for the interstate system, 77.7 percent for the non-interstate system and 86.2 percent for CTTS. Additional information is presented in the financial section's required supplementary information other than MD&A.

To ensure future availability of essential services and to finance capital improvements, TxDOT made commitments for construction contracts, comprehensive development agreements and pass-through toll agreements totaling an estimated \$8.3 billion. These commitments extend beyond the end of the fiscal year and represent future costs to TxDOT. Note 2 provides detail about TxDOT's capital assets activity and Note 15 details TxDOT's significant commitments related to future capital expenditures.

*Debt Administration*

The Commission, on behalf of TxDOT, has issued both general obligation bonds and revenue bonds. Each series of revenue bonds are backed by pledged revenues and restricted assets specified in the bond resolutions. Note 4 discloses details on TxDOT's long-term liabilities and Note 5 provides detail information on TxDOT's bonded indebtedness.

<b>Outstanding Bonded Debt</b>			
As of August 31, 2012			
		<b>Governmental Activities</b>	<b>Business-Type Activities</b>
		<u>                    </u>	<u>                    </u>
General Obligation Bonds Payable	\$	7,113,145	\$
Revenue Bonds Payable		4,054,445	1,616,750
<b>Total Bond Payable</b>	\$	<u>11,167,590</u>	\$ <u>1,616,750</u>

*Bond Credit Ratings*

<b>Long-Term Credit Ratings as of August 31, 2012</b>			
	<u>Fitch</u>	<u>Moody's</u>	<u>Standard &amp; Poor's</u>
<b>Governmental Activities</b>			
General Obligation Bonds	AAA	Aaa	AA+
Revenue Bonds	n/a	Aaa	AAA
<b>Business-Type Activities</b>			
Revenue Bonds	BBB+	Baa1	BBB+

Short term ratings are usually reliant upon the supporting liquidity facility and its strength. The following variable rate demand bonds carried short term credit ratings as of Aug. 31, 2012.

<b>Short-Term Credit Ratings as of August 31, 2012</b>			
	<u>Fitch</u>	<u>Moody's</u>	<u>Standard &amp; Poor's</u>
<b>Governmental Activities</b>			
General Obligation Bonds			
TMF Series 2005-B Variable Rate Interest Bonds	F1+	VMIG 1	A-1+
TMF Series 2006-B Variable Rate Interest Bonds	F1+	VMIG 1	n/a
Revenue Bonds			
SHF Series 2006B Variable Rate Interest Bonds	n/a	VMIG 1	A-1+

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.

**Contacting TxDOT's Financial Management**

This financial report is designed to provide a general overview of the TxDOT'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  
125 East 11<sup>th</sup> Street  
Austin, Texas 78701-2483

## Basic Financial Statements

**Texas Department of Transportation**  
**STATEMENT OF NET ASSETS**  
August 31, 2012 (Amounts in Thousands)

	Primary Government		Total
	Governmental Activities	Business Type Activities	
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 5,384,035	\$ 8,027	\$ 5,392,062
Restricted:			
Cash and Cash Equivalents		19,303	19,303
Legislative Appropriations	72,866		72,866
Short Term Investments		300,254	300,254
Restricted:			
Short Term Investments		6,326	6,326
Due from Other Agencies (Note 12)	198,062		198,062
Receivable:			
Taxes	218,717		218,717
Federal	323,593		323,593
Interest and Dividends	8,189	283	8,472
Accounts Receivable	34,043	3,997	38,040
Other Intergovernmental	60,538	200	60,738
Prepaid Items	2,097	8	2,105
Loans and Contracts	8,888		8,888
Consumable Inventory	123,305	223	123,528
Total Current Assets	<u>6,434,333</u>	<u>338,621</u>	<u>6,772,954</u>
Noncurrent Assets:			
Internal Balances (Note 12)	14	(14)	0
Loans and Contracts	383,683		383,683
Investments	25,121		25,121
Restricted:			
Investments		114,999	114,999
Deferred Charges	34,433	37,647	72,080
Receivable:			
Federal	30,156		30,156
Other Intergovernmental		451	451
Other Noncurrent Assets	3		3
Capital Assets:			
Non-Depreciable Capital Assets (Note 2)	65,521,928	2,277,014	67,798,942
Depreciable Capital Assets, Net (Note 2)	9,210,351	337,798	9,548,149
Total Noncurrent Assets	<u>75,205,689</u>	<u>2,767,895</u>	<u>77,973,584</u>
Total Assets	<u><u>81,640,022</u></u>	<u><u>3,106,516</u></u>	<u><u>84,746,538</u></u>

*Concluded on the following page*

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

**Texas Department of Transportation**  
**STATEMENT OF NET ASSETS (concluded)**  
 August 31, 2012 (Amounts in Thousands)

	Primary Government		Total
	Governmental Activities	Business Type Activities	
<b>LIABILITIES</b>			
Current Liabilities:			
Payables			
Accounts	933,481		933,481
Payroll	59,876		59,876
Interest	218,693	3,664	222,357
Contract Retainage	8,135		8,135
Due to Other Agencies (Note 12)	52,017		52,017
Unearned Revenue	4,231,822	1,056	4,232,878
Employees' Compensable Leave (Note 4)	55,277		55,277
Notes and Loans Payable (Note 4)	151,689		151,689
General Obligation Bonds Payable (Note 4, 5)	86,434		86,434
Revenue Bonds Payable (Note 4, 5)	126,518	7,288	133,806
Pollution Remediation Obligation (Note 4)	6,100		6,100
Total Current Liabilities	<u>5,930,042</u>	<u>12,008</u>	<u>5,942,050</u>
Noncurrent Liabilities:			
Employees' Compensable Leave (Note 4)	17,301		17,301
Notes and Loans Payable (Note 4)	976,538	1,057,877	2,034,415
General Obligation Bonds Payable (Note 4, 5)	7,026,711		7,026,711
Revenue Bonds Payable (Note 4, 5)	3,927,927	1,609,462	5,537,389
Pollution Remediation Obligation (Note 4)	626		626
Total Noncurrent Liabilities	<u>11,949,103</u>	<u>2,667,339</u>	<u>14,616,442</u>
Total Liabilities	<u>17,879,145</u>	<u>2,679,347</u>	<u>20,558,492</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	62,447,552	512,058	62,959,610
Restricted for:			
Capital Projects	539,823		539,823
Debt Service	435,802	7,247	443,049
Unrestricted	337,700	(92,136)	245,564
Total Net Assets	<u>63,760,877</u>	<u>427,169</u>	<u>64,188,046</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 81,640,022</u>	<u>\$ 3,106,516</u>	<u>\$ 84,746,538</u>

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

**Texas Department of Transportation**  
**STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

<u>Functions</u>	<u>Expenses</u>	<u>PROGRAM REVENUES</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
Governmental Activities:				
Transportation:				
Planning and Construction	1,036,448	580,788	1,444,502	34,705
Maintenance and Preservation	2,901,155	115,464	1,341,498	
Public Transportation and Safety	251,680	9,265	109,619	
Administration	193,113	1,370	2,277	
Interest on General Long-Term Debt	524,963			
Total Governmental Activities	<u>4,907,359</u>	<u>706,887</u>	<u>2,897,896</u>	<u>34,705</u>
Business-Type Activities:				
Transportation:				
Planning and Construction	147,555			14
Maintenance and Preservation	68,221	85,819		
Administration	67			
Total Business-Type Activities	<u>215,843</u>	<u>85,819</u>		
Total Primary Government	<u>5,123,202</u>	<u>792,706</u>	<u>2,897,896</u>	<u>34,705</u>

**GENERAL REVENUES:**

Original Appropriation  
Additional Appropriation  
Lapsed Appropriation  
Motor Fuel Tax  
Lubricant Sales Tax  
Unrestricted Investment Earnings  
Settlement of Claims  
Gain on Sale of Capital Assets  
Other Revenues  
Transfers - Internal Activities (Note 12)  
Transfers In (Out) to other State Agencies (Note 12)  
Total General Revenues and Transfers  
Changes in Net Assets  
Net Assets, September 1, 2011  
Restatements (Note 14)  
Net Assets, September 1, 2011, As Restated  
Net Assets, August 31, 2012

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



NET (EXPENSES) REVENUE AND CHANGES IN NET ASSETS		
Governmental Activities	Business- Type Activities	Total
1,023,547		1,023,547
(1,444,193)		(1,444,193)
(132,796)		(132,796)
(189,466)		(189,466)
(524,963)		(524,963)
<u>(1,267,871)</u>		<u>(1,267,871)</u>
	(147,541)	(147,541)
	17,598	17,598
	(67)	(67)
	<u>(130,010)</u>	<u>(130,010)</u>
<u>(1,267,871)</u>	<u>(130,010)</u>	<u>(1,397,881)</u>
116,562		116,562
237		237
(63,898)		(63,898)
2,336,421		2,318,203
41,800		41,800
47,823	6,855	54,678
22,715	377	23,092
5,303		5,303
2,447		2,447
(55,242)	55,242	0
592,303		592,303
<u>3,046,471</u>	<u>62,474</u>	<u>3,090,727</u>
<u>1,778,600</u>	<u>(67,536)</u>	<u>1,692,846</u>
61,982,277	495,095	62,477,372
	(390)	(390)
<u>61,982,277</u>	<u>494,705</u>	<u>62,476,982</u>
<u>63,760,877</u>	<u>427,169</u>	<u>64,169,828</u>

**Texas Department of Transportation**  
**Balance Sheet – Governmental Funds**  
 August 31, 2012 (Amounts in Thousands)

	State Highway Fund	Texas Mobility Fund	Nonmajor Funds	Total
<b>ASSETS</b>				
Cash and Cash Equivalents				
Cash on Hand	\$ 398	\$	\$	\$ 398
Cash in Bank	597		101	698
Cash in State Treasury	3,569,607	1,118,551	694,781	5,382,939
Legislative Appropriations			72,866	72,866
Receivables:				
Taxes	218,717			218,717
Federal	327,551	9,710	16,488	353,749
Other Intergovernmental	60,538			60,538
Interest and Dividends	8,189			8,189
Accounts Receivable	33,510	532		34,042
Due from Other Funds (Note 12)	51,384		533	51,917
Due from Other Agencies (Note 12)	197,597		465	198,062
Prepaid Items	2,097			2,097
Consumable Inventories	123,306			123,306
Loans and Contracts	392,326		245	392,571
Other Assets			3	3
Total Assets	<u>4,985,817</u>	<u>1,128,793</u>	<u>785,482</u>	<u>6,900,092</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Payables:				
Accounts Payable	873,535	11	59,935	933,481
Contracts Payable	8,135			8,135
Payroll Payable	59,777		99	59,876
Due to Other Funds (Note 12)	533	19,555	31,814	51,902
Due to Other Agencies (Note 12)	52,017			52,017
Deferred Revenues	3,261,296	400	359,733	3,621,429
Total Liabilities	<u>4,255,293</u>	<u>19,966</u>	<u>451,581</u>	<u>4,726,840</u>
Fund Balances (Deficits):				
Nonspendable	125,403		200	125,603
Restricted	914,265	1,108,827	257,651	2,280,743
Committed	201,935		330	202,265
Assigned			170	170
Unassigned	(511,079)		75,550	(435,529)
Total Fund Balances	<u>730,524</u>	<u>1,108,827</u>	<u>333,901</u>	<u>2,173,252</u>
Total Liabilities and Fund Balances	<u>\$ 4,985,817</u>	<u>\$ 1,128,793</u>	<u>\$ 785,482</u>	<u>\$ 6,900,092</u>

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

## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

August 31, 2012 (Amounts in Thousands)

**Total Fund Balance - Governmental Funds** \$ 2,173,252

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets less accumulated depreciation and amortization are included in the  
statement of net assets (Note 2).

Capital Assets - Non-Depreciable or Non-Amortizable	\$ 65,521,928	
Capital Assets - Depreciable or Amortizable, Net	<u>9,210,351</u>	74,732,279

Some of TxDOT's resources are not currently available and are not  
reported in the funds

Deferred charges for unamortized bond issuance cost	34,433	
Derivative Instrument Investment	<u>25,121</u>	59,554

Some of TxDOT's revenues will be collected after year-end but are not  
available soon enough to pay current year's expenditures and therefore are  
deferred in the funds.

43,166

Long-term liabilities applicable to TxDOT's governmental activities are  
not due and payable in the current period and accordingly are not reported in  
the funds. These liabilities, however, are included in the statement  
of net assets (Note 4 and Note 5).

Employees' Compensable Leave	(72,578)	
Notes and Loans Payable	(1,128,227)	
General Obligation Bonds Payable	(7,113,145)	
Revenue Bonds Payable	(4,054,445)	
Pollution Remediation Obligations	(6,726)	
Non-Traditional Agreements Deferred Revenue	<u>(653,560)</u>	(13,028,681)

\* current portion = \$426,018 and non-current portion = \$12,602,663

Interest payable applicable to TxDOT's governmental activities are not due  
and payable in the current period and accordingly are not reported in the funds.  
These liabilities, however, are included in the statement of net assets.

(218,693)

**Net Assets of Governmental Activities**

\$ 63,760,877

**Statement of Revenues, Expenditures and  
Changes in Fund Balances – Governmental Funds**  
For the Fiscal Year Ended, August 31, 2012 (Amounts in Thousands)

	State Highway Fund	Texas Mobility Fund	Nonmajor Funds	Total
<b>REVENUES:</b>				
Legislative Appropriations:				
Original Appropriations	\$	\$	\$ 116,562	\$ 116,562
Additional Appropriations			237	237
Taxes	2,366,486			2,366,486
Federal Revenues	2,823,780	23,304	39,572	2,886,656
Federal Grant Pass-Through Revenues (Note 12)	5,811			5,811
Licenses, Fees and Permits	120,952	372,942	7	493,901
Interest and Investment Income	37,727	7,131	4,097	48,955
Land Income	9,650			9,650
Settlement of Claims	22,715			22,715
Sales of Goods and Services	7,871		181,873	189,744
Other Revenues	866		1,590	2,456
Total Revenues	<u>5,395,858</u>	<u>403,377</u>	<u>343,938</u>	<u>6,143,173</u>
<b>EXPENDITURES:</b>				
Transportation:				
Planning and Construction (Note 18)	991,824	2,748	18,776	1,013,348
Maintenance and Preservation (Note 18)	2,224,602			2,224,602
Public Transportation and Safety (Note 18)	249,538		2,143	251,681
Administration (Note 18)	193,113			193,113
Capital Outlay	2,649,105		566,162	3,215,267
Principal on State Bonds		46,770	134,670	181,440
Principal on Pass -Through Tolls	57,846			57,846
Interest on State Bonds	0	284,760	243,783	528,543
Other Financing Fees	5,132	514	456	6,102
Total Expenditures	<u>6,371,160</u>	<u>334,792</u>	<u>965,990</u>	<u>7,671,942</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(975,302)</u>	<u>68,585</u>	<u>(622,052)</u>	<u>(1,528,769)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In (Note 12)	1,721,623		302,696	2,024,319
Operating Transfers Out (Note 12)	(1,063,309)	(239,981)	(183,551)	(1,486,841)
Sale of Capital Assets	11,065		2,176	13,241
Appropriations Lapsed			(63,897)	(63,897)
Total Other Financing Sources (Uses)	<u>669,379</u>	<u>(239,981)</u>	<u>57,424</u>	<u>486,822</u>
Net Change in Fund Balances	<u>(305,923)</u>	<u>(171,396)</u>	<u>(564,628)</u>	<u>(1,041,947)</u>
Fund Balances, September 1, 2011	1,036,447	1,280,223	898,529	3,215,199
Fund Balances, August 31, 2012	<u>\$ 730,524</u>	<u>\$ 1,108,827</u>	<u>\$ 333,901</u>	<u>\$ 2,173,252</u>

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

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

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

**Net Change in Fund Balances** \$ (1,041,947)

Governmental funds report capital outlays as expenditures. In the statement of activities, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:

Capital Outlay	\$ 3,215,267	
Depreciation and Amortization Expense (Note 2)	<u>(682,258)</u>	
		2,533,009

The effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to increase net assets. 26,349

Decrease in the fair values of investment derivatives and increase in the non-current federal receivables do not impact current financial resources to governmental funds, but change noncurrent assets in the statement of net assets.

Decrease in Fair Value of Investment Derivatives	(1,131)	
Increase in Non-current Federal Receivable	5,419	
Increase in Motor Fuel Tax Receivable	<u>11,734</u>	
		16,022

Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net assets. Repayment of long-term debt consumes current financial resources and is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets.

Repayment of Bond and Note Principal	<u>239,286</u>	
		239,286

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 5,881

**Change in Net Assets of Governmental Activities** \$ 1,778,600

**Statement of Net Assets – Proprietary Fund**

August 31, 2012 (Amounts in Thousands)

	<u>ENTERPRISE FUND*</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	
Money Market and Similar Funds	\$ 8,007
Restricted Cash and Cash Equivalents in State Treasury	20
Restricted Cash and Cash Equivalents	
Money Market and Similar Funds	19,303
Short-Term Investments	300,254
Restricted Short-Term Investments	6,326
Interest and Dividends Receivable	283
Accounts Receivable	3,997
Due from Other Funds (Note 12)	502
Receivables from Local Governments	200
Prepaid Items	8
Consumable Inventory	223
Total Current Assets	<u>339,123</u>
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	
Restricted Investments	114,999
Deferred Charges	37,647
Receivables from Local Governments	451
Capital Assets:	
Non-Depreciable Capital Assets (Note 2)	2,277,014
Depreciable Capital Assets, Net (Note 2)	337,798
Total Noncurrent Assets	<u>2,767,909</u>
Total Assets	<u>3,107,032</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Due to Other Funds (Note 12)	516
Revenue Bonds Payable (Notes 4, 5)	7,288
Interest Payable	3,664
Unearned Revenues	1,057
Total Current Liabilities	<u>12,525</u>
Noncurrent Liabilities:	
Revenue Bonds Payable (Notes 4, 5)	1,609,462
Notes and Loans Payable (Notes 4, 5)	1,057,877
Total Noncurrent Liabilities	<u>2,667,339</u>
Total Liabilities	<u>2,679,864</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	512,057
Restricted for Debt Service	7,247
Unrestricted	(92,135)
Total Net Assets	<u>\$ 427,169</u>

\* Central Texas Turnpike System (Appropriated Fund 0865) is the only enterprise fund. Combining statements are not presented.

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

**Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund**  
 For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	<u>ENTERPRISE FUND*</u>
<b>OPERATING REVENUES</b>	
Toll Revenue	\$ 75,695
Fee Revenue	10,111
Total Operating Revenues	<u>85,806</u>
<b>OPERATING EXPENSES</b>	
Professional Fees and Services	9,313
Salaries	1,198
Materials and Supplies	4,324
Communication and Utilities	1,060
Repairs and Maintenance	15,155
Printing and Reproduction	20
Contracted Services	20,889
Advertising	628
Depreciation Expense	17,266
Other Operating Expenses	3,286
Total Operating Expenses	<u>73,139</u>
Operating Income	<u>12,667</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Lease Revenue	13
Interest and Investment Income	6,855
Interest and Amortization	(74,944)
Accretion on Capital Appreciation Bonds and TIFIA Note	(67,730)
Other Financing Fees	(32)
Other Non-Operating Revenues	378
Total Non-Operating Revenues (Expenses)	<u>(135,460)</u>
Loss before Capital Contributions and Transfers	<u>(122,793)</u>
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	
Capital Contributions	15
Operating Transfers In (Note 12)	55,242
Total Capital Contributions and Transfers	<u>55,257</u>
Change in Net Assets	<u>(67,536)</u>
Net Assets, September 1, 2011	495,095
Restatements (Note 14)	(390)
Net Assets, September 1, 2011, as Restated	<u>494,705</u>
Net Assets, August 31, 2012	<u>\$ 427,169</u>

\* Central Texas Turnpike System (Appropriated Fund 0865) is the only enterprise fund. Combining statements are not presented.

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

**Statement of Cash Flows – Proprietary Fund**  
For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	<u>ENTERPRISE FUND*</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 84,685
Payments to Suppliers for Goods and Services	(54,396)
Payments to Employees	(1,199)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>29,090</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Proceeds from Transfers from Other Funds	55,758
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>55,758</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Lease Revenue	13
Proceeds from Capital Contributions	3,117
Payments for Interest on Debt	(71,278)
Payments for Additions to Land and Roadways	(180)
Payments for Principal on Debt	(4,505)
Payments of Remarketing Fees and Other Costs	(32)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(72,865)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales of Investments	75,926
Proceeds from Interest and Investment Income, Net of Fees	7,004
Proceeds from Judgements & Settlements	378
Payments to Acquire Investments	(367,578)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>(284,270)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(272,287)</u>
CASH AND CASH EQUIVALENTS - BEGINNING	<u>299,617</u>
CASH AND CASH EQUIVALENTS – ENDING	<u>\$ 27,330</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 12,667
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	17,266
Changes in Assets and Liabilities:	
(Increase)Decrease in Accounts Receivable	(989)
(Increase)Decrease in Prepaid Expenses	146
Total Adjustments	<u>16,423</u>
Net Cash Provided by Operating Activities	<u>\$ 29,090</u>
Reconciliation of Cash and Cash Equivalents	
Money Market and Similar Funds	\$ 27,310
Restricted Cash and Cash Equivalents in State Treasury	20
Cash and Cash Equivalents	<u>\$ 27,330</u>

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



**Statement of Fiduciary Net Assets**  
August 31, 2012 (Amounts in Thousands)

	AGENCY FUNDS
<b>ASSETS</b>	
Cash on Hand	33
Cash in Bank	19,704
Cash in State Treasury	599
Total Assets	20,336
<b>LIABILITIES</b>	
Funds Held for Others	20,336
Total Liabilities	20,336

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

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**Texas Department of Transportation  
Notes to Financial Statements**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*****Reporting Entity***

The accompanying financial statements reflect the financial position of the Texas Department of Transportation (TxDOT). TxDOT is an agency of the state of Texas and is charged with developing and maintaining a statewide multimodal transportation network and other transportation related duties. The Texas Transportation Commission (the Commission), the governing body of TxDOT, has the authority to commit TxDOT to various legal agreements.

The financial activities of TxDOT, which consist of both governmental and proprietary activities, are reported under the transportation function in the state of Texas' Comprehensive Annual Financial Report (CAFR).

Three Texas Transportation Corporations, authorized by Transportation Code Chapter 431 to perform certain functions normally undertaken by TxDOT, are reported as blended component units because TxDOT exercises sufficient authority over the assets, operations and management of such entities to warrant their inclusion. Even though Texas Transportation Corporations are a part of the TxDOT reporting entity, the state is not liable for debts of these corporations, nor entitled to the assets of these corporations. See Note 19 for more information.

No component units have been identified which require discrete presentation in the accompanying financial statements.

***Basis of Presentation***

The accompanying financial statements were prepared in conformance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Financial reporting for TxDOT is based on all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions and Accounting Research Bulletins issued on or before Nov. 30, 1989, that does not conflict with or contradict GASB pronouncements. The data in this report is combined and consolidated by the Texas Comptroller's office with similar data from other state agencies and universities to prepare the state of Texas CAFR.

Financial statements published in previous fiscal years in accordance with the Texas Comptroller's office reporting requirements for Annual Financial Reports were not in full compliance with GAAP. Opening balances in the accompanying financial statements include adjustments identified after the publication of the fiscal 2011 unaudited financial report.

***Financial Reporting Structure***

The basic financial statements include entity-wide financial statements and fund financial statements. The reporting model based on GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, focuses on TxDOT as a whole in the entity-wide financial statements and major individual funds in the fund financial statements.

***Entity-wide Financial Statements***

The entity-wide financial statements (statement of net assets and statement of activities) display information about TxDOT as a whole and the change in aggregate financial position resulting from the activities of the fiscal period on all non-fiduciary activities. These statements include separate columns for the governmental and business-type activities of TxDOT (including its blended component units). In the statement of net assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reflected on an accrual basis, economic measurement focus, which incorporates noncurrent investments, capital assets and long-term debt and obligations.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

#### *Fund Financial Statements*

The fund financial statements are presented after the entity-wide financial statements. They display information about major funds individually and in the aggregate for governmental and proprietary funds. In governmental and fiduciary funds, assets are presented in order of relative liquidity. In proprietary funds, assets and liabilities are presented in a classified format that distinguishes between all current and noncurrent assets and liabilities. Current liabilities are obligations to be paid within the next fiscal year.

The major governmental funds in the fund financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate compliance with legal and covenant requirements, the source and use of financial resources and how TxDOT's actual experience conforms to the budget. Since the governmental fund financial statements are presented using a different measurement focus and basis of accounting than the entity-wide financial statements, governmental activities column, a reconciliation is presented. The reconciliation explains the adjustments required to restate the fund based financial statements for the entity-wide financial statements' governmental funds column.

TxDOT uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. TxDOT is granted appropriations based on appropriated funds. For operational and statutory reasons TxDOT has created several lower level funds that are presented as part of the indicated appropriated fund.

#### *Governmental Fund Types*

Governmental funds focus on the sources and uses of funds. Included in the governmental fund financial statements are general, special revenue, debt service and capital projects funds. The general fund is used to account for the departmental operations funded by legislative appropriations. Special revenue funds account for specific revenue sources that are restricted or committed for specific purposes other than debt service or capital projects. Debt service funds are used to account for financial resources that are restricted, committed or assigned to expenditure for principal and interest. Capital projects funds are used to account for financial resources that are restricted, committed or assigned to expenditure for capital outlays.

TxDOT reports the following major governmental funds.

#### State Highway Fund (Appropriated Fund 0006)

The state highway fund is TxDOT's main operating fund. TxDOT reports the following accounts/sub-funds, which are consolidated into the state highway fund for GAAP reporting purposes.

- State Highway Fund Accounts – These funds contain the activity related to public road construction, maintenance and monitoring of the state's highway system. The significant ongoing revenue sources are federal revenues and motor fuels taxes, which are constitutionally restricted and dedicated to the highway fund.
- State Infrastructure Bank– This fund operates as a revolving loan program that makes loans to public and private entities to encourage the development of transportation projects and facilities.
- Federal American Recovery and Reinvestment Fund – This fund was created to record, track and report the receipt and disbursement of American Recovery and Reinvestment Act (ARRA) funding.

Texas Mobility Fund (Appropriated Fund 0365)

This fund operates as a revolving fund to provide a method of financing construction, reconstruction, acquisition and expansion of state highways and other transportation projects. The principal ongoing revenue source of the fund is fees committed by the Legislature under the authority of the Texas Constitution, Article III, Section 49-k. Other inflows to the fund include bond proceeds.

Additionally, TxDOT reports the following non-major governmental funds.

## General Revenue Fund:

TxDOT reports the following accounts, which are consolidated into the general revenue fund for GAAP reporting purposes.

- General Fund Account (Appropriated Fund 0001) – This account is used to account for all financial resources of the state except those required to be accounted for in another fund.
- Traffic Safety-Crash Records Information Systems Account (Appropriated Fund 0036) – This account is used to account for expenditures pertaining to the crash records information system.
- Texas Highway Beautification Fund Account (Appropriated Fund 0071) – This account was established to implement the Texas highway beautification program. Revenues are obtained from outdoor advertising license and permit fees. Such revenues were redirected to the state highway fund, effective Sept. 1, 2011.
- Colonias Project Fund Account (Appropriated Fund 7604) – This account provides financial assistance to counties for roadway projects serving border colonias. Funding is provided from the sale of bonds or commercial paper, which are issued and reported by the Texas Public Finance Authority.
- Suspense Fund (Appropriated Fund 0900) – This fund is used to temporarily hold and account for receipts until the correct disposition of items is determined.

## Special Revenue Fund:

- Texas Transportation Corporations (Appropriated Fund 9999) – This fund presents the activity of the Grand Parkway Association, which is a blended component unit of TxDOT.

## Debt Service Fund:

- Proposition 14/State Highway Fund Debt Service (Appropriated Fund 0008) – This fund receives transfers in from the state highway fund for debt service on state highway fund revenue bonds.

## Capital Projects Funds:

- Proposition 12/Highway Improvement Project Fund (Appropriated Fund 0307) – This fund receives the proceeds of general obligation bonds issued for highway improvement projects under the provisions of the Texas Constitution, Article III, Section 49-p. The fund reports the construction activity supported by such funding.
- County/Political Subdivision/Local Government Road/Airport Trust Account (Appropriated Fund 0927) – This fund holds contributions by counties/political subdivisions for expenditure by the Commission in development/construction of public roads and airports within such counties or political subdivisions.

*Proprietary Fund Type*

Proprietary funds focus on determining operating income, changes in financial position and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. TxDOT reports the following major proprietary fund.

Central Texas Turnpike System Fund (Appropriated Fund 0865)

This fund reports the activity and debt associated with the Central Texas Turnpike System toll roads.

*Fiduciary Fund Types*

Fiduciary funds account for assets held in either a trustee capacity or as an agent for other outside individuals or entities. Agency funds report assets that TxDOT holds on behalf of others in a purely custodial capacity.

Agency Funds have no equity, assets equal liabilities and do not include revenues or expenditures. The agency funds used by TxDOT during fiscal 2012 included the general revenue fund, child support deductions suspense account, employees' savings bond account, toll revenue custodial account and the direct deposit correction accounts.

*Component Units*

All component units of TxDOT are reported as nonmajor component units. The Grand Parkway Association, Texas Private Activity Bond Surface Transportation Corporation and Grand Parkway Transportation Corporation are presented in TxDOT's financial statements as blended component units. See Note 19 for more details.

*Basis of Accounting*

Entity-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting entity, both current and noncurrent are reported in the entity-wide financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Non-exchange transactions, in which TxDOT gives (or receives) value without directly receiving (or giving) equal value in exchange, include intergovernmental grants. Revenue for grants and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources focus and the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become both measurable and available. For this purpose, revenues are considered to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are generally recognized when the related fund liability is incurred. However, principal and interest on bonds is recorded only when due and compensated absences and claims and judgments are recorded when they are expected to be liquidated with expendable available financial resources. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt are reported as other financing sources.

Proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. A proprietary fund distinguishes operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Operating expenses for an enterprise fund include cost of sales and services, administrative expenses and depreciation on capital assets.

Although agency funds use the accrual basis of accounting, they do not have a measurement focus because they do not recognize revenues and expenses.

***Shared Fund Presentation***

The financial statement presentation for the state highway fund and general fund represent only the portion of shared funds that can be directly attributed to the operations of TxDOT. Financial statements for total fund operations of shared state funds are presented in the state of Texas CAFR.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present TxDOT's portion of shared funds.

**Legislative Appropriations**

This "asset" account represents TxDOT's remaining legislative appropriation authority at fiscal year-end.

**Original/Additional Appropriations**

Amount reported as revenue that is the total appropriation authority given to TxDOT for the current fiscal year.

**Appropriations Lapsed**

Unencumbered appropriations balances that have been lapsed during the fiscal year.

***Budgetary Information***

TxDOT's budget is prepared on a performance-based concept and is represented by biennial appropriations authorized by the Legislature and approved by the governor. The budgetary comparison schedule and the notes to the budgetary comparison schedule are in the required supplementary information other than management discussion and analysis (MD&A) section. The budgetary comparison schedule presents the original budget, the final budget and the actual activity of the major governmental funds. Reconciliations between the budgetary basis of accounting and the GAAP basis are presented as supplementary information with explanations of the reconciling items. The governmental funds with legally adopted budgets are the general fund, the state highway fund and nonmajor special revenue funds.

***Change in Accounting Estimate***

The method for determining when an ongoing infrastructure project should be reclassified out of construction in progress and into nondepreciable infrastructure was modified in fiscal 2012. The revised method considers completion date information and resulted in approximately \$1.6 billion remaining in construction in progress that would have been capitalized under the previous methodology. The method used before fiscal 2012 was based on the estimated substantial completion, that is when the total costs of the project equaled or exceeded 85 percent of the obligation amount.

***Assets, Liabilities and Fund Balances/Net Position******Cash and Cash Equivalents***

Cash held in the state treasury, cash deposited in local banks, cash on hand and short-term highly liquid investments.

***Investments***

Amounts invested associated with the Central Texas Turnpike System and ineffective hedging derivatives, as defined by GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, associated with outstanding bond obligations are reported as investments. See Note 3 for more details.



*Inventories and Prepaid Items*

Inventory items are reported at a weighted average cost. The inventory consists of supplies and roadway materials on hand for future use. The consumption method of accounting is used to account for inventories and prepaid items. The costs of these items are expensed when the items are consumed. TxDOT reported prepaid postage of approximately \$179 thousand as of Aug. 31, 2012.

*Receivables*

The major receivables for TxDOT are taxes, federal and other intergovernmental. Receivables represent amounts due to TxDOT at Aug. 31, 2012, for revenues earned in the current fiscal year that will be collected in the future. Amounts expected to be collected in the next fiscal year are classified as current and amounts expected to be collected beyond the next fiscal year are classified as noncurrent. All receivables are recorded net of allowances for uncollectable accounts.

*Notes and Loans Receivable*

TxDOT makes loans to various local governments and regional mobility authorities. The state infrastructure bank (SIB) operates as a revolving loan fund, where the account balance grows through the monthly interest earned and repaid principal and interest payments. SIB financial assistance can be provided to any public or private entity authorized to construct, maintain or finance an eligible transportation project.

	Loans Receivable	Due Within One Year*
General Fund	\$ 245	\$ 45
Highway Fund – Toll Equity Loans	84,880	
Highway Fund – State Infrastructure Bank	307,445	8,842
Governmental Funds Total	<u>\$ 392,570</u>	<u>\$ 8,887</u>

\* See Note 16 for information on state infrastructure bank transactions pending as of Aug. 31, 2012.

*Restricted Assets*

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds from Central Texas Turnpike System revenue bonds, as well as certain revenues, set aside for statutory or contractual requirements.

*Capital Assets*

Capital assets, which include land, infrastructure, furniture, equipment and intangible assets are capitalized and reported in the financial statements using the accrual basis of accounting. Capital assets are recorded as expenditures at the time of purchase in the governmental funds.

Capital assets are assets with a cost above a set minimum capitalization threshold that, when acquired, have an estimated useful life of more than one year. Land, permanent land-use rights, non-depreciable infrastructure and construction in progress do not have a capitalization threshold and are not depreciated. The capitalization thresholds and useful lives of TxDOT's depreciable capital assets are as follows.

Classification	Capitalization Threshold	Estimated Useful Life
Buildings and Building Improvements	\$ 100,000	5-30 years
Infrastructure, Depreciable	500,000	10-50 years
Facilities and Other Improvements	100,000	10-69 years
Furniture and Equipment	5,000	3-15 years
Vehicles, Boats and Aircraft	5,000	5-40 years
Internally Generated Computer Software	1,000,000	3-10 years
Other Computer Software	100,000	3-10 years
Land Use Rights – Term/Temporary	100,000	10-60 years

All capital assets acquired or constructed by TxDOT are capitalized at cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair value at the date of donation. A facility constructed or improved under a qualifying service concession arrangement is reported as a capital asset at fair value when it is placed in operation. Costs of normal maintenance and repairs that do not add value to the asset or materially extend the asset's useful life are not capitalized.

TxDOT reports the state's highway infrastructure assets using the modified approach. This approach reflects a reasonable value of the asset and cost required to maintain the service potential at established minimum standards in lieu of depreciation. TxDOT developed and implemented an asset management system that establishes minimum standards and makes a yearly determination whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the system are included in the required supplementary information section of this report.

All other capital assets, including bridges, with determinable useful lives are depreciated on the straight line basis over their estimated lives. See Note 2 for details of TxDOT's capital asset activity for fiscal 2012.

#### *Deferred Revenues*

TxDOT has received upfront payments related to the development and future toll-road operations of State Highway 121, State Highway 130 Sections 5 & 6 and the Katy Managed Lanes project on Interstate 10. These agreements exchange an upfront payment for the right to operate these toll roads for a period determined in the agreement. Under each of these agreements the toll road reverts back to the state at the end of the 50 year term or upon certain reimbursement conditions. TxDOT is recognizing revenue on a straight-line basis over the term of the agreement beginning when the roadway is placed into operation. See Note 15 for more information.

#### *Long-Term Liabilities*

Long-term liabilities include employees' compensable leave, general obligation bonds payable, revenue bonds payable, notes payable and pollution remediation obligations. Bonds payable are reported net of the applicable bond premium or discount. Deferred issuance costs are reported as deferred charges and amortized over the term of the debt.

In the governmental fund financial statements, bond premiums, discounts and bond issuance costs are recognized during the current period. The face amount of the debt is reported as an other financing source while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal or separation from state employment, provided the employee has had continuous employment with the state for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in the governmental fund financial statements. See Notes 4 and 5 for more information.

#### *Net Assets and Fund Balances*

In the entity-wide and proprietary statements, net assets are displayed in three components. The potential categories of net assets include:

- *Invested in Capital Assets, Net of Related Debt* – capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, notes or other borrowings that are attributed to the acquisition, construction, or improvement of those assets.
- *Restricted* – restricted assets reduced by liabilities related to those assets. When both restricted and unrestricted resources are available for use, generally it is TxDOT's policy to use restricted resources first, then unrestricted resources when they are needed.

- *Unrestricted* – amounts not required to be reported in the other components of net assets and deficit amounts.

Fund balances for governmental funds are displayed in five components. The potential categories of fund balance include:

- *Nonspendable fund balance* – amounts not available to be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. The primary component of nonspendable fund balance is the balance in consumable inventories.
- *Restricted fund balance* – resources that have constraints placed on their use through external parties or by law through constitutional provisions.
- *Committed fund balance* – can be used only for specific purposes pursuant to constraints imposed by a formal action of the Legislature, the state's highest level of decision making authority.
- *Assigned fund balance* – amounts constrained by the Commission's intent to be used for specific purposes, but are neither restricted nor committed.
- *Unassigned fund balance* – residual classification for the general fund. The classification represents fund balance that was not assigned to other funds and was not restricted, committed or assigned to specific purposes within the general fund.

Positive unassigned fund balance can only exist within the general fund. Deficit fund balances in a fund are reported as unassigned fund balance.

As described previously, TxDOT has received substantial up-front concession payments. The deferral of revenue recognition on these payments has a significant impact on the state highway fund's fund balance composition. Deficit unassigned fund balances are reported because annual expenditures utilizing the up-front money received under these arrangements exceed the amount of revenue recognized.

### ***Revenue Sources***

TxDOT's principal revenue sources are federal and tax revenue. As the state's transportation agency, TxDOT receives reimbursements from the Federal Highway Administration (FHWA) for certain costs incurred for engineering, construction, right-of-way acquisition, research activities and general administrative costs. Federal reimbursement is based on a percentage of the costs expended from state funds on approved projects. The percentage of reimbursement for allowable costs varies from 50 to 100 percent. TxDOT receives these reimbursements based on the state's apportionment from the Federal Highway Trust Fund on a federal fiscal year basis.

TxDOT receives federal funding from other federal agencies for specific transportation related projects. See Schedule 1A for more information on federal receipts and expenditures.

TxDOT reports its constitutionally dedicated share of taxes on motor fuels sold in Texas as tax revenues. Generally this constitutionally dedicated share is 75 percent of net collections, after reductions for collection expenses and refunds. In general, 20 cents per gallon is collected on gasoline and diesel sold for highway use. Liquefied gas sold for highway use is generally taxed at 15 cents per gallon and is required to be prepaid. TxDOT also receives and reports the state sales tax from the sale of lubricants, which is deposited to the state highway fund. Total tax revenue reported for fiscal 2012 is approximately \$2.4 billion.

Major sources of pledged revenue for the Texas mobility fund include driver license fees, motor vehicle inspection fees, certificate of title fees and driver record information fees.

**Interfund Activity and Transactions**

Interfund activity refers to financial interaction between funds (including blended component units) and is related to internal events. Interfund transactions refer to interactions with other state agencies.

Interfund receivables and payables are eliminated from the statement of net position except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net position. See Note 11 for more details.

**NOTE 2 – CAPITAL ASSETS**

The tables below present the composition of TxDOT's capital assets, adjustments, reclassifications, additions and deletions during fiscal 2012. The adjustment column includes assets not previously reported, accounting errors and other changes. The reclassifications column presents completed construction projects and transfers of capital assets between agencies. The additions column includes current year purchases, depreciation and amortization. The deletions column represents assets removed during the current fiscal year.

<b>Capital Asset Activity</b>						
For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)						
	Balance 9/1/11	Adjustments	Reclass- ifications	Additions	Deletions	Balance 8/31/12
<b>GOVERNMENTAL ACTIVITIES</b>						
<b>Non-Depreciable &amp; Non-Amortizable Assets</b>						
Land and Land Improvements	\$ 8,563,787	\$	\$	\$ 545,608	\$ (522)	\$ 9,108,873
Infrastructure	49,567,203		579,047	514,936		50,661,186
Construction in Progress	4,289,465		(1,348,841)	2,743,750		5,684,374
Land Use Rights - Permanent	66,258			1,355	(118)	67,495
Total Non-Depreciable & Non-Amortizable Assets	62,486,713		(769,794)	3,805,649	(640)	65,521,928
<b>Depreciable Assets</b>						
Buildings and Building Improvements	353,729		108,070		(195)	461,604
Infrastructure	19,630,738		633,760	67,643	(19,341)	20,312,800
Furniture and Equipment	161,807		(730)	15,149	(6,618)	169,608
Vehicles and Aircraft	656,371		27,644	32,528	(17,642)	698,901
Other Capital Assets	10,804					10,804
Total Depreciable Assets	20,813,449		768,744	115,320	(43,796)	21,653,717
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(171,342)			(16,043)	25	(187,360)
Infrastructure	(11,139,931)			(620,992)	15,618	(11,745,305)
Furniture and Equipment	(115,291)		630	(9,396)	6,032	(118,025)
Vehicles and Aircraft	(393,196)			(30,211)	14,866	(408,541)
Other Capital Assets	(4,228)			(783)		(5,011)
Total Accumulated Depreciation	(11,823,988)		630	(677,425)	36,541	(12,464,242)
Depreciable Assets, Net	8,989,461		769,374	(562,105)	(7,255)	9,189,475
<b>Intangible Capital Assets - Amortizable</b>						
Land Use Rights - Term	21,968			2,189	(670)	23,487
Computer Software	23,160			1,836	(804)	24,192
Total Amortizable Assets	45,128			4,025	(1,474)	47,679
Less Accumulated Amortization for:						
Land Use Rights - Term	(6,303)			(3,183)	670	(8,816)
Computer Software	(17,101)			(1,650)	764	(17,987)
Total Accumulated Amortization	(23,404)			(4,833)	1,434	(26,803)
Amortizable Assets, Net	21,724			(808)	(40)	20,876
Governmental Activities Capital Assets, Net	\$ 71,497,898	\$ 0	\$ (420)	\$ 3,242,736	\$ (7,935)	\$ 74,732,279

Concluded on Following Page

**Capital Asset Activity (Concluded)**

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Balance 9/1/11	Adjustments	Reclass- ifications	Additions	Deletions	Balance 8/31/12
<b>BUSINESS TYPE ACTIVITIES</b>						
<b>Non-Depreciable &amp; Non-Amortizable Assets</b>						
Land and Land Improvements	\$ 631,490	\$ (412)	\$	\$ 31	\$	\$ 631,109
Infrastructure	1,629,344	21		14		1,629,379
Land Use Rights - Permanent	16,526					16,526
Total Non-Depreciable & Non-Amortizable Assets	<u>2,277,360</u>	<u>(391)</u>		<u>45</u>		<u>2,277,014</u>
<b>Depreciable Assets</b>						
Buildings and Building Improvements	8,360					8,360
Infrastructure	422,810					422,810
Total Depreciable Assets	<u>431,170</u>					<u>431,170</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(1,952)			(361)		(2,313)
Infrastructure	(74,154)			(16,905)		(91,059)
Total Accumulated Depreciation	<u>(76,106)</u>			<u>(17,266)</u>		<u>(93,372)</u>
Depreciable Assets, Net	355,064			(17,266)		337,798
Business-Type Activities Capital Assets, Net	\$ <u>2,632,424</u>	\$ <u>(391)</u>	\$	\$ <u>(17,221)</u>	\$	\$ <u>2,614,812</u>

Depreciation and amortization expense was charged to the maintenance and preservation function in the accompanying statement of activities.

**NOTE 3 – DEPOSITS, INVESTMENTS & REPURCHASE AGREEMENTS**

TxDOT is authorized by statute to make investments following the “prudent person rule.” TxDOT has complied, in all material respects, with statutory authorization, bond documents, constraints and commission policies during the period.

**Deposits**

The following amounts consist of all cash and cash equivalents in local banks. These amounts are included on the combined statement of net assets as part of the “cash and cash equivalents” accounts. At Aug. 31, 2012, the total bank balance for governmental and business-type activities and fiduciary funds was \$698 thousand and \$19.7 million, respectively.

<b>Cash In Bank – Carrying Amount</b>	
August 31, 2012 (Amounts in Thousands)	
<b>Governmental and Business-Type Activities</b>	
Governmental Funds Current Assets Cash in Bank – Depository Accounts	\$ 698
Cash in Bank – Carrying Amount	<u>\$ 698</u>
<b>Fiduciary Funds</b>	
Fiduciary Fund Current Assets Cash in Bank – Depository Accounts	\$ 278
Fiduciary Fund Current Assets Cash in Bank – Sweep Account	19,426
Cash in Bank – Carrying Amount	<u>\$ 19,704</u>

*Custodial Credit Risk – Deposits*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, deposits or collateral securities in the possession of an outside party will not be recovered. All of TxDOT’s deposits are protected by insurance provided by the Federal Deposit Insurance Corporation (FDIC).

Regular depository accounts are insured by the FDIC up to \$250 thousand per depositor, per insured bank. Retainage deposits are also insured or collateralized with securities held by the Texas Comptroller of Public Accounts. As of Aug. 31, 2012, the fiduciary funds sweep account was protected by temporary unlimited insurance coverage by the FDIC. The unlimited coverage provisions became effective Dec. 31, 2010, and terminate Dec. 31, 2012. After termination the sweep account will be subject to the same \$250 thousand coverage provided to a regular depository account.

*Treasury Pool*

TxDOT’s governmental funds are 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). Governmental and business-type activities deposits in the state treasury totaled \$5.4 billion at Aug. 31, 2012.

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 that the Trust Company 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.

*Investments*

As of Aug. 31, 2012, the fair value of TxDOT’s investments and maturities are as presented below:

<b>Investment Fair Values</b>			
August 31, 2012 (Amounts in Thousands)			
<b>Governmental and Business Type Activities</b>			
<b>Investment Type</b>	<b>Maturities (in Years)</b>		<b>Fair Value</b>
	<b>Less than 1</b>	<b>More than 5</b>	<b>Total</b>
Money Market Mutual Funds	\$ 27,310	\$	\$ 27,310
Government Investment Pools	306,580		306,580
Repurchase Agreements		114,999	114,999
Investment Derivatives		25,121	25,121
<b>Total</b>	<b>\$333,890</b>	<b>\$ 140,120</b>	<b>\$ 474,010</b>

*Custodial Credit Risk – Investments*

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission's investment policy states that all securities purchased by the Commission shall be designated as assets of the Commission and shall be protected through the use of a third-party custody/safekeeping agent, which may be a Trustee.

As of Aug. 31, 2012, the Commission's repurchase agreement is collateralized with U.S. Government and agency securities. Collateral for the repurchase agreement is held by the Bank of New York Mellon Trust Company with the underlying securities being the property of the Citigroup Global Markets Inc., (the direct counterparty), held in trust for the Commission. Bank of New York Mellon Trust Company is rated Aa1, AA- and AA- by Moody's Investor Services, Standard and Poor's and Fitch Ratings respectively.

*Credit Risk*

Direct credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The investment policy prohibits the Commission from entering into long-term investment agreements or other ongoing investment transactions with a final maturity or termination date of longer than six months with any financial institution that initially has a long-term rating category of less than "A" and that does not have at least one long-term rating of at least "AA" by a nationally recognized statistical rating organizations (NRSRO). All investments made by the Commission have been through the list of qualified financial institutions approved by the Commission.

The Commission's policy does not limit the amount of investment in obligations of the United States or its agencies. The repurchase agreement is a guaranteed investment contract (GIC) with Citigroup Global Markets Inc. as the counterparty. Citigroup Global Markets Inc. has collateralized the GIC with U.S. Government and agency securities. As of Aug. 31, 2012, TxDOT's investments had the following ratings.

<b>Investment Credit Ratings</b>				
August 31, 2012 (Amounts in Thousands)				
<b>Investment Type</b>	<b>Fair Value</b>	<b>Moody's</b>	<b>Standard &amp; Poor's</b>	<b>Fitch</b>
Money Market Mutual Funds				
JPMorgan US Government MMKT Cap 3164	\$ 27,310	Aaa-mf	AAAm	NR
Government Investment Pools				
Lone Star	87,053	NR	AAAm	NR
TexPool	112,449	NR	AAAm	NR
TexPool Prime	107,078	NR	AAAm	NR
Repurchase Agreement	114,999	Baa2	A	A
Investment Derivative	25,121	NR	NR	NR
Total	<u>\$474,010</u>			
*NR= Not Rated				

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The repurchase agreement and the investment derivative each exceed 5 percent of total investments. The repurchase agreement is held primarily for the Central Texas Turnpike System debt service reserve fund, which has a long-term duration and a specific purpose. The nature of the investment derivative is discussed fully in the investment derivatives section of this note.

The Commission addresses diversification in the Commission’s investment policy. Assets held in particular funds shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically by the investment officer for all funds.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission has addressed interest rate risk in its various accounts by matching as closely as possible anticipated cash flows with income and return of principal on investments. In general, all securities held by the Commission are anticipated to be held to maturity, thereby avoiding interest rate risk due to an early redemption. Investment maturities are noted in the investment fair value table.

*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.

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 on Dec. 3, 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.

*Derivatives Credit Risk*

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 NRSROs 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	
<u>Counterparty</u>	<u>Fitch/Moody's/ Standard &amp; Poor's</u>
JPMorgan Chase Bank, N.A.	A+/Aa3/A+
Morgan Stanley Capital Services Inc.	A/Baa1/A-
Goldman Sachs Mitsui Marine Derivative Products	NR*/Aa2/AAA
*Not Rated	

CMS basis swap agreements contain provisions for collateral posting by counterparties in the event of a credit rating downgrade. Collateral postings will be 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 Commission 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 thousand.

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.

*Derivatives Interest Rate Risk*

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 – SUMMARY OF LONG TERM LIABILITIES**

As summary of long-term liability activity for fiscal 2012 is presented in the table below:

<b>Long-Term Liabilities Activity</b>						
For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)						
	<b>Beginning Balance 09/01/2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance 08/31/2012</b>	<b>Amounts Due Within One Year</b>	<b>Amounts Due Thereafter</b>
<b>Governmental Activities</b>						
<b>Primary Government</b>						
Compensable Leave	\$ 72,801	\$ 103,337	\$ 103,560	\$ 72,578	\$ 55,277	\$ 17,301
General Obligation Bonds	7,192,942		79,797	7,113,145	86,434	7,026,711
Revenue Bonds	4,175,318		120,873	4,054,445	126,518	3,927,927
Pollution Remediation Obligations	12,209	13,057	18,540	6,726	6,100	626
Pass Through Tolls Payable	1,060,693	125,380	57,846	1,128,227	151,689	976,538
<b>Governmental Activities Long-Term Liabilities</b>	<b>\$ 12,513,963</b>	<b>\$ 241,774</b>	<b>\$ 380,616</b>	<b>\$12,375,121</b>	<b>\$426,018</b>	<b>\$11,949,103</b>
<b>Business-Type Activities</b>						
Revenue Bonds Payable	\$ 1,578,430	\$ 42,403	\$ 4,083	\$ 1,616,750	\$ 7,288	\$ 1,609,462
Notes and Loans Payable	1,032,549	25,328		1,057,877		1,057,877
<b>Business-Type Activities Long-Term Liabilities</b>	<b>\$ 2,610,979</b>	<b>\$ 67,731</b>	<b>\$ 4,083</b>	<b>\$ 2,674,627</b>	<b>\$ 7,288</b>	<b>\$ 2,667,339</b>

**Employees' Compensable Leave**

Annual leave, commonly referred to as vacation leave, and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by TxDOT employees. Employees accrue vacation time at a rate of eight to 21 hours per month depending on years of state employment. The maximum number of hours that may be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of state service.

Overtime, under the Fair Labor Standards Act and state laws, can be accumulated in lieu of immediate payment as compensatory leave (at one-and-one-half hours for each overtime hour worked) for nonexempt, nonemergency employees to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death, all overtime balances must be paid in full. Unpaid overtime is included in the calculation of current and noncurrent liabilities for each employee because it may be used like compensatory time or be paid.

Compensatory leave is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for compensatory leave. Compensatory leave is reported as a current liability.

No liability is recorded for non-vesting accumulating rights to receive sick leave benefits.

**Notes and Loans Payable**

The balance of notes and loans payable in the business-type activities represents secured loans made to the Commission by the United States Department of Transportation (USDOT) under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). USDOT agreed to lend the Commission \$900 million to pay or reimburse a portion of The Central Texas Turnpike System's (CTTS) costs.

The loan will be paid from revenues of CTTS as they are sufficient to pay (a) all interest, which will become due and payable on each such date and (b) the principal, if any, of the secured loan which will become due and payable on each such date. For these reasons the debt service requirements are subject to change each year as actual revenues are received. Per the agreement, principal and interest can be deferred (negatively amortized) depending on the availability of revenues. The principal amount of the loan may increase over time as deferrals are made. As of Aug. 31, 2012, the secured loan agreement's debt service requirements are as follows.

TIFIA Loan – Debt Service Requirements (Amounts in Thousands)			
Business-Type Activities			
Year	Principal	Interest*	Total
2013	\$	\$ 33,698	\$ 33,698
2014		35,022	35,022
2015		36,443	36,443
2016		43,188	43,188
2017		45,478	45,478
2018-2022		267,002	267,002
2023-2027	28,215	332,459	360,674
2028-2032	152,730	319,764	472,494
2033-2037	318,502	261,854	580,356
2038-2042	740,233	137,526	877,759
Total	1,239,680	1,512,434	2,752,114
Unamortized Accretion	(181,803)		(181,803)
Total Requirements	\$1,057,877	\$1,512,434	\$2,570,311

\* Fixed interest rates vary from 3.125 percent to 5.510 percent depending on maturities.

**Pass-Through Tolls Payable**

The balance recorded as pass-through tolls payable relates to the Commission’s obligations under executed pass-through financing agreements. As of Aug. 31, 2012, there were 37 active pass-through financing agreements finalized and executed by the Commission. Under these agreements, an outside party (usually a local government) pays for all or a portion of a highway project. In return, TxDOT contractually agrees to make reimbursements after the improvement is open for traffic. Reimbursements are subject to minimum and maximum annual thresholds and are variable within those thresholds based on the volume of traffic on the project roadway. The agreements with multiple projects generally contain a provision allowing for reimbursements to begin as each project is open for traffic.

The obligation to make future reimbursement payments is recognized as pass-through tolls payable as the underlying highway project is constructed. Accruals of payables continue until the liability amount reaches the total TxDOT reimbursement obligation specified in the agreement. If the cost of the completed underlying highway project is less than the total TxDOT reimbursement obligation, TxDOT will accrue the additional obligation amount upon that project’s completion and acceptance. The estimated debt service requirements related to pass-through toll contracts executed as of Aug. 31, 2012 are as follows. The timing of actual payments may differ substantially from this estimate, but the total amount paid is linked to contractually established levels. The estimates are updated monthly to account for these variations.

<b>Pass-Through Tolls Payable - Debt Service Requirements</b> (Amounts in Thousands)	
<b>Year</b>	<b>Governmental Activities</b>
	<b>Principal*</b>
2013	\$ 151,689
2014	154,214
2015	179,186
2016	187,877
2017	186,355
2018-2022	711,567
2023-2025	98,387
<b>Total**</b>	<b>1,669,275</b>
Unrealized Payable	(541,048)
<b>Total Requirements</b>	<b>\$1,128,227</b>

\* There is not an interest component to the pass-through toll reimbursements.

\*\* This projection assumes TxDOT’s maximum potential obligation.

**Pollution Remediation Obligations**

TxDOT is responsible for the cleanup and remediation of several polluted sites. Regulatory requirements established by federal and state law obligate TxDOT to perform these pollution remediation activities. Historical cost averages were used to calculate the estimated pollution remediation obligation liabilities. The table below details the various compliance requirements under which TxDOT is incurring pollution remediation costs and is recording a pollution remediation liability.

<b>Pollution Remediation Obligations - Disaggregation of Total Liability</b>	
As of August, 31, 2012 (Amounts in Thousands)	
Remove contamination to allow construction of a detention pond	\$ 5,700
Manage contamination associated with Superfund sites	440
Comply with Federal Safe Drinking Water Act requirements	303
Comply with state Leaking Petroleum Storage Tank (LPST) cleanup requirements	122
Comply with state cleanup requirements for releases from non-LPST sources	161
<b>Total</b>	<b>\$ 6,726</b>

Federal reimbursements are expected to offset a portion of these estimated costs. When realizable, the federal reimbursements are recognized as federal revenue. The potential for changes due to price increases or reductions, technology or applicable laws or regulations was incorporated into these estimates.

**Claims and Judgments**

TxDOT's involvement in claims and judgments is discussed in detail in Note 15. Management's opinion is that the probable outcome of claims and judgments against TxDOT will not materially affect the financial position of TxDOT; therefore, no liability amount has been accrued.

**NOTE 5 – BONDED INDEBTEDNESS**

Miscellaneous Bond Information							
(Amounts in Thousands)							
Description of Issue	Bonds Issued to Date	Date Issued	Range of Interest Rates	Maturities		First Call Date	
				First Year	Last Year		
<b>GOVERNMENTAL ACTIVITIES</b>							
<b>General Obligation Bonds</b>							
<b>Texas Mobility Fund</b>							
Series 2005-A Fixed Rate Bonds	\$ 900,000	06/08/2005	3.9000%	5.0000%	2006	2035	04/01/2015
Series 2005-B Variable Rate Bonds	100,000	06/08/2005	variable		2030	2030	*
Series 2006 Fixed Rate Bonds	750,000	06/08/2006	3.6250%	5.0000%	2007	2036	04/01/2016
Series 2006-A Fixed Rate Bonds	1,040,275	10/31/2006	4.0000%	5.0000%	2007	2035	04/01/2017
Series 2006-B Variable Rate Bonds	150,000	12/13/2006	variable		2036	2036	*
Series 2007 Fixed Rate Bonds	1,006,330	06/21/2007	4.0000%	5.0000%	2008	2037	04/01/2017
Series 2008 Fixed Rate Bonds	1,100,000	02/28/2008	4.0000%	5.0000%	2009	2037	04/01/2018
Series 2009-A Taxable Fixed Rate Bonds	1,208,495	08/26/2009	5.3670%	5.5170%	2029	2039	*
<b>Texas Highway Improvement</b>							
Series 2010-A Taxable Fixed Rate Bonds	815,420	09/29/2010	3.2030%	4.6810%	2019	2040	*
Series 2010-B Fixed Rate Bonds	162,390	09/29/2010	2.0000%	5.0000%	2012	2018	n/a
<b>Revenue Bonds</b>							
<b>State Highway Fund</b>							
Series 2006 Fixed Rate Bonds	600,000	05/03/2006	4.0000%	5.0000%	2007	2026	04/01/2016
Series 2006-A Fixed Rate Bonds	852,550	11/21/2006	4.0000%	5.2500%	2008	2025	04/01/2016
Series 2006-B Variable Rate Bonds	100,000	11/08/2006	variable		2026	2026	*
Series 2007 Fixed Rate Bonds	1,241,845	10/25/2007	4.0000%	5.0000%	2009	2027	04/01/2017
Series 2008 Fixed Rate Bonds	162,995	08/19/2008	3.5000%	5.2500%	2010	2028	04/01/2018
Series 2010 Taxable Fixed Rate Bonds	1,500,000	08/05/2010	5.0280%	5.1780%	2026	2030	*
Governmental Activities Total	<u>11,690,300</u>						
<b>BUSINESS-TYPE ACTIVITIES</b>							
<b>First Tier Revenue Bonds Series 2002-A</b>							
Non-Callable Capital Appreciation Bonds	494,049	08/29/2002	4.4700%	5.7500%	2012	2030	n/a
Callable Capital Appreciation Bonds	281,474	08/29/2002	6.0000%	6.1000%	2025	2038	08/15/2012
Current Interest Bonds	707,875	08/29/2002	5.0000%	5.7500%	2038	2042	08/15/2012
<b>First Tier Revenue Refunding Put Bonds</b>							
Series 2009	149,275	03/05/2009	variable		2042	2042	02/15/2013
Business-Type Activities Total	<u>\$ 1,632,673</u>						
* Bonds are subject to redemption prior to their respective maturities at the option of the Commission.							

**Annual Financial Report (Unaudited)**

As discussed more fully in the sections that follow, the Commission is authorized through various statutory and constitutional provisions to issue general obligation and revenue bonds. As of Aug. 31, 2012, the Commission had 18 bond issues outstanding. In addition, the Texas Private Activity Bond Surface Transportation Corporation (TxPABST), a blended component unit of TxDOT, has two conduit debt bond issues outstanding as of Aug. 31, 2012. The debt service payments associated with the TxPABST bonds are not the responsibility of the state of Texas and are funded by loan repayments.

<b>Changes in Bonds Payable</b>					
For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)					
Description	Bonds Outstanding 09/01/2011	Bonds Issued*	Bonds Matured or Retired	Bonds Outstanding 08/31/2012	Due Within One Year
<b>Governmental Activities</b>					
General Obligation Bonds	\$ 7,192,942	\$ (12,867)	\$ 66,930	\$ 7,113,145	\$ 86,434
Revenue Bonds	4,175,318	(6,363)	114,510	4,054,445	126,518
Total Governmental Activities	11,368,260	(19,230)	181,440	11,167,590	212,952
<b>Business-Type Activities</b>					
Revenue Bonds	1,578,430	42,825	4,505	1,616,750	7,288
Business-Type Activities Total	1,578,430	42,825	4,505	1,616,750	7,288
Total	\$12,946,690	\$ 23,595	\$ 185,945	\$12,784,340	\$ 220,240

\*Includes current year amortization of premiums, discounts and accretion.

**General Obligation Bonds – General Comments**

The Texas Constitution authorizes the Commission to issue general obligation bonds backed by the full faith and credit of the state. As of Aug. 31, 2012, two general obligation bond programs are active. The purpose and the sources of debt service for each program are summarized below. All general obligation bond issuances must be approved by the Texas Bond Review Board prior to issuance.

<b>Debt Service Requirements – Governmental Activities</b>			
<b>General Obligation Bonds</b>			
(Amounts in Thousands)			
Year	Principal	Interest	Total
2013	\$ 74,210	\$ 330,986	\$ 405,196
2014	82,425	327,539	409,964
2015	91,045	323,777	414,822
2016	100,150	319,577	419,727
2017	109,760	314,994	424,754
2018-2022	713,680	1,492,062	2,205,742
2023-2027	1,062,080	1,297,563	2,359,643
2028-2032	1,524,235	1,003,676	2,527,911
2033-2037	2,118,280	591,501	2,709,781
2038-2041	1,092,695	92,829	1,185,524
	6,968,560	6,094,504	13,063,064
Premium	144,755		144,755
Discount	(170)		(170)
Total	\$ 7,113,145	\$ 6,094,504	\$13,207,649

*Texas Mobility Fund*

Texas Constitution, Article III, Section 49-k and Transportation Code, Chapter 201, Subchapter M authorize the Commission to issue general obligation bonds payable from a pledge of and lien on all or part of the money in the mobility fund. The mobility fund bonds are designed to be self-supporting, but the full faith and credit of the state is pledged in the event the revenue and money dedicated to the mobility fund is insufficient to pay debt service on the bonds. As of Aug. 31, 2012, major sources of pledged revenue for the Mobility Fund include driver license fees, motor vehicle inspection fees, certificate of title fees and driver record information fees.

The \$82 million 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 Depha 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.

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 ensure 110 percent coverage of debt service requirements during the period that the debt will be outstanding. As of Aug. 31, 2012, the approved debt capacity of the Mobility Fund is \$7.2 billion. As of Aug. 31, 2012, the Commission is authorized but has not issued approximately \$1.2 billion of the approved debt capacity of the mobility fund.

Bond proceeds are to be used for the purpose of paying or reimbursing the state highway fund for the costs of constructing, reconstructing, acquiring and expanding state highways and providing participation by the state in certain publicly owned toll roads and other public transportation projects.

*Texas Highway Improvement/Proposition 12*

Texas Constitution, Article III, Section 49-p and Transportation Code, Section 222.004, authorizes the Commission to issue general obligation bonds of the state of Texas for the costs of highway construction, reconstruction and major maintenance, including any necessary design and the acquisition of right-of-way. These bonds are not self-supporting and are considered a general obligation of the state of Texas. As of Aug. 31, 2012, the Commission is authorized but has not issued approximately \$4 billion of remaining bond authority under the Texas highway improvement general obligation bond program.

**Revenue Bonds – General Comments**

The Texas Constitution and Transportation Code authorize the Commission to issue revenue bonds backed by pledged revenue sources and restricted funds. The active revenue bond programs of TxDOT are summarized as follows.

*State Highway Fund/Proposition 14*

Texas Constitution, Article III, Section 49-n and Transportation Code, Section 222.003 authorizes the Commission to issue revenue bonds to finance highway improvement projects. The bonds are payable from pledged revenues deposited to the credit of the state highway fund, including dedicated taxes, dedicated federal revenues and amounts collected or received pursuant to other state highway fund revenue laws and any interest or earning from the investment of these funds. As of Aug. 31, 2012, the Commission is authorized but has not issued approximately \$1.4 billion of remaining bond authority under the state highway revenue bond program.

<b>Debt Service Requirements – Governmental Activities</b>			
<b>Revenue Bonds</b>			
(Amounts in Thousands)			
<b>State Highway Fund</b>			
<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 120,155	\$ 194,952	\$ 315,107
2014	125,995	189,105	315,100
2015	132,200	182,896	315,096
2016	138,510	176,582	315,092
2017	145,165	169,937	315,102
2018-2022	841,760	733,728	1,575,488
2023-2027	1,447,005	470,502	1,917,507
2028-2031	1,013,145	106,120	1,119,265
	<u>3,963,935</u>	<u>2,223,822</u>	<u>6,187,757</u>
Premium	90,510		90,510
<b>Total</b>	<b>\$ 4,054,445</b>	<b>\$ 2,223,822</b>	<b>\$ 6,278,267</b>

*Central Texas Turnpike System*

Transportation Code, Section 228.102 authorized the Commission to issue revenue bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System (CTTS) located in the greater Austin metropolitan area in Travis and Williamson counties. The bond obligations are payable from and secured solely by a first lien on and pledge of the trust estate. The trust estate consists of all project revenues and investment earnings. Neither the state, the Commission, TxDOT or any other agency or political subdivision of the state is obligated to pay the debt service on the CTTS revenue bonds.

<b>Debt Service Requirements – Business-Type Activities</b>			
<b>Revenue Bonds</b>			
(Amounts in Thousands)			
<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 7,710	\$ 41,267	\$ 48,977
2014	10,155	41,267	51,422
2015	12,605	41,267	53,872
2016	25,805	41,267	67,072
2017	29,655	41,267	70,922
2018-2022	212,365	206,335	418,700
2023-2027	382,445	206,335	588,780
2028-2032	559,670	206,335	766,005
2033-2037	700,925	206,335	907,260
2038-2042	888,400	126,780	1,015,180
	<u>2,829,735</u>	<u>1,158,455</u>	<u>3,988,190</u>
Accretion	(1,201,567)		(1,201,567)
Premium	8,073		8,073
Discount	(15,418)		(15,418)
Loss on Refunding	(4,073)		(4,073)
<b>Total</b>	<b>\$ 1,616,750</b>	<b>\$ 1,158,455</b>	<b>\$ 2,775,205</b>

**Pledged Future Revenues**

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

Pledged Future Revenue (Amounts in Thousands)	Governmental Activities		Business-Type Activities
	Texas Mobility Fund General Obligation Bonds	State Highway Fund Revenue Bonds	Central Texas Turnpike System
	Pledged Revenue Required for Future Principal and Interest on Existing Bonds	\$11,393,870	\$ 6,187,758
Term of Commitment Year Ending Aug. 31	2039	2030	2042
Percentage of Revenue Pledged	98%	100%	100%
Current Year Pledged Revenue	\$ 395,566	\$ 6,552,269	\$ 93,052
Current Year Principal and Interest Paid	\$ 331,530	\$ 314,897	\$ 77,462

**Build America Bonds**

The American Recovery and Reinvestment Act of 2009 granted municipal debt issuers access to a broader investor base in the taxable market by providing a federal interest rate subsidy payment to offset debt service costs through the Build America Bonds (BABs) program. See the table below for details on the Commission's Direct Payment BABs outstanding at Aug. 31, 2012. Direct Payment BABs provide a federal reimbursement to TxDOT equal to 35 percent of the interest paid on the bonds.

Direct Payment Build America Bonds (Amounts in Thousands)			
	Issue Date	Par Amount	Amount Outstanding at 08/31/12
<b>Governmental Activities</b>			
General Obligation Bonds			
Texas Mobility Fund Series 2009-A	08/26/2009	\$1,208,495	\$1,208,495
Texas Highway Improvement Bonds Series 2010-A	09/29/2010	815,420	815,420
Revenue Bonds			
State Highway Fund Series 2010	08/05/2010	1,500,000	1,500,000
Total		\$3,523,915	\$3,523,915

**Variable Rate Bonds**

The Commission has four variable rate bond issues outstanding as of Aug. 31, 2012. The interest rates in effect as of Aug. 31, 2012 for the Texas Mobility Fund Series 2005-B, Texas Mobility Fund Series 2006-B and State Highway Fund Series 2006-B used to calculate the interest debt service requirements were 0.19, 0.19 and 0.65 percent, respectively. These rates reset every seven days. The Central Texas Turnpike System Series 2009 put bonds debt service was calculated based upon the current 2.75 percent interest rate, which expires Feb. 15, 2013. The potential volatility for related debt services increases with these interest rate reset provisions.



**Put Bonds**

The Central Texas Turnpike System Series 2009 put bonds were initially issued in a multiannual mode which terminated on the mandatory tender date of Feb. 15, 2011. The Commission successfully remarketed the bonds into another multiannual mode of 24 months at a 2.75 percent interest rate. The bonds are subject to mandatory tender on Feb. 15, 2013, subject to the successful remarketing of the bonds. The Commission has not provided any credit or liquidity facility for the payment of the purchase price of bonds payable upon the mandatory tender date. The principal portion of the purchase price for the bonds is expected to be obtained from the remarketing proceeds. The obligation of the Commission to purchase the bonds on the mandatory tender date is subject to the successful remarketing of such bonds. The Commission has no obligation to purchase bonds except from remarketing proceeds. If the bonds are not remarketed, the interest rate on the bonds will be increased to the stepped coupon rate of 12 percent per annum. The impact of such a rate change to the debt service payments on the bonds is disclosed below.

<b>Put Bonds – Debt Service Comparison</b> (Amounts in Thousands)		
	<u>Interest Rate</u>	<u>Interest Payment</u>
Multiannual Mode ending February 15, 2013	2.75 % per annum	\$ 4,105
Stepped coupon rate period if bonds cannot be remarketed	12 % per annum	\$17,913

**Demand Bonds**

The Texas Mobility Fund Series 2005-B, Series 2006-B and the State Highway Fund Series 2006-B variable rate bonds are demand bonds. A bond holder 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, 2012.

<b>Demand Bonds</b> (Amounts in Thousands)		
<b>Governmental Activities</b>	<b>Bonds Held by Liquidity Providers</b>	<b>Principal Balance Outstanding</b>
General Obligation Bonds		
Series 2005-B	None	\$ 79,130
Series 2006-B	None	150,000
Revenue Bonds		
Series 2006-B	None	100,000
Total		<u>\$329,130</u>

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, which 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.

<b>Demand Bonds – Standby Bond Purchase Agreement Provisions</b>			
<b>Governmental Activities</b>	<b>Counterparties</b>	<b>Annual Liquidity Fee</b>	<b>Agreement Termination Date</b>
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	0.10%	12/13/2013
Revenue Bonds			
Series 2006-B	Banco Bilbao Vizcaya Argentaria, S.A.	0.0875%	11/07/2016

<b>Demand Bonds – Takeout Provisions</b> (Amounts in Thousands)				
<b>Governmental Activities</b>	<b>Estimated Debt Service</b>	<b>Rate</b>	<b>Basis</b>	<b>Replacement Debt Terms</b>
General Obligation Bonds				
Series 2005-B	\$ 90,998	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	158,500	4.25%	1% + greater of: 0.5% + Daily Fed Fds Rate or Bank Prime rate	Semi-annual payments over three years starting the first day of the second month of that period
Revenue Bonds				
Series 2006-B	108,750	5.25%	2% + greater of : 0.5% + Daily Fed Fds Rate or Bank Prime rate	Semi-annual payments over three years starting the first day of the sixth month of that period
Total	<u>\$358,248</u>			

***Interest Rate Swaps***

As described more fully in Note 6, Government Code, Chapter 1371, as amended, authorizes the Commission to enter into credit agreements that include interest rate swap and other similar agreements. The Commission is a party to three pay-variable, receive-variable constant maturity swaps (CMS basis swaps) associated with the Texas 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.

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 presented in the table below.

<b>Estimated Debt Service Requirements of Fixed Rate Debt Outstanding and Net Swap Payments</b> (Amounts in Thousands)				
<b>Fiscal Year</b>	<b>Series 2006-A Fixed-Rate Bonds</b>			<b>Net Debt Service</b>
	<b>Principal</b>	<b>Interest</b>	<b>Swap Payments*</b>	
2013	\$ 4,185	\$ 49,507	\$ (5,754)	\$ 47,938
2014	5,115	49,340	(5,541)	48,914
2015	6,045	49,135	(5,541)	49,639
2016	6,955	48,893	(5,541)	50,307
2017	8,895	48,615	(5,541)	51,969
2018-2022	102,985	232,640	(27,704)	307,921
2023-2027	223,925	195,722	(22,625)	397,022
2028-2032	381,200	127,826		509,026
2033-2035	293,585	26,330		319,915
Total	<u>\$1,032,890</u>	<u>\$ 828,008</u>	<u>\$ (78,247)</u>	<u>\$1,782,651</u>

\* The swap payments were projected assuming 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.

**Conduit Debt**

Transportation Code, Section 431.070, provides the authority for transportation corporations to issue bonds. The Texas Private Activity Bond Surface Transportation Corporation (TxPABST), a blended component unit, has issued private activity revenue bonds to finance costs and construction of the Interstate Highway 635 managed lanes project located in Dallas County and the North Tarrant Express Facility in Tarrant County.

Conduit Debt Obligations - Miscellaneous Information (Amounts in Thousands)		
	NTE Mobility Partners LLC	LBJ Infrastructure Group LLC
Bonds Issued	\$400,000	\$615,000
Date Issued	12/10/2009	6/15/2010
Range of Interest Rates	6.875% - 7.500%	7.000% - 7.500%
Maturities (First Year - Last Year)	2031 - 2039	2032 - 2040
First Call Date	12/31/2019	06/30/2020

The proceeds from TxPABST bonds were loaned to LBJ Infrastructure Group LLC and NTE Mobility Partners LLC. These bonds are special limited obligations of TxPABST, payable solely from and secured by loan and interest repayments from the borrowers. The bonds do not constitute a debt or pledge of the faith and credit of TxPABST, TxDOT or the state of Texas.

As of Aug. 31, 2012, TxPABST private activity revenue bonds outstanding aggregated \$1 billion. TxPABST is authorized but has not issued \$85 million of remaining bond authority. The debt service schedule for the outstanding TxPABST conduit debt is disclosed below.

Conduit Debt Obligations – Debt Service (Amounts in Thousands)			
TxPABST Bonds – Conduit Debt			
Year	Principal	Interest	Total
2013	\$	\$ 71,632	\$ 71,632
2014		71,632	71,632
2015		71,632	71,632
2016		71,632	71,632
2017		71,632	71,632
2018-2022		358,158	358,158
2023-2027		358,158	358,158
2028-2032	150,655	352,092	502,747
2033-2037	484,190	238,971	723,161
2038-2041	380,155	56,622	436,777
	1,015,000	1,722,161	2,737,161
Premium	7,098		7,098
Discount	(17,644)		(17,644)
Total	\$ 1,004,454	\$1,722,161	\$2,726,615

**NOTE 6 – DERIVATIVE INSTRUMENTS**

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 (Amounts in Thousands)			
GOVERNMENTAL ACTIVITIES			
Counterparty	Change in Fair Value	Fair Value As of 8/31/2012	Notional Amount
JPMorgan Chase Bank, N.A.	\$ (550)	\$12,555	\$ 200,000
Morgan Stanley Capital Services, Inc.	(322)	6,293	100,000
Goldman Sachs Mitsui Marine Derivative Products	(260)	6,273	100,000
	<u>\$(1,132)</u>	<u>\$25,121</u>	<u>\$ 400,000</u>

**NOTE 7 – LEASES**

**Capital Leases**

TxDOT is financing the acquisition of certain capital assets via the Master Lease Purchase Program (MLPP) which is administered by the Texas Public Finance Authority (TPFA). The liabilities associated with these leases are reported in the financial statements of TPFA. The capital assets associated with these leases are reported in TxDOT’s financial statements. TPFA holds the title to the property until the lease is fully paid, at which point title will transfer to TxDOT.

**Operating Leases**

To minimize long-term costs, and to ensure future availability of essential services, TxDOT, in routine transactions, enters into leases which extend beyond a single fiscal year. Operating lease payments are recorded as expenditures or expenses during the life of the lease. Included in the expenditures reported in the state highway fund is \$7,049,097.98 of rent paid or due under operating lease obligations.

In fiscal 2012, TxDOT prepaid the remaining lease obligation amounts for the buildings comprising the agency’s Austin headquarters known as the Riverside Annex. Rental expenditures will be recognized over the remaining term of the ground leases associated with the buildings. The following table presents future minimum lease rental obligations under noncancelable operating leases having an initial term in excess of one year.

Noncancelable Operating Lease Obligations August 31, 2012 (Amounts in Thousands)	
Fiscal Year	Minimum Future Lease Payments
2013	\$ 6,336
2014	5,696
2015	4,906
2016	4,084
2017	3,052
2018-2022	15,560
2023-2027	4,194
Total	\$ 43,828

**NOTE 8 - EMPLOYEES' RETIREMENT PLAN**

TxDOT employees, as state employees, are enrolled in the Employees Retirement System of Texas defined benefit pension plan (ERS Plan). The financial statements of the ERS Plan are included in the audited annual financial report of the Employees Retirement System of Texas. Audited financial statements and detailed actuarial information for the ERS Plan may be obtained by calling (512) 476-6431 or writing:

Employees Retirement System of Texas  
P.O. Box 13207  
Austin, Texas 78711-3207

**Plan Description**

The ERS Plan is a cost-sharing, multiple-employer, defined benefit pension plan. The ERS Plan provides service retirement benefits, disability retirement benefits and death benefits to plan members and beneficiaries.

The ERS Plan, established in the Texas Government Code, Chapters 811-815, covers elected class members and employee class members. The monthly benefit is determined by the years and months of service multiplied by a statutorily determined percentage and may vary by class. All TxDOT employees are considered members of the employee class. The monthly standard annuity equals the statutory percentage of 2.3 percent of the average monthly compensation multiplied by the number of years of service. The minimum monthly standard annuity is \$150; the maximum standard annuity is 100 percent of the average monthly compensation. Changes to the employee class plan provisions were instituted for members hired on or after Sept. 1, 2009.

- Employee class retirement benefits for employees hired on or before Aug. 31, 2009, vest after five years of service credit and employees may retire at age 60 with five years of service credit or at any age when the sum of age and service credit (including months) total 80. The average monthly compensation is the average of the highest 36 months of compensation.
- Employee class retirement benefits for employees hired on or after Sept. 1, 2009, may retire at age 65 with 10 years of service credit or at any age when the sum of age and service credit (including months) equals or exceeds 80. The average monthly compensation is the average of the highest 48 months of compensation. The standard retirement annuity is reduced by five percent for each year the member retires before the member reaches age 60, with a maximum possible reduction of 25 percent.

A Partial Lump Sum Payment Option is available to members of the employee class. A one-time partial lump sum of up to three years of the standard annuity at retirement can be taken and the annuity is reduced for life.

**Funding Policy**

Contribution requirements are not actuarially determined, but are set by legislation. Plan members are required to contribute 6.5 percent of their annual covered salary and TxDOT contributes an amount equal to 6.95 percent of TxDOT's covered payroll. TxDOT and TxDOT employees contributed \$69.4 million to the ERS Plan for the year ended Aug. 31, 2012, which equaled the required contribution. State statutes prohibit benefit improvements if as a result of the action the time required to amortize the ERS plan unfunded actuarial liabilities would be increased to a period that exceeds 30 years by one or more years.

There are no separate actuarial valuations of pension liabilities by individual state agency. Pension obligation amounts are recorded and disclosed in the audited state of Texas Comprehensive Annual Financial Report.

**NOTE 9 - DEFERRED COMPENSATION**

The state of Texas offers two deferred compensation plans to all state employees. One was established in accordance with Internal Revenue Code, Section 457. The second was established in accordance with Internal Revenue Code, Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants. The assets of the two plans remain the property of the contributing employees and are not presented in the accompanying financial statements. TxDOT makes no contributions to either plan, the assets do not belong to TxDOT and TxDOT has no liability related to the plans.

**NOTE 10 - POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

Eligible TxDOT retirees are provided postemployment health care and life insurance benefits through the State Retiree Health Plan (SRHP). The financial statements of the SRHP are included in the audited annual financial report of the Employees Retirement System of Texas. Audited financial statements and detailed actuarial information for the SRHP may be obtained by calling (512) 476-6431 or writing:

Employees Retirement System of Texas  
 P.O. Box 13207  
 Austin, Texas 78711-3207

**Plan Description**

The SRHP is a cost-sharing multiple-employer defined benefit plan. The SRHP provides postemployment health care, life and dental insurance benefits to retirees through the Texas Employees Group Benefits Program as authorized by the Texas Insurance Code, Section 1551.102.

Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. Surviving spouses and dependents of retirees are also covered by the SRHP. Benefit and contribution provisions of SRHP are authorized by state law and may be amended by the Legislature.

**Funding Policy**

The Legislature sets and has the power to amend annual state contributions to SRHP. Currently, the state pays 100 percent of eligible retiree health insurance premiums and 50 percent of dependents' premiums. The retiree contributes any premium over and above state contributions. State contributions to the SRHP are directly appropriated to ERS. The maximum monthly state contribution toward the health and basic life premiums of eligible retirees is disclosed in the following table.

<b>Employer Contribution Rates - Retiree Health and Basic Life Premium For the Fiscal Year Ended August 31, 2012</b>	
<u>Level of Coverage</u>	<u>ERS SRHP</u>
Retiree Only	\$ 438.30
Retiree/Spouse	939.78
Retiree/Children	774.10
Retiree/Family	1,275.58

**NOTE 11 - INTERFUND ACTIVITY AND TRANSACTIONS**

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions refer to financial interactions between TxDOT and another agency of the state of Texas.

Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

Interfund transfers represent the flow of assets (cash or goods) without equivalent flow of assets in return or a requirement for repayment. In governmental funds, transfers are reported as other financing uses or sources. Transfers are reported in proprietary funds after nonoperating revenues and expenses in the statement of revenues, expenses and changes in fund net position.

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As a general rule, the effect of interfund activity within TxDOT funds is eliminated from the entity-wide financial statements, with exception of activities between governmental activities and business-type activities. Interfund activity with fiduciary funds is reclassified and reported as an external activity.

**Interfund Activity**

TxDOT's operations are primarily managed through the state highway fund. As such, several routine transfers are reported between the state highway fund and TxDOT's other major and nonmajor funds. The following tables detail the principal purposes of TxDOT's significant routine interfund transfers as well as provide a summary of interfund transfers by individual major fund, nonmajor funds in the aggregate and fiduciary funds.

<b>Interfund Transfers In/Out by Purpose</b> August 31, 2012 (Amounts in Thousands)			
<b>Purpose</b>	<b>Interfund Transfer In (Fund)</b>	<b>Interfund Transfer Out (Fund)</b>	<b>Fiscal 2012 Amount</b>
Reimburse the state highway fund for costs incurred on projects funded by Texas Mobility Fund bond proceeds	Major Fund: State Highway Fund	Major Fund: Texas Mobility Fund	\$ 239,981
Reimburse the state highway fund for costs incurred on projects funded by local government contributions.	Major Fund: State Highway Fund	Nonmajor Fund: County/Political Subdivision/Local Government Road/Airport Trust Account	\$ 180,962
Provide funds to pay debt service principal and interest payments on outstanding Proposition 14/State Highway Fund Revenue Bonds	Nonmajor Fund: Proposition 14 Debt Service Fund	Major Fund: State Highway Fund	\$ 287,581
Provide funds to support the operating and maintenance costs of the Central Texas Turnpike System	Major Fund: Central Texas Turnpike System	Major Fund: State Highway Fund	\$ 55,242

<b>Interfund Transfers In/Out</b> August 31, 2012 (Amounts in Thousands)				
	<b>Transfers In</b>		<b>Transfers Out</b>	
	<b>Other Funds</b>		<b>Other Funds</b>	
Governmental Funds				
Major Funds:				
State Highway Fund	\$	420,943	\$	342,823
Mobility Fund				239,981
Nonmajor Funds		287,581		180,962
		<u>708,524</u>		<u>763,766</u>
Proprietary Funds				
Central Texas Turnpike System		55,242		
		<u>55,242</u>		
Total	\$	<u>763,766</u>	\$	<u>763,766</u>

**Annual Financial Report (Unaudited)**

Amounts not transferred at fiscal year-end are accrued as due to/due from other funds. Due to/due from amounts between governmental or business-type activities and fiduciary funds are reported as due to/due from amounts between funds in the fund financial statements and are reclassified to receivables from fiduciary funds/payables to fiduciary funds, as if they were external transactions on the entity-wide financial statements.

<b>Due From/To</b> August 31, 2012 (Amounts in Thousands)			
	<u>Due From</u> <u>Other Funds</u>		<u>Due To</u> <u>Other Funds</u>
<b>Governmental Funds</b>			
Major Funds:			
State Highway Fund	\$ 51,384	\$	533
Mobility Fund			19,555
Nonmajor Funds	533		31,814
	<u>51,917</u>		<u>51,902</u>
<b>Proprietary Funds</b>			
Central Texas Turnpike System	502		516
	<u>502</u>		<u>516</u>
<b>Total</b>	\$ <u>52,418</u>	\$	\$ <u>54,418</u>

Activity occurring within the same fund is eliminated. Certain reclassifications and eliminations are made between the fund financial statements and the entity-wide financial statements. Transfers between the governmental or business-type activities and the fiduciary funds are reported as transfers on the fund financial statements and are reclassified to revenues and expenses, as if they were external transactions on the entity-wide financial statements. Additional eliminations are made and transfers in and out are netted and presented in the entity-wide statement of activities as “transfers-internal activities.”

<b>Internal Balances per the Entity-wide Financial Statements</b> August 31, 2012 (Amounts in Thousands)			
	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<b>NONCURRENT ASSETS</b>			
Internal Balances	\$ 14	\$ (14)	\$ 0

<b>Interfund Transfers In/Out Per the Entity-Wide Financial Statements</b> August 31, 2012 (Amounts in Thousands)		
<u>Fund Category</u>		<u>Other Funds</u>
Governmental Activities	\$	(55,242)
Business-Type Activities	\$	55,242

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the funds that actually made the payment. Reimbursements are not displayed in the financial statements.



**Interfund Transactions**

The state highway fund is considered a shared fund and is appropriated for use by multiple state of Texas agencies. TxDOT is considered the controlling agency for the state highway fund and reports the total cash in state treasury balance for the fund at fiscal year-end. TxDOT reports interagency transfers in and out with the other agencies that collect and deposit to or expend out of the state highway fund.

The following tables detail the balances of transfers to/from and due to/from other state agencies and TxDOT. Approximately \$1.3 billion of the interagency transfers-in balance for the state highway fund is related to the net amount of cash collected by Texas Department of Motor Vehicles for certificate of title fees and motor vehicle registration fees. The transfer-in entry resulted in an increase to the TxDOT highway fund cash in state treasury balance. The majority of the interagency transfer-out balance for the highway fund relates to the total cash expended out of the state highway fund by the Texas Department of Public Safety, which is charged with patrolling the state highway system and monitoring compliance with statutes related to vehicle weight, motor carrier safety and the registration and transportation of persons, hazardous material and other property. Amounts not transferred at fiscal year-end are accrued as due to/from other agencies.

<b>Transfers In/Out to Other State Agencies</b>		
August 31, 2012 (Amounts in Thousands)		
	<u>Transfers In</u> Other Agencies	<u>Transfers Out</u> Other Agencies
Governmental Funds		
Major Funds:		
State Highway Fund	\$ 1,300,680	\$ 720,485
Nonmajor Funds	15,115	2,589
<b>Total</b>	<b>\$ 1,315,795</b>	<b>\$ 723,074</b>

<b>Due From/To Other State Agencies</b>		
August 31, 2012 (Amounts in Thousands)		
	<u>Due From</u> Other Agencies	<u>Due To</u> Other Agencies
Governmental Funds		
Major Funds:		
State Highway Fund	\$ 197,597	\$ 52,017
Nonmajor Funds	465	
<b>Total</b>	<b>\$ 198,062</b>	<b>\$ 52,017</b>

TxDOT also has interagency activity with federal and state grant funds. See Schedule 1A of this report for more details.

<b>Pass-Throughs To/From Other State Agencies</b>	
August 31, 2012 (Amounts in Thousands)	
	<u>State Highway Fund</u>
Federal Pass-throughs:	
Revenue	\$ 5,811
Expenditures	(16,334)
<b>Total</b>	<b>(10,523)</b>
State Pass-throughs:	
Expenditures	(864)
<b>Total</b>	<b>\$ (864)</b>

**NOTE 12 – COUNTINUANCE 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 84<sup>th</sup> 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 13 – CLASSIFICATION OF FUND BALANCE AND NET ASSETS**

The table below presents a summary of the Aug. 31, 2012, governmental fund balances by major and nonmajor governmental funds. With the exception of nonspendable fund balances, fund balance is presented based on specific purpose for which the funds are restricted, committed, assigned or unassigned.

<b>Governmental Fund Balances - Disaggregation of Nonspendable, Restricted, Committed, Assigned and Unassigned</b> (Amounts in Thousands)				
	<u>State Highway Fund</u>	<u>Texas Mobility Fund</u>	<u>Total Major Funds</u>	
<b>MAJOR FUNDS</b>				
Nonspendable:				
Inventory	\$ 123,306	\$		\$ 123,306
Prepaid Items	2,097			2,097
Restricted For:				
Capital Projects	914,265	636,184		1,550,449
Debt Service		472,643		472,643
Committed To:				
Capital Projects	201,935			201,935
Unassigned	(511,079)			(511,079)
	<u>\$ 730,524</u>	<u>\$ 1,108,827</u>		<u>\$ 1,839,351</u>
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>
<b>NONMAJOR FUNDS</b>				
Nonspendable:				
Long-Term Receivables	\$ 200	\$	\$	\$
Restricted For:				
Capital Projects				100,923
Debt Service			156,728	
Committed To:				
Highway Beautification	330			
Assigned To:				
Grand Parkway Association		170		
Unassigned	75,550			
	<u>\$ 76,080</u>	<u>\$ 170</u>	<u>\$ 156,728</u>	<u>\$ 100,923</u>
<b>ALL GOVERNMENTAL FUNDS</b>				
Nonspendable	\$ 125,603			
Restricted	2,280,743			
Committed	202,265			
Assigned	170			
Unassigned	(435,529)			
Total Fund Balances	<u>\$ 2,173,252</u>			

Restrictions of net assets are listed on the face of the entity-wide and proprietary statements of net assets. Balances reported as restricted in the fund financial statements are reported as restricted in the statement of net assets. All other fund financial balances are reported as unrestricted in the statement of net assets.

**NOTE 14 – ADJUSTMENTS TO FUND BALANCES AND NET ASSETS**

During fiscal 2012, certain accounting changes and adjustments were made that required the restatement of fund balances or net assets. The impact of these adjustments is summarized below.

<b>Restatements to Fund Balances/Net Assets</b> (Amounts in Thousands)			
	<b>September 1, 2011 As Previously Reported</b>	<b>Restatements</b>	<b>September 1, 2011 As Restated</b>
<b>BUSINESS-TYPE ACTIVITIES</b>			
Central Texas Turnpike System	495,095	(390)	494,705
Total Business-Type Activities	495,095	(390)	494,705

The final costs of right-of-way assets are not determined until pending right-of-way cases are resolved. The settlement of certain right of way cases required the restatement of capital assets in the accompanying financial report. An additional restatement was needed to adjust for a correction to prior year roadway costs.

**NOTE 15 – COMMITMENTS, CONTINGENCIES AND SERVICE CONCESSION ARRANGEMENTS**

**Contingencies**

*Unpaid Claims and Lawsuits*

The type and volume of activity for which TxDOT is responsible exposes it to a large number of claims and lawsuits. TxDOT has vigorously contested lawsuits brought against it and has usually prevailed or made settlements substantially less than the amounts originally sought.

TxDOT is exposed to claims by contractors. TxDOT will most likely settle these claims at substantially less than the amount originally sought. However, if a settlement between TxDOT’s claims committee and the contractor cannot be reached, these claims will result in future litigation. As of Aug. 31, 2012 outstanding contractor claims pending at the TxDOT claims committee totaled \$14.4 million.

Settlements are paid by the Texas Comptroller of Public Accounts from the claims and refunds appropriation. The Attorney General’s office indicates that the lawsuits listed below were pending as of Aug. 31, 2012. TxDOT management’s opinion is that the probable outcome of these cases will not materially affect the financial position of TxDOT.

**Type of Suit**

**Amounts in Controversy**

Eminent Domain

Over 800 cases ranging from \$0 to \$34.5 million. Total claims with amounts indicated came to approximately \$256 million.

Contract

Amounts claimed range from \$13.5 thousand to \$7.1 million. Total claims with amounts indicated came to approximately \$11 million.

Inverse  
Condemnation

Monetary amounts have not been specified for any of the 27 cases.

Declaratory Judgment	Monetary amounts have not been specified in one of the two cases. Total claimed with amounts indicated is \$150 thousand.
Employment Law and Related Lawsuits	Monetary amounts have not been specified in the any of the 23 cases. Liability against TxDOT is limited to \$300 thousand. However, there is no limit on attorney fees and front pay.
Tort Claims	Statutory limits of liability on these cases are \$250 thousand per person or \$500 thousand per accident. Amounts claimed range from \$750 to \$500 thousand. Total claims, including estimates of liability limits where no amounts were specified, came to approximately \$25.4 million.
Workers' Comp	Monetary amounts have not been specified in two of the three cases. Total claimed with amounts indicated is \$20 thousand.

### *Arbitrage*

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 or Indenture of Trust, a Rebate Fund will be established under the Indenture to which deposits will be made upon the determination by a verification agent that a rebate payment may be due. The amount of rebate due to the federal government is determined and payable during each five-year period and upon final payment of the tax-exempt bonds. IRC Section 148 also provides for certain rebate exceptions, including an exception if certain spend-out requirements of the bond proceeds are met. TxDOT estimates that rebatable arbitrage liability, if any, will be immaterial to the agency's overall financial condition.

### *Federal Reimbursements and Grants*

TxDOT receives federal financial assistance for specific purposes that are subject to review or audit by the federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based on prior experience, management believes such disallowance, if any, will be immaterial.

On Dec. 16, 2011, TxDOT and the Federal Highway Administration (FHWA) approved and executed a Memorandum of Understanding (MOU) for FHWA participation in TxDOT's pass through funding program. This MOU will apply to all pass through finance (PTF) projects approved by TxDOT after Feb. 26, 2009 with some stipulations as detailed within the agreement. This agreement was done in order to facilitate maximum Federal reimbursement on TxDOT PTF projects. The MOU is not applicable to any PTF project agreements executed prior to Feb. 26, 2009. Federal reimbursement for these projects will be set up on an individual basis in separate agreements between TxDOT and FHWA and with compliance reviews being performed on each project.

### *Grand Parkway Project*

TxDOT is proceeding with the development of the SH 99 (Grand Parkway) project. The Commission and TxDOT expect to pay expenditures in connection with the project prior to the issuance of obligations to finance the portion of the project for which TxDOT has jurisdiction. The Grand Parkway Transportation Corporation reasonably expects to incur debt, as one or more separate series of various types of obligations for the purposes of paying the costs of the project prior to issuance of such obligations, with an aggregate maximum amount of project

expenditures of \$600 million being incurred prior to such issuance. The Commission and TxDOT are authorized to reimburse for such payments of the project when the obligations are issued to finance the project. The Commission also authorized TxDOT to reimburse for specific expenditures related to the Grand Parkway project made prior to the issuance of any series of bonds in accordance with federal treasury regulations to reimburse capital expenditures for the project when the obligations are issued.

### ***Significant Commitments***

#### *Construction Contracts and Comprehensive Development Agreement Obligations*

At Aug. 31, 2012, TxDOT had outstanding contractual commitments of approximately \$5 billion for construction and \$1.1 billion for comprehensive development agreements, respectively. Of this total, TxDOT expects to receive future reimbursements from the Federal Highway Administration of approximately \$3 billion.

#### *Pass-Through Toll Agreements*

Transportation Code, Section 222.104 authorizes TxDOT to enter into an agreement with a public or private entity that provides for the payment of pass-through tolls to the public or private entity as reimbursement for the design, development, financing, construction, maintenance, or operation of a toll or non-toll facility on the state highway system by the public or private entity. As of Aug. 31, 2012 there were 37 active pass-through financing agreements.

TxDOT recognizes liabilities associated with pass-through toll projects as notes payable as the projects are being constructed. Notes payable amounts are determined by contractually negotiated agreements with pass-through toll partners. See Note 4 for details on the payables recognized related to pass-through toll repayment obligations.

The maximum total repayment obligation for pass-through toll projects executed as of Aug. 31, 2012, was approximately \$1.7 billion. Approximately \$95 million of this amount was repaid as of Aug. 31, 2012. The actual repayment obligation for each agreement is not determinable until total construction costs are known.

#### *Toll Equity Grants and Loan Agreements*

Transportation Code, Section 222.103 authorizes TxDOT to participate, by spending money from any available source, in the cost of acquisition, construction, maintenance or operation of a toll facility of a public or private entity. The Commission adopted administrative rules (toll equity rules) to prescribe conditions for the Commission's financing of such toll facilities. Under these guidelines the Commission has committed funds in the form of toll equity grants and toll equity loans. As of Aug. 31, 2012, the Commission has outstanding toll equity grant commitments and toll equity loan commitments totaling \$553.6 million and \$6 billion, respectively. Payments of these amounts are made subject to executed financial assistance agreements between TxDOT and the applicable public or private entity.

Of the outstanding toll equity loan commitment, \$6 billion is related to a toll equity loan agreement (TELA) with the North Texas Tollway Authority (NTTA). These funds are to be used to enhance project feasibility and expedite delivery of the State Highway 161 (also known as the President George Bush Western Extension) and Chisholm Trail Parkway projects in the Dallas/Fort Worth area. These roads comprise NTTA's Special Projects System and are separate from the NTTA system as a whole. Under the TELA, TxDOT has agreed to lend a negotiated amount each year should revenues of the projects be insufficient to cover operations and maintenance, including debt service. As of Aug. 31, 2012, no drawdowns of funding have been requested by NTTA under this agreement.

### ***Service Concession Arrangements***

As of Aug. 31, 2012, TxDOT has entered into five agreements that qualify as service concession arrangements (SCA) as defined in GASB Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements*. These projects have/will improve mobility by expanding existing road capacity and introducing

managed toll lanes, traditional toll lanes and other strategies aimed at reducing traffic congestion. Structuring as a concession arrangement enables TxDOT to deliver these projects faster than would be possible using traditional funding sources. At the end of these arrangements, operations and maintenance of the projects will be transferred to TxDOT. The state of Texas retains ownership rights and title to all assets associated with an SCA.

1. IH 10 “Katy Managed Lanes” – TxDOT, Harris County and the Federal Highway Administration entered into a tri-party agreement to design, build, maintain and operate four managed lanes on Interstate 10 West of Houston. Under this arrangement, Harris County is entitled to all toll revenues until they are fully reimbursed for the cost of construction plus debt service. The Katy Managed Lanes project was completed and opened for traffic in fiscal 2010.
2. SH 130 Segments 5 & 6 Concession – TxDOT and the SH 130 Concession Company, LLC entered into an arrangement for the design, construction, operations and maintenance of the Segments 5 & 6 extension of SH 130. The SH 130 Concession Company is entitled to collect tolls on the roadway for a 50 year term. The arrangement also provides for revenue sharing between the SH 130 Concession Company and TxDOT depending on actual toll results. The SH 130 Segments 5 & 6 extension opened for traffic in October 2012 (fiscal 2013).
3. SH 121 Concession – TxDOT and the North Texas Tollway Authority (NTTA) entered into an agreement, under which NTTA will improve, operate, maintain and retain tolls from a section of SH 121 known as the “Sam Rayburn Tollway” for 50 years. The term of the concession period began in fiscal 2009. All improvements constructed by NTTA were completed as of Aug. 31, 2012.
4. North Tarrant Express Concession – TxDOT and NTE Mobility Partners, LLC entered into an arrangement for the development of segments 1 and 2-West of the North Tarrant Express facility. Under the agreement, NTE Mobility Partners, LLC will finance, design, construct, operate and maintain these segments for 52 years. The term of the concession period will begin upon the first operating commencement date that occurs. The project is under construction as of Aug. 31, 2012.
5. LBJ Managed Lanes – TxDOT and LBJ Development Infrastructure Group, LLC entered into an arrangement, under which LBJ Development Infrastructure Group, LLC will finance, design, construct, operate and maintain a 13 mile corridor along I-635 for 52 years. The term of the concession period will begin upon the first operating commencement date that occurs. The project is under construction as of Aug. 31, 2012.

**NOTE 16 – SUBSEQUENT EVENTS**

The Commission plans to issue or has issued the following bonds as of the date of this report, through February 2013:

Bond Issuance	Series	Estimated/Actual Par Amount (Amounts in Thousands)	Estimated/Actual Date of Issuance	Purpose
CTTS First Tier Revenue Refunding Bonds	2012A	\$ 615,975	11/27/2012	Refund Series 2002A for savings
CTTS First Tier Revenue Refunding Put Bonds	2012B	\$ 225,000	11/27/2012	Refund Series 2009 for savings
State of Texas Highway Improvement General Obligation Bonds	2012	\$ 1,000,000	12/18/2012	Various highway improvement projects

In August 2012 the Commission approved the incorporation of SH 45 SE into CTTS to more efficiently and economically meet the mobility needs of the Central Texas region by operating the system and SH 45 SE as one operational and financial enterprise. The change was approved by the U.S. Department of Transportation on Oct. 25, 2012.

The Facility Concession Agreement (FCA) for the SH 130 Segments 5 & 6 facility provides for the developer to pay an additional concession payment to TxDOT if: (1) a maximum posted speed of 80 mph or 85 mph is authorized within 180 days after the service commencement date for the facility, and (2) TxDOT elects to waive increased revenue sharing that otherwise would be required. On Aug. 30, 2012, the Commission authorized and directed the implementation of the maximum speed limit of 85 mph. In addition the Commission authorized and directed TxDOT to notify the developer of TxDOT's election to waive increased revenue sharing and instead receive the additional concession payment amount of \$100 million. On Sept. 17, 2012, the TxDOT executive director provided the developer with TxDOT's written election to waive increased revenue sharing respecting the 85 mph maximum speed limit and instead receive the additional concession payment. The additional concession payment was received on Nov. 9, 2012.

In their October 2012 meeting, the Commission concurred with the Regional Transportation Council of the North Central Texas Council of Governments' (RTC) allocation of a portion of the SH 121 concession funding to pay off the North Texas Tollway Authority's (NTTA) outstanding state infrastructure bank loan balance related to Segments I-IV of the President George Bush Turnpike Authority (SIB loan). It is the intention that the NTTA will continue to make payments in accordance with the SIB loan repayment schedule. The portion of the NTTA payments, remaining after an allocation of a portion to TxDOT to reimburse for prior costs incurred for the development and oversight of projects funded with SH 121 funding, will be deposited to the state highway fund and committed for use in the region served by the RTC. TxDOT is in the process of entering into agreements with NTTA and RTC to formalize these transactions. The transfer of funds totaling approximately \$145 million from the SH 121 account to the SIB is representing the repayment of the SIB loan in full is pending.

#### ***NOTE 17 – RISK MANAGEMENT***

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

#### ***Property and Liability***

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

#### ***Health, Life and Dental***

Insurance coverage is provided to active state employees and their dependents by one of three health plan administrators. All TxDOT employees are included in the Texas Employees Group Benefits Program (GBP) administered by the Employees Retirement System of Texas (ERS). Claims for health, life, accidental death and dismemberment (AD&D), disability and dental insurance coverages are established under the GBP. These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, HMO contracts and dental health maintenance organizations (DHMO) contracts.

#### ***Commitments***

TxDOT incurs commitments related to outstanding construction contracts and comprehensive development agreements. Further detail of these commitments is provided in Note 15.

**NOTE 18 – MATRIX OF EXPENDITURES/EXPENSES REPORTED BY FUNCTION**

For the year ended Aug. 31, 2012, the following table represents governmental fund expenditures for both natural and function classifications which correlate to the TxDOT Budget Structure. As stated on the reconciliation of the governmental funds statement of revenues, expenditures and changes in fund balances to the statement of activities, certain governmental fund expenditures are converted to increases and decreases in assets and liabilities on the statement of net assets. Thus, those expenditures are not reported by function on the statement of activities.

<b>Matrix of Expenditures/Expenses Reported by Function</b>						
For the Fiscal Year Ended August 31, 2012						
(Amounts in Thousands)						
	<b>Planning and Construction</b>	<b>Maintenance and Preservation</b>	<b>Public Transportation and Safety</b>	<b>Administration</b>	<b>Total</b>	
Salaries & Wages	\$ 231,316	\$ 248,860	\$ 11,139	\$ 89,674	\$ 580,989	
Payroll Related Costs	87,736	95,946	4,094	34,177	221,953	
Professional Fees & Services	235,471	15,627	10,064	34,224	295,386	
Federal Pass-Through Exp	1,392	163	14,779		16,334	
State Grant Pass-Through Exp		864			864	
Travel	2,201	974	307	1,221	4,703	
Materials & Supplies	14,176	390,662	4,457	10,212	419,507	
Communication & Utilities	6,617	32,050	659	6,665	45,991	
Repairs & Maintenance	6,103	1,429,930	49,781	7,373	1,493,187	
Rentals & Leases	1,869	3,306	558	3,375	9,108	
Printing & Reproduction	40	127	1,466	341	1,974	
Claims & Judgments	10			5,851	5,861	
Intergovernmental Payments	389,135		109,386		498,521	
Public Assistance Payments	6,230		28,708		34,938	
Other Expenditures	31,052	6,093	16,283		53,428	
<b>Total Functional Expenditures</b>	<b>\$ 1,013,348</b>	<b>\$ 2,224,602</b>	<b>\$ 251,681</b>	<b>\$ 193,113</b>	<b>\$ 3,682,744</b>	



**NOTE 19 - THE FINANCIAL REPORTING ENTITY**

As required by Generally Accepted Accounting Principles, the financial statements present TxDOT, a state agency, and its component units. The component units discussed in this note are included in TxDOT's reporting entity because of the significance of their operational and financial relationships with TxDOT.

***Blended Component Units***

The Commission is authorized to create Transportation Corporations in Transportation Code, Chapter 431. The Commission approves the creation of transportation corporations, approves the articles of incorporation, appoints directors and approves by-laws. At any time, the Commission may terminate and dissolve a transportation corporation. In the event of dissolution or liquidation of a corporation, all assets shall be turned over to TxDOT. As of Aug. 31, 2012, three such transportation corporations were authorized by the Commission.

The Grand Parkway Association (GPA) facilitates the efficient development of Houston's third outer highway loop to serve the regional mobility needs of the metropolitan Houston area. GPA operates on funds received from various sources including TxDOT, METRO, Harris County, Fort Bend County, Chambers County, Galveston County and Brazoria County. GPA is required to make semi-annual reports to TxDOT detailing the status and financial information of the various project segments. Complete financial statements for the GPA may be obtained by writing:

Grand Parkway Association  
4544 Post Oak Place, Suite 222  
Houston, Texas 77027

The Texas Private Activity Bond Surface Corp. (TxPABST) acts on behalf of TxDOT in the promotion and development of transportation facilities by issuing private activity bonds for projects developed under comprehensive development agreements (CDA) entered into by TxDOT. Bonds issued by TxPABST are not legal obligations of the state of Texas and are payable solely from payments received or on behalf of a CDA developer. See Note 5 for additional details about the TxPABST private activity bond issuances as of Aug. 31, 2012. TxPABST does not publish financial statements. Further information can be obtained by writing:

Texas Private Activity Bond Surface Corporation  
125 East 11th St.  
Austin, Texas 78701

The Grand Parkway Transportation Corporation (GPTC) acts on behalf of TxDOT in the promotion and development of the Grand Parkway Project by issuing bonds and entering into comprehensive development agreements with developers for the design and construction of several segments of the Grand Parkway project. As of Aug. 31, 2012, GPTC has not issued any bonds and does not have any financial activity. Further information can be obtained by writing:

Grand Parkway Transportation Corporation  
125 East 11th St.  
Austin, Texas 78701

The financial activity of the transportation corporations are reported as a special revenue fund of the governmental fund type in the accompanying financial statements of TxDOT.

**NOTE 20– STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY****Fund Type Changes**

The nature and activity of the County/Political Subdivision/Local Government Road/Airport Trust Account (Appropriated Fund 0927) and the Colonias Project Fund Account (Appropriated Fund 7604) were analyzed during fiscal 2012. As a result, the County/Political Subdivision/Local Government Road/Airport Trust Account (Appropriated Fund 0927) was reclassified from an agency fund to a capital projects fund and the Colonias Project Fund Account (Appropriated Fund 7604) was reclassified from a capital projects fund to a general fund account. These changes were necessary in order to comply with the governmental fund type definitions as provided in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

**Upcoming GASB Pronouncements**

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*, has been implemented by TxDOT in this fiscal 2012 report. The implementation of these statements did not require modifications to this report as TxDOT does not report any derivatives that qualify for hedge accounting and does not administer or participate in an agent multiple-employer OPEB plan.

The GASB has issued several statements that will become effective and be implemented by TxDOT in fiscal 2013. TxDOT is still in the process of determining the effects of implementing these new GASB Statements.

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment to GASB Statement No. 14 and No. 34*
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*

**Required Supplementary Information  
Other Than MD&A**

**Texas Department of Transportation**  
**Budgetary Comparison Schedule**  
**Major Special Revenue Fund – State Highway Fund**  
For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts Budgetary Basis	Final to Actual Variance
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 2,316,170	\$ 2,313,010	\$ 2,147,769	\$ (165,241)
Federal	2,755,747	3,170,464	2,845,920	(324,544)
Licenses, Fees and Permits	81,341	81,341	105,500	24,159
Interest and Investment Income	42,899	42,899	39,657	(3,242)
Land Income			9,650	9,650
Settlement of Claims			22,715	22,715
Sales of Goods and Services	200,020	200,020	11,623	(188,397)
Other	88,425	88,425	867	(87,558)
Total revenues	5,484,602	5,896,159	5,183,701	(712,458)
<b>EXPENDITURES</b>				
Transportation:				
Planning and Construction	3,884,764	3,908,803	2,450,701	1,458,102
Maintenance and Preservation	3,076,207	3,081,771	3,482,404	(400,633)
Public Transportation and Safety	181,236	181,252	255,273	(74,021)
Administration	205,180	234,403	203,910	30,493
Total Expenditures	7,347,387	7,406,229	6,392,288	1,013,941
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,862,785)	(1,510,070)	(1,208,587)	301,483
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In			1,721,623	1,721,623
Transfers Out			(1,063,309)	(1,063,309)
Sale of Capital Assets			11,065	11,065
Available Beginning Balances	3,569,607	3,569,607	3,569,607	0
Total Other Financing Sources (Uses)	3,569,607	3,569,607	4,238,986	669,379
Excess (Deficiency) of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ 1,706,822	\$ 2,059,537	\$ 3,030,399	\$ 970,862

**NOTE TO BUDGETARY COMPARISON SCHEDULE**

The budgetary comparison schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of these differences is required and is presented below.

Reconciliation of Budgetary Basis to GAAP Basis August 31, 2012 (Amounts in Thousands)	State Highway Fund
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses- Actual Budgetary Basis	<u>\$ 3,286,137</u>
Basis of Accounting Differences:	
Receivables and Deferred Revenues	6,452
Payables	27,591
Perspective Differences:	
Beginning Cash Balances Reported as Other Financing Sources	(3,569,607)
Other Expenditures Not Budgeted	<u>(62,979)</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – GAAP Basis	<u>\$ (312,406)</u>

The major reconciling items between the budgetary comparison schedule and the GAAP financial statements are due to the following items.

*Basis of Accounting Differences*

Revenues and expenditures are reported on the cash basis of accounting in the budgetary comparison schedule but are reported on the modified accrual basis of accounting on the GAAP fund financial statements. Therefore, deferred revenues, receivables and payables are included as reconciling items.

*Perspective Differences*

Certain revenues and expenditures, including debt service are not budgeted by the Legislature. The activity for these programs is excluded from the budgetary comparison schedule. The beginning cash balances are included as other financing sources in the budgetary comparison schedule and are not included as financing sources on the GAAP financial statements.

*Excess of Actual Budgetary Basis Expenditures over Final Budget*

Major special revenue fund – state highway fund – The \$394.4 and \$70.1 million variance in maintenance and preservation and public transportation and safety is the result of the functional allocation of expenditures to report in the actual amounts on a budgetary basis and not from actual budgetary deficiencies.

*Basis of Budgeting*

The state's budget is prepared on a cash basis. The Texas Constitution limits appropriations bills to two years. The Legislative Budget Board (LBB) is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue, not dedicated by the Texas Constitution, that is available for spending in the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit.

The Governor's Budget Office and the LBB initiate the process of submitting budget requests to the Legislature. At final passage of the General Appropriations Act by the Legislature, it is sent to the Comptroller of Public Accounts for certification. If the Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the Governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The Governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce a line item of appropriation.

Upon approval by the Governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The Comptroller is responsible for controlling, accounting and reporting expenditures in accordance with expenditure budgets.

*Legal Level of Budgetary Control*

The Texas Constitution requires the Comptroller to submit a *Biennial Revenue Estimate* to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect and estimated expenditures from prior appropriations. The Texas Constitution also requires the Comptroller to submit supplementary revenue estimates at any special session of the Legislature and at other necessary times to show probable changes.

The level of legal control for the budget is established at the strategy (line item) level by agency. For example "Right-of-Way Acquisition" and "Routine Maintenance" are two of the strategies for TxDOT. The legal level of budgetary control is defined as the level at which the governing body must approve any over expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 12.5 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller's office to ensure the agency's authorized budget is not exceeded.

The level of legal control is documented in the *Appropriation Summary Report*, which is available by request from the Comptroller's office. This separate document includes budget and actual data by appropriation line item for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the Governor may authorize additional appropriations from deficiency and emergency appropriation reserves.

Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day "lapse" period. Other appropriations referred to as "reappropriated unexpended balances" represent a continuation of prior year's balances for completion of a program.

## MODIFIED APPROACH TO REPORTING INFRASTRUCTURE ASSETS

TxDOT adopted the modified approach for reporting the state's highway system. Under the modified approach, depreciation is not reported and all preservation and maintenance costs are expensed.

The modified approach requires that TxDOT:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets,
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government, and
- Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Although bridges are an integral part of the highway system, TxDOT has elected to depreciate bridges. Therefore, they are not reported using the modified approach.

### *Condition Assessments*

TxDOT performs yearly condition assessments through the Texas Maintenance Assessment Program (TxMAP). Under this program, visual inspections are conducted on approximately 10 percent of the Interstate system and 5 percent of the Non-Interstate system (national, state, and farm-to-market roadways). For each section of highway observed, 21 elements separated into three highway components are assessed scores from 0 to 5 (0 = N/A, 1 = Failed, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent) in order to determine the condition of the highways. Each element within a component is weighted according to importance and each component is weighted according to importance to determine the overall condition of the highways. The overall score is converted to a percentage measurement for reporting (1 = 20 percent, 2 = 40 percent, 3 = 60 percent, 4 = 80 percent, 5 = 100 percent).

### *Assessed Conditions*

TxDOT has adopted a minimum condition level of 80 percent for the Interstate System, 75 percent for the Non-Interstate system, and 80 percent for the Central Texas Turnpike System based on TxMAP assessments.

Fiscal	Interstate Condition (Minimum 80%)	Non-Interstate Condition (Minimum 75%)	Central Texas Turnpike System (Minimum 80%)
2012	82.0%	77.7%	86.2%
2011	83.0%	78.5%	89.9%
2010	83.6%	77.9%	87.9%
2009	81.4%	76.5%	90.5%
2008	83.7%	79.0%	91.7%

*Estimated and Actual Costs for Maintenance*

The table below provides a comparison between TxDOT's estimate of maintenance expenditures required to maintain the highway system at or above the adopted condition levels and the actual expenditures. The estimates for the Interstate and Non-Interstate highways reflect the estimated expenditures necessary to achieve the Commission's goal to increase pavement conditions to 90 percent within the next 20 years. In addition, TxDOT has been working to increase the return on maintenance dollars through the implementation of cost saving measures.

<b>Interstate Highways</b>	Fiscal 2012	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008
Estimate	\$191,441,584	\$604,837,150	\$568,455,968	\$534,263,128	\$502,127,903
Actual	\$346,326,141	\$361,824,722	\$333,253,166	\$326,304,671	\$438,236,618
<b>Non-Interstate Highways</b>	Fiscal 2012	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008
Estimate	\$2,224,821,895	\$3,282,946,244	\$3,005,712,533	\$2,687,869,178	\$2,455,243,159
Actual	\$1,594,432,159	\$1,517,603,665	\$1,423,734,251	\$1,519,109,684	\$1,649,316,888
<b>Central Texas Turnpike System</b>	Fiscal 2012	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008
Estimate	\$10,050,181	\$11,577,672	\$11,371,334	\$9,178,651	\$6,909,785
Actual	\$10,627,758	\$11,438,932	\$6,972,452	\$7,261,987	\$5,411,318

**Factors Affecting Condition Assessments**

TxDOT continues to develop its methods for determining such estimates. As additional experience is acquired in the estimation and reporting processes, TxDOT hopes to achieve a greater correlation between the estimated maintenance expenditures needed to maintain the highway system at or above the adopted condition levels and the condition level of the highways. In comparing actual expenditures to estimated expenditures, factors such as increases in traffic, legislative mandates, budgetary constraints, and environmental effects (rainfall, drought, hurricane, freeze thaw, etc) should be considered as they may have a major impact on needed funds and the condition of Texas roads.



## Other Supplementary Information

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## State Highway Fund Accounts

### Combining Financial Statements

TxDOT reports the following accounts/sub-funds, which are consolidated into the state highway fund for the financial statements.

- **State Highway Fund Accounts** – These funds contain the activity related to public road construction, maintenance and monitoring of the state’s highway system. The significant ongoing revenue sources are federal revenues and motor fuels taxes, which are constitutionally restricted and dedicated to the highway fund.

Appropriated Fund: 0006

USAS D23 Funds: 0006, 0016-0019, 0121-0122, 0130, 0513-0515, 0161-0162, 0820 and 8006

- **State Infrastructure Bank Accounts** – This fund operates as a revolving loan program that makes loans to public and private entities to encourage the development of transportation projects and facilities.

Appropriated Fund: 0006

USAS D23 Fund: 0099

- **Federal American Recovery and Reinvestment Fund (0369)** – This fund was created to record, track and report the receipt and disbursement of American Recovery and Reinvestment Act (ARRA) funding.

Appropriated Fund: 0369

USAS D23 Fund: 0369

**Texas Department of Transportation**  
**Combining Balance Sheet – State Highway Fund**  
 August 31, 2012 (Amounts in Thousands)

	State Highway Fund - Major Special Revenue Fund			TOTAL
	State Highway Fund Accounts	State Infrastructure Bank	Federal American Recovery & Reinvestment Fund	
<b>ASSETS</b>				
Cash and Cash Equivalents:				
Cash on Hand	\$ 398	\$	\$	\$ 398
Cash in Bank	597			597
Cash in State Treasury	3,432,058	137,549		3,569,607
Receivables:				
Taxes	218,717			218,717
Federal	327,551			327,551
Other Intergovernmental	60,538			60,538
Interest and Dividends		8,189		8,189
Accounts Receivable	33,510			33,510
Due from Other Funds	51,384			51,384
Due from Other Agencies	197,597			197,597
Prepaid Items	2,097			2,097
Consumable Inventories	123,306			123,306
Loans and Contracts	84,880	307,446		392,326
Total Assets	<u>4,532,633</u>	<u>453,184</u>	<u>0</u>	<u>4,985,817</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
Liabilities:				
Payables:				
Accounts Payable	873,535			873,535
Contracts Payable	8,135			8,135
Payroll Payable	59,777			59,777
Due to Other Funds	533			533
Due to Other Agencies	52,017			52,017
Deferred Revenues	3,261,296			3,261,296
Total Liabilities	<u>4,255,293</u>	<u>0</u>	<u>0</u>	<u>4,255,293</u>
Fund Balances (Deficits):				
Nonspendable				
Inventory	123,306			123,306
Prepaid Items	2,097			2,097
Restricted	461,081	453,184		914,265
Committed	201,935			201,935
Unassigned	(511,079)			(511,079)
Total Fund Balances	<u>277,340</u>	<u>453,184</u>	<u>0</u>	<u>730,524</u>
Total Liabilities and Fund Balances	<u>\$ 4,532,633</u>	<u>\$ 453,184</u>	<u>\$ 0</u>	<u>\$ 4,985,817</u>

**Texas Department of Transportation**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balances – State Highway Fund**  
For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	State Highway Fund - Major Special Revenue Fund			TOTAL
	State Highway Fund Accounts	State Infrastructure Bank	Federal American Recovery & Reinvestment Fund	
<b>REVENUES:</b>				
Taxes	\$ 2,366,486	\$	\$	\$ 2,366,486
Federal Revenues	2,525,989		297,791	2,823,780
Federal Pass-Through Revenues	5,811			5,811
Licenses, Fees and Permits	120,952			120,952
Interest & Investment Income	21,288	16,439		37,727
Land Income	9,650			9,650
Settlement of Claims	22,715			22,715
Sales of Goods and Services	7,871			7,871
Other Revenues	866			866
Total Revenues	<u>5,081,628</u>	<u>16,439</u>	<u>297,791</u>	<u>5,395,858</u>
<b>EXPENDITURES:</b>				
Transportation:				
Planning and Construction	963,182		28,642	991,824
Maintenance and Preservation	2,224,593		9	2,224,602
Public Transportation and Safety	244,213		5,325	249,538
Administration	193,113			193,113
Capital Outlay	2,385,290		263,815	2,649,105
Principal on Pass-Through Tolls	57,846			57,846
Other Financing Fees	5,132			5,132
Total Expenditures	<u>6,073,369</u>	<u>0</u>	<u>297,791</u>	<u>6,371,160</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(991,741)</u>	<u>16,439</u>	<u>0</u>	<u>(975,302)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In	1,721,623			1,721,623
Operating Transfers Out	(1,063,309)			(1,063,309)
Sale of Capital Assets	11,065			11,065
Total Other Financing Sources (Uses)	<u>669,379</u>	<u>0</u>	<u>0</u>	<u>669,379</u>
Net Change in Fund Balances	<u>(322,362)</u>	<u>16,439</u>	<u>0</u>	<u>(305,923)</u>
Fund Balances, September 1, 2011	599,702	436,745		1,036,447
Fund Balances, August 31, 2012	<u>\$ 277,340</u>	<u>\$ 453,184</u>	<u>\$ 0</u>	<u>\$ 730,524</u>

**Texas Department of Transportation**  
**Combining Balance Sheet – Nonmajor Governmental Funds**  
 August 31, 2012 (Amounts in Thousands)

	General Fund	Special Revenue Fund*	Debt Service Fund**	Capital Projects Funds	Total Nonmajor Funds
<b>ASSETS</b>					
Cash and Cash Equivalents					
Cash in Bank	\$	\$ 101	\$	\$	\$ 101
Cash in State Treasury	381		145,466	548,934	694,781
Legislative Appropriations	72,866				72,866
Federal Receivables	5,226		11,262		16,488
Due from Other Funds		533			533
Due from Other Agencies	465				465
Loans and Contracts	245				245
Other Assets		3			3
<b>Total Assets</b>	<u>79,183</u>	<u>637</u>	<u>156,728</u>	<u>548,934</u>	<u>785,482</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Payables:					
Accounts Payable	2,954	467		56,514	59,935
Payroll Payable	99				99
Due to Other Funds	50			31,764	31,814
Deferred Revenues				359,733	359,733
<b>Total Liabilities</b>	<u>3,103</u>	<u>467</u>	<u>0</u>	<u>448,011</u>	<u>451,581</u>
Fund Balances (Deficits):					
Nonspendable	200				200
Restricted			156,728	100,923	257,651
Committed	330				330
Assigned		170			170
Unassigned	75,550				75,550
<b>Total Fund Balances</b>	<u>76,080</u>	<u>170</u>	<u>156,728</u>	<u>100,923</u>	<u>333,901</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 79,183</u>	<u>\$ 637</u>	<u>\$ 156,728</u>	<u>\$ 548,934</u>	<u>\$ 785,482</u>

\* Texas Transportation Corporations (Appropriated Fund 9999) - no combining statements presented.

\*\* Proposition 14/State Highway Fund Debt Service (Appropriated Fund 0008) - no combining statements presented.

**Texas Department of Transportation**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balances – Nonmajor Governmental Funds**  
For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	General Fund	Special Revenue Fund*	Debt Service Fund**	Capital Projects Funds	Total Nonmajor Funds
<b>REVENUES:</b>					
Legislative Appropriations:					
Original Appropriations	\$ 116,562	\$	\$	\$	\$ 116,562
Additional Appropriations	237				237
Federal Revenues	12,543		27,029		39,572
Licenses, Fees and Permits	7				7
Interest and Investment Income			787	3,310	4,097
Sales of Goods and Services	911			180,962	181,873
Other Revenues		1,590			1,590
Total Revenues	<u>130,260</u>	<u>1,590</u>	<u>27,816</u>	<u>184,272</u>	<u>343,938</u>
<b>EXPENDITURES:</b>					
Transportation:					
Planning and Construction	16,751	2,025		-	18,776
Public Transportation and Safety	2,143				2,143
Capital Outlay	706			565,456	566,162
Principal on State Bonds	20,160		114,510		134,670
Interest on State Bonds	43,397		200,386		243,783
Other Financing Fees	456				456
Total Expenditures	<u>83,613</u>	<u>2,025</u>	<u>314,896</u>	<u>565,456</u>	<u>965,990</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>46,647</u>	<u>(435)</u>	<u>(287,080)</u>	<u>(381,184)</u>	<u>(622,052)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating Transfers In	15,115		287,581		302,696
Operating Transfers Out	(2,589)			(180,962)	(183,551)
Sale of Capital Assets	2,176				2,176
Appropriations Lapsed	(63,897)				(63,897)
Total Other Financing Sources (Uses)	<u>(49,195)</u>	<u>0</u>	<u>287,581</u>	<u>(180,962)</u>	<u>57,424</u>
Net Change in Fund Balances	<u>(2,548)</u>	<u>(435)</u>	<u>501</u>	<u>(562,146)</u>	<u>(564,628)</u>
Fund Balances, September 1, 2011	78,628	605	156,227	663,069	898,529
Fund Balances, August 31, 2012	<u>\$ 76,080</u>	<u>\$ 170</u>	<u>\$ 156,728</u>	<u>\$ 100,923</u>	<u>\$ 333,901</u>

\* Texas Transportation Corporations (Appropriated Fund 9999) - no combining statements presented.

\*\* Proposition 14/State Highway Fund Debt Service (Appropriated Fund 0008) - no combining statements presented.

**Texas Department of Transportation**  
**Combining Balance Sheet – General Fund Accounts**  
 August 31, 2012 (Amounts in Thousands)

	General Fund	Traffic Safety- Crash Records Information Systems	Texas Highway Beautification	Colonias Projects Fund *	Suspense Fund	TOTAL
<b>ASSETS:</b>						
Cash and Cash Equivalents:						
Cash in State Treasury	\$	\$	\$ 330	\$	\$ 51	\$ 381
Legislative Appropriations	72,866					72,866
Federal Receivables	5,226					5,226
Due from Other Agencies				465		465
Loans and Contracts	245					245
Total Assets	<u>78,337</u>	<u>0</u>	<u>330</u>	<u>465</u>	<u>51</u>	<u>79,183</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Payables:						
Accounts Payable	2,488			465	1	2,954
Payroll Payable	99					99
Due to Other Funds					50	50
Total Liabilities	<u>2,587</u>	<u>0</u>	<u>0</u>	<u>465</u>	<u>51</u>	<u>3,103</u>
FUND BALANCES (DEFICITS):						
Nonspendable	200					200
Committed			330			330
Unassigned	75,550					75,550
Total Fund Balances	<u>75,750</u>	<u>0</u>	<u>330</u>	<u>0</u>	<u>0</u>	<u>76,080</u>
Total Liabilities and Fund Balances	<u>\$ 78,337</u>	<u>\$ 0</u>	<u>\$ 330</u>	<u>\$ 465</u>	<u>\$ 51</u>	<u>\$ 79,183</u>

\* The Colonias Projects Fund was previously reported as a capital projects fund.



**Texas Department of Transportation**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balances – General Fund Accounts**  
For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	General Fund	Traffic Safety- Crash Records Information Systems	Texas Highway Beautification	Colonias Projects Fund *	Suspense Fund	TOTAL
<b>REVENUES:</b>						
Legislative Appropriations:						
Original Appropriations	\$ 116,562	\$	\$	\$	\$	116,562
Additional Appropriations	237					237
Federal Revenue	12,543					12,543
Licenses, Fees and Permits			7			7
Sale of Goods & Services	925		(14)			911
Total Revenues	<u>130,267</u>	<u>0</u>	<u>(7)</u>	<u>0</u>	<u>0</u>	<u>130,260</u>
<b>EXPENDITURES:</b>						
Transportation:						
Planning and Construction	2,386			14,365		16,751
Public Transportation and Safety	1,393	750				2,143
Interest on State Bonds	43,397					43,397
Debt Service Principal-Other GLTD	20,160					20,160
Other Financing Fees	456					456
Capital Outlay	706					706
Total Expenditures	<u>68,498</u>	<u>750</u>	<u>0</u>	<u>14,365</u>	<u>0</u>	<u>83,613</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>61,769</u>	<u>(750)</u>	<u>(7)</u>	<u>(14,365)</u>	<u>0</u>	<u>46,647</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating Transfers In		750		14,365		15,115
Operating Transfers Out	(2,589)					(2,589)
Sale of Capital Assets	2,176					2,176
Appropriations Lapsed	(63,897)					(63,897)
Total Other Financing Sources (Uses)	<u>(64,310)</u>	<u>750</u>	<u>0</u>	<u>14,365</u>	<u>0</u>	<u>(49,195)</u>
Net Change in Fund Balances	(2,541)	0	(7)	0	0	(2,548)
Fund Balances, September 1, 2011	78,291	0	337	0	0	78,628
Fund Balances, August 31, 2012	<u>\$ 75,750</u>	<u>\$ 0</u>	<u>\$ 330</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 76,080</u>

\* The Colonias Projects Fund was previously reported as a capital projects fund.

**Texas Department of Transportation**  
**Combining Balance Sheet – Nonmajor Capital Projects Funds**  
 August 31, 2012 (Amounts in Thousands)

	Proposition 12 Highway Improvement Project Fund	Local Government, Political Subdivision Road/Airport Account	TOTAL
<b>ASSETS</b>			
Cash and Cash Equivalents:			
Cash in State Treasury	\$ 188,699	\$ 360,235	\$ 548,934
Total Assets	<u>188,699</u>	<u>360,235</u>	<u>548,934</u>
<b>LIABILITIES AND FUND BALANCES:</b>			
Liabilities:			
Payables:			
Accounts Payable	56,514		56,514
Due to Other Funds	31,262	502	31,764
Deferred Revenues		359,733	359,733
Total Liabilities	<u>87,776</u>	<u>360,235</u>	<u>448,011</u>
FUND BALANCES (DEFICITS):			
Restricted	100,923		100,923
Total Fund Balances	<u>100,923</u>	<u>0</u>	<u>100,923</u>
Total Liabilities and Fund Balances	<u>\$ 188,699</u>	<u>\$ 360,235</u>	<u>\$ 548,934</u>

**Texas Department of Transportation**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balances – Nonmajor Capital Projects Funds**  
For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Proposition 12 Highway Improvement Project Fund	Local Government, Political Subdivision Road/Airport Account	TOTAL
<b>REVENUES:</b>	\$	\$	\$
Interest & Investment Income	3,310		3,310
Sales of Goods & Services		180,962	180,962
Total Revenues	<u>3,310</u>	<u>180,962</u>	<u>184,272</u>
<b>EXPENDITURES:</b>			
Transportation:			
Planning and Construction			0
Capital Outlay	<u>565,456</u>		<u>565,456</u>
Total Expenditures	<u>565,456</u>	<u>0</u>	<u>565,456</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(562,146)</u>	<u>180,962</u>	<u>(381,184)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating Transfers Out		(180,962)	(180,962)
Total Other Financing Sources (Uses)	<u>0</u>	<u>(180,962)</u>	<u>(180,962)</u>
Net Change in Fund Balances	<u>(562,146)</u>	<u>0</u>	<u>(562,146)</u>
Fund Balances, September 1, 2011	<u>663,069</u>	<u>0</u>	<u>663,069</u>
Fund Balances, August 31, 2012	<u>\$ 100,923</u>	<u>\$ 0</u>	<u>\$ 100,923</u>

**Texas Department of Transportation**  
**Combining Statement of Changes in Assets and Liabilities –**  
**Agency Funds**  
 For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Balances September 1, 2011	Additions	Deductions	Balances August 31, 2012
	\$	\$	\$	\$
<b><i>UNAPPROPRIATED RECEIPTS</i></b>				
<b><u>General Revenue Fund (0001), U/F (1001) *</u></b>				
Assets:				
Cash on Hand	0	15,684	15,684	0
Total Assets	<u>0</u>	<u>15,684</u>	<u>15,684</u>	<u>0</u>
Liabilities:				
Funds Held for Others	0	15,684	15,684	0
Total Liabilities	<u>0</u>	<u>15,684</u>	<u>15,684</u>	<u>0</u>
 <b><i>OTHER AGENCY FUNDS</i></b>				
<b><u>Child Support-Employee Deduction</u></b>				
<b><u>Account (0807), U/F (0807)</u></b>				
Assets:				
Cash in State Treasury	241	3,467	3,453	255
Total Assets	<u>241</u>	<u>3,467</u>	<u>3,453</u>	<u>255</u>
Liabilities:				
Funds Held for Others	241	3,467	3,453	255
Total Liabilities	<u>241</u>	<u>3,467</u>	<u>3,453</u>	<u>255</u>
 <b><u>Direct Deposit Correction</u></b>				
<b><u>Account (0980), U/F (0980 and 9014)</u></b>				
Assets:				
Cash in State Treasury	154	24,445	24,255	344
Total Assets	<u>154</u>	<u>24,445</u>	<u>24,255</u>	<u>344</u>
Liabilities:				
Funds Held for Others	154	24,445	24,255	344
Total Liabilities	<u>154</u>	<u>24,445</u>	<u>24,255</u>	<u>344</u>

*Concluded on the following page.*

\* Appropriated Fund is noted as (XXXX), USAS D23 Fund is noted as U/F (XXXX)

**Texas Department of Transportation**  
**Combining Statement of Changes in Assets and Liabilities –**  
**Agency Funds (concluded)**  
 For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Balances September 1, 2011	Additions	Deductions	Balances August 31, 2012
	\$	\$	\$	\$
<b>OTHER AGENCY FUNDS</b>				
<b>Toll Revenue Custodial Account</b>				
<b><u>Account (9999), U/F (0997)</u></b>				
Assets:				
Cash on Hand	23	33	23	33
Cash in Bank	18,902	152,733	151,931	19,704
<b>Total Assets</b>	<u>18,925</u>	<u>152,766</u>	<u>151,954</u>	<u>19,737</u>
Liabilities:				
Funds Held for Others	18,925	152,766	151,954	19,737
<b>Total Liabilities</b>	<u>18,925</u>	<u>152,766</u>	<u>151,954</u>	<u>19,737</u>
<b>TOTALS - ALL AGENCY FUNDS</b>				
Assets:				
Cash on Hand	23	15,717	15,707	33
Cash in Bank	18,902	152,733	151,931	19,704
Cash in State Treasury	395	27,912	27,708	599
<b>Total Assets</b>	<u>19,320</u>	<u>196,362</u>	<u>195,346</u>	<u>20,336</u>
Liabilities:				
Funds Held for Others	19,320	196,362	195,346	20,336
<b>Total Liabilities</b>	<u>\$ 19,320</u>	<u>\$ 196,362</u>	<u>\$ 195,346</u>	<u>\$ 20,336</u>

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**Auditor's Report on Internal Controls  
(Pending)**

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**Other Information**

**Schedules\***

**1A – Schedule of Expenditures of Federal Awards**

**1B – Schedule of State Grant Pass-Throughs**

**2A – Miscellaneous Bond Information**

**2B – Changes in Bonded Indebtedness**

**2C – Debt Service Requirements**

**2D– Analysis of Funds Available for Debt Service**

\* All schedules are presented unrounded (in dollars and cents).

**Texas Department of Transportation**  
**Schedule 1A – Schedule of Expenditures of Federal Awards**  
For the Fiscal Year Ended August 31, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through From			Direct Program Amount
		Agency	State	Other	
		Number	Entities	Entities	
		\$	\$	\$	
<u><i>Federal Aviation Administration (FAA):</i></u>					
Direct Program:					
Airport Improvement Program - ARRA	20.106				398,399.00
Airport Improvement Program	20.106				58,543,936.06
Pass-Through Funds to Other Entities:					
Airport Improvement Program	20.106				485,122.19
Total FAA:			0.00	0.00	59,427,457.25
<u><i>Federal Motor Carrier Safety Administration:</i></u>					
Direct Program:					
Commercial Vehicle Information Systems and Networks	20.237				60,014.62
Total Federal Motor Carrier Safety Administration:			0.00	0.00	60,014.62
<u><i>Federal Railroad Administration:</i></u>					
Direct Program:					
Rail Line Relocation and Improvement	20.320				1,000,000.00
Total Federal Railroad Administration:			0.00	0.00	1,000,000.00
<u><i>Federal Transit Administration (FTA):</i></u>					
Direct Program:					
Formula Grants For Other Than Urbanized Areas	20.509				1,402,005.39
Public Transportation Research	20.514				50,881.51
State Planning and Research	20.515				790,795.20
Pass-Through Funds:					
Formula Grants For Other Than Urbanized Areas	20.509				57,187.56
Pass-Through Funds to Other Entities:					
Federal Transit Metropolitan Planning Grants	20.505				6,009,626.37
Formula Grants For Other Than Urbanized Areas - ARRA	20.509				5,367,631.54
Formula Grants For Other Than Urbanized Areas	20.509				33,648,129.37
Public Transportation Research	20.514				22,859.81
State Planning and Research	20.515				759,783.63
Total FTA:			0.00	0.00	48,108,900.38
<u><i>National Highway Traffic Safety Admin. (NHTSA):</i></u>					
Pass-Through Funds to Other Entities:					
NHTSA Discretionary Safety Grants	20.614				284,872.87
Total NHTSA:			0.00	0.00	284,872.87
<u><i>General Services Administration (GSA):</i></u>					
Pass-Through Funds:					
Donation of Federal Surplus Personal Property (NON-MONETARY)					
Pass-Through from Texas Facilities Commission	39.003	303	14,057.71		
Total GSA:			14,057.71	0.00	0.00
<u><i>Environmental Protection Agency (EPA):</i></u>					
Pass-Through Funds:					
Performance Partnership Grants					
Pass-Through from Texas Comm. On Environmental Qualit	66.605	582	100,000.00		
Total EPA:			100,000.00	0.00	0.00

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**Annual Financial Report (Unaudited)**

Total Pass-Through From and Direct Program	Pass-Through To			Expenditures	Total Pass-Through To and Expenditures Amount
	Agency Number	State Entities	Other Entities		
\$	\$	\$	\$	\$	\$
398,399.00				398,399.00	398,399.00
58,543,936.06				58,543,936.06	58,543,936.06
<u>485,122.19</u>			<u>485,122.19</u>		<u>485,122.19</u>
<u>59,427,457.25</u>		<u>0.00</u>	<u>485,122.19</u>	<u>58,942,335.06</u>	<u>59,427,457.25</u>
<u>60,014.62</u>				<u>60,014.62</u>	<u>60,014.62</u>
<u>60,014.62</u>		<u>0.00</u>	<u>0.00</u>	<u>60,014.62</u>	<u>60,014.62</u>
<u>1,000,000.00</u>				<u>1,000,000.00</u>	<u>1,000,000.00</u>
<u>1,000,000.00</u>		<u>0.00</u>	<u>0.00</u>	<u>1,000,000.00</u>	<u>1,000,000.00</u>
1,402,005.39				1,402,005.39	1,402,005.39
50,881.51				50,881.51	50,881.51
790,795.20				790,795.20	790,795.20
57,187.56	711	57,187.56			57,187.56
6,009,626.37			6,009,626.37		6,009,626.37
5,367,631.54			5,367,631.54		5,367,631.54
33,648,129.37			33,648,129.37		33,648,129.37
22,859.81			22,859.81		22,859.81
759,783.63			759,783.63		759,783.63
<u>48,108,900.38</u>		<u>57,187.56</u>	<u>45,808,030.72</u>	<u>2,243,682.10</u>	<u>48,108,900.38</u>
<u>284,872.87</u>			<u>284,872.87</u>		<u>284,872.87</u>
<u>284,872.87</u>		<u>0.00</u>	<u>284,872.87</u>	<u>0.00</u>	<u>284,872.87</u>
<u>14,057.71</u>				<u>14,057.71</u>	<u>14,057.71</u>
<u>14,057.71</u>		<u>0.00</u>	<u>0.00</u>	<u>14,057.71</u>	<u>14,057.71</u>
<u>100,000.00</u>				<u>100,000.00</u>	<u>100,000.00</u>
<u>100,000.00</u>		<u>0.00</u>	<u>0.00</u>	<u>100,000.00</u>	<u>100,000.00</u>

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**Texas Department of Transportation**  
**Schedule 1A – Schedule of Expenditures of Federal Awards (Continued)**  
For the Fiscal Year Ended August 31, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through From			Direct Program Amount
		Agency Number	State Entities	Other Entities	
		\$	\$	\$	
<i>Department of Energy:</i>					
Pass-Through Funds:					
Conservation Research and Development - ARRA Pass-Through from Texas Railroad Commission	81.086	455	259,000.00		
Total Department of Energy:			259,000.00	0.00	0.00
<i>Other Clusters</i>					
<i>Public Assistance Cluster:</i>					
<i>Department of Homeland Security (DHS):</i>					
Pass-Through Funds:					
Disaster Grants - Public Assistance Pass-Through from Texas Department of Public Safety	97.036	405	5,451,591.78		
Total DHS:			5,451,591.78	0.00	0.00
<i>Federal Transit Cluster:</i>					
<i>Federal Transit Administration (FTA):</i>					
Pass-Through Funds to Other Entities:					
Federal Transit - Capital Investment Grants	20.500				3,862,881.13
Total FTA:			0.00	0.00	3,862,881.13
<i>Transit Services Programs Cluster:</i>					
<i>Federal Transit Administration (FTA):</i>					
Direct Program:					
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513				505,653.73
Job Access - Reverse Commute	20.516				110,624.35
New Freedom Program	20.521				70,130.63
Pass-Throughs to Other Entities:					
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513				7,921,908.41
Job Access - Reverse Commute	20.516				5,420,593.19
New Freedom Program	20.521				3,436,400.69
Total FTA:			0.00	0.00	17,465,311.00
<i>Highway Planning and Construction Cluster:</i>					
<i>Federal Highway Administration (FHWA):</i>					
Direct Program:					
Highway Planning and Construction - ARRA	20.205				256,982,457.10
Highway Planning and Construction	20.205				2,173,397,131.14
Pass-Through Funds:					
Highway Planning and Construction					
Texas A & M University	20.205				7,792,333.06
Prairie View A & M University	20.205				44,062.62
University of Texas - Austin	20.205				95,341.95
University of Texas - El Paso	20.205				45,309.36
Texas Transportation Institute	20.205				1,022.19
Texas Historical Commission	20.205				1,605,624.08
Pass-Through to Other Entities - ARRA	20.205				35,043,062.33
Pass-Through to Other Entities	20.205				185,271,750.71
Total FHWA:			0.00	0.00	2,660,278,094.54

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**Annual Financial Report (Unaudited)**

Total Pass-Through From and Direct Program	Pass-Through To			Expenditures	Total Pass-Through To and Expenditures Amount
	Agency Number	State Entities	Other Entities		
\$	\$	\$	\$	\$	\$
259,000.00				259,000.00	259,000.00
<u>259,000.00</u>		0.00	0.00	<u>259,000.00</u>	<u>259,000.00</u>
5,451,591.78				5,451,591.78	5,451,591.78
<u>5,451,591.78</u>		0.00	0.00	<u>5,451,591.78</u>	<u>5,451,591.78</u>
3,862,881.13			3,862,881.13		3,862,881.13
<u>3,862,881.13</u>		0.00	<u>3,862,881.13</u>	0.00	<u>3,862,881.13</u>
505,653.73				505,653.73	505,653.73
110,624.35				110,624.35	110,624.35
70,130.63				70,130.63	70,130.63
7,921,908.41			7,921,908.41		7,921,908.41
5,420,593.19			5,420,593.19		5,420,593.19
3,436,400.69			3,436,400.69		3,436,400.69
<u>17,465,311.00</u>		0.00	<u>16,778,902.29</u>	<u>686,408.71</u>	<u>17,465,311.00</u>
256,982,457.10				204,549,716.74	204,549,716.74
2,173,397,131.14				2,173,397,131.14	2,173,397,131.14
7,792,333.06	711	7,792,333.06			7,792,333.06
44,062.62	715	44,062.62			44,062.62
95,341.95	721	95,341.95			95,341.95
45,309.36	724	45,309.36			45,309.36
1,022.19	727	1,022.19			1,022.19
1,605,624.08	808	1,605,624.08			1,605,624.08
35,043,062.33			87,475,802.69		87,475,802.69
185,271,750.71			185,271,750.71		185,271,750.71
<u>2,660,278,094.54</u>		<u>9,583,693.26</u>	<u>272,747,553.40</u>	<u>2,377,946,847.88</u>	<u>2,660,278,094.54</u>

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**Texas Department of Transportation**  
**Schedule 1A – Schedule of Expenditures of Federal Awards (Concluded)**  
For the Fiscal Year Ended August 31, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through From			Direct Program Amount
		Agency Number	State Entities	Other Entities	
		\$	\$	\$	
<i>Highway Safety Cluster:</i>					
<i>National Highway Traffic Safety Admin. (NHTSA):</i>					
Direct Program:					
State and Community Highway Safety Program	20.600				5,596.66
Pass-Through Funds:					
State and Community Highway Safety Program					
Texas Department of Public Safety	20.600				429,146.07
Texas Department of State Health Services	20.600				555,659.86
Texas Cooperative Extension	20.600				215,486.17
University of Texas at Arlington	20.600				527,986.99
Texas A & M Engineering Extension Service	20.600				610,735.69
Texas Transportation Institute	20.600				1,054,050.72
Texas State University	20.600				52,975.37
Texas A & M University - Corpus Christi	20.600				45,116.78
Alcohol Impaired Driving Countermeasures Incentive Grants					
Texas Department of Public Safety	20.601				166,325.74
Texas Alcoholic Beverage Commission	20.601				243,133.40
Texas Cooperative Extension	20.601				234,056.13
Texas Transportation Institute	20.601				577,548.44
Sam Houston State University	20.601				810,601.21
Texas State University	20.601				63,548.53
University of Houston - Downtown	20.601				185,069.37
Occupant Protection Incentive Grants					
Texas Transportation Institute	20.602				45,085.43
Safety Belt Performance Grants					
Texas Transportation Institute	20.609				298,910.67
State Traffic Safety Information System Improvement Grants					
Texas Department of State Health Services	20.610				577,692.61
Pass-Through to Other Entities					
State and Community Highway Safety Program	20.600				9,730,236.36
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601				12,424,921.08
Occupant Protection Incentive Grants	20.602				2,531,841.45
Safety Belt Performance Grants	20.609				0.00
State Traffic Safety Information System Improvement Grants	20.610				197,542.13
Incentive Grant Program to Increase Motorcyclist Safety	20.612				523,073.09
Child Safety and Child Booster Seats Incentive Grants	20.613				1,186,543.58
Total NHTSA:			0.00	0.00	33,292,883.53
Total Other Clusters		5,451,591.78		0.00	2,714,899,170.20
TOTAL FEDERAL ASSISTANCE		\$ 5,824,649.49	\$ 0.00	\$ 0.00	\$ 2,823,780,415.32

**Annual Financial Report (Unaudited)**

Total Pass-Through From and Direct Program	Pass-Through To			Expenditures	Total Pass-Through To and Expenditures Amount
	Agency Number	State Entities	Other Entities		
\$	\$	\$	\$	\$	\$
5,596.66				5,596.66	5,596.66
429,146.07	405	429,146.07			429,146.07
555,659.86	537	555,659.86			555,659.86
215,486.17	555	215,486.17			215,486.17
527,986.99	714	527,986.99			527,986.99
610,735.69	716	610,735.69			610,735.69
1,054,050.72	727	1,054,050.72			1,054,050.72
52,975.37	754	52,975.37			52,975.37
45,116.78	760	45,116.78			45,116.78
166,325.74	405	166,325.74			166,325.74
243,133.40	458	243,133.40			243,133.40
234,056.13	555	234,056.13			234,056.13
577,548.44	727	577,548.44			577,548.44
810,601.21	753	810,601.21			810,601.21
63,548.53	754	63,548.53			63,548.53
185,069.37	784	185,069.37			185,069.37
45,085.43	727	45,085.43			45,085.43
298,910.67	727	298,910.67			298,910.67
577,692.61	537	577,692.61			577,692.61
9,730,236.36			9,730,236.36		9,730,236.36
12,424,921.08			12,424,921.08		12,424,921.08
2,531,841.45			2,531,841.45		2,531,841.45
0.00			0.00		0.00
197,542.13			197,542.13		197,542.13
523,073.09			523,073.09		523,073.09
1,186,543.58			1,186,543.58		1,186,543.58
<u>33,292,883.53</u>		<u>6,693,129.18</u>	<u>26,594,157.69</u>	<u>5,596.66</u>	<u>33,292,883.53</u>
<u>2,720,350,761.98</u>		<u>16,276,822.44</u>	<u>319,983,494.51</u>	<u>2,384,090,445.03</u>	<u>2,720,350,761.98</u>
<u>\$ 2,829,605,064.81</u>		<u>\$ 16,334,010.00</u>	<u>\$ 366,561,520.29</u>	<u>\$ 2,446,709,534.52</u>	<u>\$ 2,829,605,064.81</u>

## Notes to the Schedule of Expenditures of Federal Awards

### For the Fiscal Year Ended August 31, 2012

#### Note 1 - Nonmonetary Assistance

The "Donation of Federal Surplus Personal Property" is presented at 23.3% of the federal acquisition cost of \$ 60,333.50. The surplus property is passed through from the Texas Facilities Commission. The federal grantor agency is the General Services Administration (GSA) and the federal CFDA number is 39.003. The estimated fair value for fiscal year 2012 is \$14,057.71. The difference of the values of the surplus property recorded on the federal schedule and Exhibit II (Federal Revenues) is a reconciling item below.

#### Note 2 - Reconciliation

Per Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds :

Federal Revenues before Other Adjustments	\$2,886,656,543.00
Federal Pass Through Revenues	<u>5,810,591.78</u>
Subtotal	<u>\$2,892,467,134.78</u>

Reconciling Items:

Federal Surplus Personal Property Donation (Non-Monetary)	14,057.71
Build America Bonds Federal Subsidy	<u>(62,876,127.68)</u>

Total Pass-Through and Expenditures per Federal Schedule	<u>\$2,829,605,064.81</u>
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#### Note 3 - Federal Deferred Revenue

Federal Deferred Revenue 9/1/11	\$24,736,517.00
Increase (Decrease)	<u>5,419,511.39</u>
Federal Deferred Revenue 8/31/12	<u>\$30,156,028.39</u>

The federal deferred revenue ending balance of \$30,156,028.39 pertains to federal expenditures which were incurred and are reimbursable from the Federal Highway Administration but the federal revenue is not collectable within 60 days after the end of the fiscal year. Federal CFDA number 20.205 applies to this \$30,156,028.39.



**Texas Department of Transportation**  
**Schedule 1B – Schedule State Pass-Through Grants From/To State Agencies**  
For the Fiscal Year Ended August 31, 2012

**Pass-Through To:**

Routine Airport Maintenance Grants	
Texas A&M University (Agency #711)	\$ 100,000.00
Research and Development Grants	
University of Texas at Arlington (Agency #714)	<u>764,460.47</u>
Total Pass-Through To Other Agencies	<u>\$ 864,460.47</u>

**Texas Department of Transportation**  
**Schedule 2A – Miscellaneous Bond Information**  
For the Fiscal Year Ended August 31, 2012

**Governmental Activities**

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Terms of Variable Interest Rates *	Scheduled Maturities		
					First Year	Last Year	First Call Date
<b>General Obligation Bonds:</b>							
<b>Texas Mobility Fund (Self-Supporting)</b>							
Series 2005-A Fixed Rate Bonds	\$900,000,000.00	3.9000%	5.0000%		2006	2035	4/1/2015
Series 2005-B Variable Rate Bonds	100,000,000.00	VAR	VAR	Weekly	2030	2030	**
Series 2006 Fixed Rate Bonds	750,000,000.00	3.6250%	5.0000%		2007	2036	4/1/2016
Series 2006-A Fixed Rate Bonds	1,040,275,000.00	4.0000%	5.0000%		2007	2035	4/1/2017
Series 2006-B Variable Rate Bonds	150,000,000.00	VAR	VAR	Weekly	2036	2036	**
Series 2007 Fixed Rate Bonds	1,006,330,000.00	4.0000%	5.0000%		2008	2037	4/1/2017
Series 2008 Fixed Rate Bonds	1,100,000,000.00	4.0000%	5.0000%		2009	2037	4/1/2018
Series 2009-A Taxable Fixed Rate Bonds	1,208,495,000.00	5.3670%	5.5170%		2029	2039	**
Total General Obligation Bonds (Self-Supporting)	<u>6,255,100,000.00</u>						
<b>Texas Highway Improvement (Non-Self-Supporting)</b>							
Series 2010-A Taxable Fixed Rate Bonds	815,420,000.00	3.2030%	4.6810%		2019	2040	**
Series 2010-B Fixed Rate Bonds	162,390,000.00	2.0000%	5.0000%		2012	2018	n/a
Total General Obligation (Non-Self-Supporting)	<u>977,810,000.00</u>						
<b>Revenue Bonds:</b>							
<b>State Highway Fund (Self-Supporting)</b>							
Series 2006 Fixed Rate Bonds	600,000,000.00	4.0000%	5.0000%		2007	2026	4/1/2016
Series 2006-A Fixed Rate Bonds	852,550,000.00	4.0000%	5.2500%		2008	2025	4/1/2016
Series 2006-B Variable Rate Bonds	100,000,000.00	VAR	VAR	Weekly	2026	2026	**
Series 2007 Fixed Rate Bonds	1,241,845,000.00	4.0000%	5.0000%		2009	2027	4/1/2017
Series 2008 Fixed Rate Bonds	162,995,000.00	3.5000%	5.2500%		2010	2028	4/1/2018
Series 2010 Taxable Fixed Rate Bonds	1,500,000,000.00	5.0280%	5.1780%		2026	2030	**
Total Revenue Bonds (Self-Supporting)	<u>4,457,390,000.00</u>						
Total Governmental Activities	<u>\$11,690,300,000.00</u>						

\* The variable rate bonds were variable based on weekly interest rate resets throughout fiscal 2012. These bonds may be converted to a daily mode, term rate mode, fixed rate mode, auction rate mode or a commercial paper mode at the option of the Commission or under certain conditions detailed in the applicable official statement.

\*\* Bonds are subject to redemption prior to their respective maturities at the option of the Commission.

\*\*\* The Texas Private Activity Bond Surface Transportation Corporation Bonds are not obligations of the state and are not included in this schedule.

*Concluded on the following page.*

**Texas Department of Transportation**  
**Schedule 2A – Miscellaneous Bond Information (concluded)**  
 For the Fiscal Year Ended August 31, 2012

**Business-Type Activities**

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Terms of Variable Interest Rates	Scheduled Maturities		First Call Date
					First Year	Last Year	
<b>Revenue Bonds (Self-Supporting):</b>							
First Tier Revenue Bonds Series 2002-A							
Non-Callable Capital							
Appreciation Bonds ***	\$494,049,170.34	4.4700%	5.7500%		2012	2030	n/a
Callable Capital							
Appreciation Bonds ***	281,474,152.07	6.0000%	6.1000%		2025	2038	8/15/2012
Current Interest Bonds	707,875,000.00	5.0000%	5.7500%		2038	2042	8/15/2012
First Tier Revenue Refunding							
Put Bonds Series 2009	149,275,000.00	2.7500%****			2042	2042	2/15/2013
Total Business-Type Activities	<u>\$1,632,673,322.41</u>						

\*\*\* Bonds issued to date include interest accreted to principal through Aug. 31, 2012.

\*\*\*\* Bonds pay interest at 2.7500% through the 24-month multi-annual period ending Feb. 15, 2013.

**Texas Department of Transportation**  
**Schedule 2B – Changes in Bonded Indebtedness**  
For the Fiscal Year Ended August 31, 2012

**Governmental Activities**

Description	Bonds Outstanding 9/01/2011	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 8/31/2012
<b>General Obligation Bonds:</b>					
<b>Texas Mobility Fund</b>					
Series 2005-A	\$801,340,000.00		\$17,845,000.00		\$783,495,000.00
Series 2005-B	82,315,000.00		3,185,000.00		79,130,000.00
Series 2006	678,915,000.00		14,785,000.00		664,130,000.00
Series 2006-A	1,036,105,000.00		3,215,000.00		1,032,890,000.00
Series 2006-B	150,000,000.00				150,000,000.00
Series 2007	1,004,435,000.00		250,000.00		1,004,185,000.00
Series 2008	1,096,075,000.00		7,490,000.00		1,088,585,000.00
Series 2009-A	1,208,495,000.00				1,208,495,000.00
<b>Texas Highway Improvement</b>					
Series 2010-A	815,420,000.00				815,420,000.00
Series 2010-B	162,390,000.00		20,160,000.00		142,230,000.00
Total	7,035,490,000.00	0	66,930,000.00	0	6,968,560,000.00
<b>Revenue Bonds:</b>					
<b>State Highway Fund</b>					
Series 2006	497,035,000.00		23,105,000.00		473,930,000.00
Series 2006-A	716,785,000.00		38,155,000.00		678,630,000.00
Series 2006-B	100,000,000.00				100,000,000.00
Series 2007	1,112,710,000.00		47,295,000.00		1,065,415,000.00
Series 2008	151,915,000.00		5,955,000.00		145,960,000.00
Series 2010	1,500,000,000.00				1,500,000,000.00
Total	4,078,445,000.00		114,510,000.00	0	3,963,935,000.00
<b>TOTAL</b>	<b>\$11,113,935,000.00</b>		<b>\$181,440,000.00</b>	<b>\$0</b>	<b>\$10,932,495,000.00</b>

*Continued on the following page.*

**Texas Department of Transportation**  
**Schedule 2B – Changes in Bonded Indebtedness (continued)**  
For the Fiscal Year Ended August 31, 2012

**Governmental Activities (continued)**

	<b>Unamortized Premium</b>	<b>Unamortized Discount</b>	<b>Unamortized Gain/(Loss) on Refunding</b>	<b>Net Bonds Outstanding 8/31/2012</b>	<b>Amounts Due Within One Year</b>
<b>General Obligation Bonds:</b>					
<b>Texas Mobility Fund</b>					
Series 2005-A	\$27,370,959.02	\$169,702.92		\$810,696,256.10	\$20,729,324.76
Series 2005-B				79,130,000.00	3,290,000.00
Series 2006	15,024,873.69			679,154,873.69	16,569,229.60
Series 2006-A	25,928,179.55			1,058,818,179.55	5,823,119.29
Series 2006-B				150,000,000.00	
Series 2007	16,359,224.96			1,020,544,224.96	1,126,651.59
Series 2008	46,445,094.14			1,135,030,094.14	14,126,260.03
Series 2009-A				1,208,495,000.00	
<b>Texas Highway Improvement</b>					
Series 2010-A				815,420,000.00	
Series 2010-B	13,626,617.11			155,856,617.11	24,769,059.41
Total	144,754,948.47	169,702.92	0	7,113,145,245.55	86,433,644.68
<b>Revenue Bonds:</b>					
<b>State Highway Fund</b>					
Series 2006				473,930,000.00	24,240,000.00
Series 2006-A	35,231,879.06			713,861,879.06	42,785,144.55
Series 2006-B				100,000,000.00	
Series 2007	47,438,339.25			1,112,853,339.25	52,747,555.95
Series 2008	7,839,692.00			153,799,692.00	6,744,980.75
Series 2010				1,500,000,000.00	
Total	90,509,910.31	0	0	4,054,444,910.31	126,517,681.25
<b>TOTAL</b>	<b>\$235,264,858.78</b>	<b>\$169,702.92</b>	<b>\$0</b>	<b>\$11,167,590,155.86</b>	<b>\$212,951,325.93</b>

*Continued on the following page.*

**Texas Department of Transportation**  
**Schedule 2B – Changes in Bonded Indebtedness (concluded)**  
For the Fiscal Year Ended August 31, 2012

**Business-Type Activities**

Description	Bonds Outstanding 9/01/2011	Bonds Issued*	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 8/31/2012
<b>Revenue Bonds:</b>					
First Tier Bonds Series 2002-A					
Non-Callable					
CABs	\$468,000,674.41	\$26,048,495.93	\$4,505,000.00		\$489,544,170.34
Callable CABs	265,119,937.97	16,354,214.10			281,474,152.07
CIBs	707,875,000.00				707,875,000.00
First Tier Refunding Put Bonds Series 2009	149,275,000.00				149,275,000.00
<b>TOTAL</b>	<b>\$1,590,270,612.38</b>	<b>\$42,402,710.03</b>	<b>\$4,505,000.00</b>	<b>\$0</b>	<b>\$1,628,168,322.41</b>
	Unamortized Premium	Unamortized Discount	Unamortized Gain/(Loss) on Refunding	Net Bonds Outstanding 8/31/2011	Amounts Due Within One Year
First Tier Bonds Series 2002-A					
Non-Callable					
CABs	\$1,803,339.92	\$3,444,017.50		\$487,903,492.76	\$7,618,851.25
Callable CABs	1,089,974.27	2,081,632.20		280,482,494.14	(38,140.69)
CIBs	5,179,793.37	9,892,366.26		703,162,427.11	(157,085.76)
First Tier Refunding Put Bonds Series 2009			(4,073,605.24)	145,201,394.76	(135,786.84)
<b>TOTAL</b>	<b>\$8,073,107.56</b>	<b>\$15,418,015.96</b>	<b>\$(4,073,605.24)</b>	<b>\$1,616,749,808.77</b>	<b>\$7,287,837.96</b>

\* Due to annual principal accretion.

**Texas Department of Transportation**  
**Schedule 2C – Debt Service Requirements**  
For the Fiscal Year Ended August 31, 2012

**Governmental Activities**

Description of Issue	Year	Principal	Interest
<b>TMF General Obligation Bonds</b>			
Series 2005-A	2013	\$ 18,735,000.00	\$ 37,533,702.50
	2014	19,670,000.00	36,596,952.50
	2015	20,655,000.00	35,613,452.50
	2016	21,690,000.00	34,580,702.50
	2017	22,775,000.00	33,496,202.50
	2018-2022	128,470,000.00	152,871,307.50
	2023-2027	162,295,000.00	119,048,687.50
	2028-2032	219,110,000.00	74,036,925.00
	2033-2037	170,095,000.00	16,408,875.00
		\$	<u>783,495,000.00</u>
Series 2005-B	2013	\$ 3,290,000.00	\$ 147,742.42
	2014	3,400,000.00	141,404.33
	2015	3,510,000.00	134,857.25
	2016	3,625,000.00	128,097.21
	2017	3,745,000.00	121,114.71
	2018-2022	20,670,000.00	492,446.75
	2023-2027	24,300,000.00	279,870.01
	2028-2032	16,590,000.00	50,592.24
		\$	<u>79,130,000.00</u>
Series 2006	2013	\$ 15,485,000.00	\$ 32,859,912.50
	2014	16,225,000.00	32,115,562.50
	2015	16,940,000.00	31,405,037.50
	2016	17,770,000.00	30,572,037.50
	2017	18,630,000.00	29,714,162.50
	2018-2022	108,085,000.00	133,631,562.50
	2023-2027	137,755,000.00	103,966,737.50
	2028-2032	175,470,000.00	66,243,250.00
	2033-2037	157,770,000.00	18,684,750.00
	\$	<u>664,130,000.00</u>	\$ <u>479,193,012.50</u>
Series 2006-A	2013	\$ 4,185,000.00	\$ 49,506,900.00
	2014	5,115,000.00	49,339,500.00
	2015	6,045,000.00	49,134,900.00
	2016	6,955,000.00	48,893,100.00
	2017	8,895,000.00	48,614,900.00
	2018-2022	102,985,000.00	232,640,250.00
	2023-2027	223,925,000.00	195,721,950.00
	2028-2032	381,200,000.00	127,826,100.00
	2033-2037	293,585,000.00	26,330,250.00
	\$	<u>1,032,890,000.00</u>	\$ <u>828,007,850.00</u>

**Texas Department of Transportation**  
**Schedule 2C – Debt Service Requirements (continued)**  
For the Fiscal Year Ended August 31, 2012

**Governmental Activities**

Description of Issue	Year	Principal	Interest
<b>TMF General Obligation Bonds</b>			
Series 2006-B	2013	\$	\$ 285,000.00
	2014		285,000.00
	2015		285,000.00
	2016		285,000.00
	2017		285,000.00
	2018-2022		1,425,000.00
	2023-2027		1,425,000.00
	2028-2032		1,425,000.00
	2033-2037	150,000,000.00	983,459.00
		\$ 150,000,000.00	\$ 6,683,459.00
Series 2007	2013	\$ 250,000.00	\$ 48,739,262.50
	2014	2,350,000.00	48,729,262.50
	2015	5,130,000.00	48,635,262.50
	2016	8,125,000.00	48,430,062.50
	2017	10,890,000.00	48,105,062.50
	2018-2022	79,180,000.00	230,763,062.50
	2023-2027	129,675,000.00	206,381,925.00
	2028-2032	194,105,000.00	169,875,250.00
	2033-2037	574,480,000.00	112,605,025.00
		\$ 1,004,185,000.00	\$ 962,264,175.00
Series 2008	2013	\$ 11,245,000.00	\$ 52,792,075.00
	2014	13,625,000.00	52,229,825.00
	2015	15,645,000.00	51,548,575.00
	2016	17,765,000.00	50,766,325.00
	2017	19,465,000.00	49,878,075.00
	2018-2022	130,055,000.00	232,565,375.00
	2023-2027	192,910,000.00	194,163,125.00
	2028-2032	275,055,000.00	138,411,200.00
	2033-2037	412,820,000.00	64,548,225.00
		\$ 1,088,585,000.00	\$ 886,902,800.00



**Texas Department of Transportation**  
**Schedule 2C – Debt Service Requirements (continued)**  
For the Fiscal Year Ended August 31, 2012

**Governmental Activities**

Description of Issue	Year	Principal	Interest
<b>TMF General Obligation Bonds</b>			
Series 2009-A	2013	\$	\$ 66,582,669.16
	2014		66,582,669.16
	2015		66,582,669.16
	2016		66,582,669.16
	2017		66,582,669.16
	2018-2022	3,245,000.00	332,829,083.90
	2023-2027	31,745,000.00	329,482,759.38
	2028-2032	78,870,000.00	316,168,252.84
	2033-2037	146,180,000.00	287,642,587.52
	2038-3042	948,455,000.00	79,190,190.46
		\$ <u>1,208,495,000.00</u>	\$ <u>1,678,226,219.90</u>
<b>Texas Highway Improvement General Obligation Bonds</b>			
Series 2010-A	2013	\$	\$ 35,837,342.50
	2014		35,837,342.50
	2015		35,837,342.50
	2016		35,837,342.50
	2017		35,837,342.50
	2018-2022	114,520,000.00	173,595,128.10
	2023-2027	159,475,000.00	147,093,334.06
	2028-2032	183,835,000.00	109,639,441.28
	2033-2037	213,350,000.00	64,297,562.16
	2038-3042	144,240,000.00	13,638,795.66
		\$ <u>815,420,000.00</u>	\$ <u>687,450,973.76</u>
Series 2010-B	2013	\$	\$ 6,701,400.00
	2014		5,681,150.00
	2015		4,600,150.00
	2016		3,502,150.00
	2017		2,359,400.00
	2018-2022	26,470,000.00	1,249,000.00
		\$ <u>142,230,000.00</u>	\$ <u>24,093,250.00</u>
<b>TOTAL General Obligation Bonds</b>		\$ <u>6,968,560,000.00</u>	\$ <u>6,094,504,672.58</u>

**Texas Department of Transportation**  
**Schedule 2C – Debt Service Requirements (continued)**  
For the Fiscal Year Ended August 31, 2012

**Governmental Activities**

Description of Issue	Year	Principal	Interest
<b>SHF Revenue Bonds</b>			
Series 2006	2013	\$ 24,240,000.00	\$ 23,623,850.00
	2014	25,435,000.00	22,429,850.00
	2015	26,680,000.00	21,184,850.00
	2016	27,985,000.00	19,876,500.00
	2017	29,385,000.00	18,479,500.00
	2018-2022	170,480,000.00	68,833,750.00
	2023-2027	169,725,000.00	21,732,750.00
		\$ <u>473,930,000.00</u>	\$ <u>196,161,050.00</u>
Series 2006-A	2013	\$ 40,075,000.00	\$ 33,133,925.00
	2014	42,070,000.00	31,130,175.00
	2015	44,185,000.00	29,015,250.00
	2016	46,170,000.00	27,026,925.00
	2017	48,255,000.00	24,949,275.00
	2018-2022	279,955,000.00	86,051,875.00
	2023-2027	177,920,000.00	15,925,550.00
		\$ <u>678,630,000.00</u>	\$ <u>247,232,975.00</u>
Series 2006-B	2013	\$	\$ 650,000.00
	2014		650,000.00
	2015		650,000.00
	2016		650,000.00
	2017		650,000.00
	2018-2022		3,250,000.00
	2023-2027	100,000,000.00	2,161,759.17
		\$ <u>100,000,000.00</u>	\$ <u>8,661,759.17</u>
Series 2007	2013	\$ 49,585,000.00	\$ 53,000,125.00
	2014	51,960,000.00	50,625,875.00
	2015	54,500,000.00	48,084,750.00
	2016	57,200,000.00	45,386,000.00
	2017	60,035,000.00	42,552,250.00
	2018-2022	347,995,000.00	164,930,250.00
	2023-2027	444,140,000.00	68,785,750.00
		\$ <u>1,065,415,000.00</u>	\$ <u>473,365,000.00</u>
Series 2008	2013	\$ 6,255,000.00	\$ 7,318,400.00
	2014	6,530,000.00	7,042,625.00
	2015	6,835,000.00	6,735,250.00
	2016	7,155,000.00	6,416,437.50
	2017	7,490,000.00	6,080,237.50
	2018-2022	43,330,000.00	24,531,437.50
	2023-2027	55,470,000.00	12,390,962.50
	2028-2032	12,895,000.00	676,987.50
	\$ <u>145,960,000.00</u>	\$ <u>71,192,337.50</u>	

**Texas Department of Transportation**  
**Schedule 2C – Debt Service Requirements (concluded)**  
For the Fiscal Year Ended August 31, 2012

**Governmental Activities**

Description of Issue	Year	Principal	Interest
SHF Revenue Bonds			
Series 2010	2013	\$	\$ 77,226,067.50
	2014		77,226,067.50
	2015		77,226,067.50
	2016		77,226,067.50
	2017		77,226,067.50
	2018-2022		386,130,337.50
	2023-2027	499,750,000.00	349,505,631.30
	2028-2032	1,000,250,000.00	105,443,497.50
		\$ 1,500,000,000.00	\$ 1,227,209,803.80
TOTAL Revenue Bonds		\$ 3,963,935,000.00	\$ 2,223,822,925.47
TOTAL GOVERNMENTAL ACTIVITIES		\$ 10,932,495,000.00	\$ 8,318,327,598.05

**Business-Type Activities**

Description of Issue	Year	Principal	Interest
CTTS Revenue Bonds			
	2013	\$ 7,710,000.00	\$ 37,161,837.50
	2014	10,155,000.00	37,161,837.50
	2015	12,605,000.00	37,161,837.50
	2016	25,805,000.00	37,161,837.50
	2017	29,655,000.00	37,161,837.50
	2018-2022	212,365,000.00	185,809,187.50
	2023-2027	382,445,000.00	185,809,187.50
	2028-2032	559,670,000.00	185,809,187.50
	2033-2037	700,925,000.00	185,809,187.50
	2038-2042	739,125,000.00	106,256,562.50
		\$ 2,680,460,000.00	\$ 1,035,302,500.00
Series 2009			
	2013	\$	\$ 4,105,062.50
	2014		4,105,062.50
	2015		4,105,062.50
	2016		4,105,062.50
	2017		4,105,062.50
	2018-2022		20,525,312.50
	2023-2027		20,525,312.50
	2028-2032		20,525,312.50
	2033-2037		20,525,312.50
	2038-2042	149,275,000.00	20,525,312.50
		\$ 149,275,000.00	\$ 123,151,875.00
TOTAL Business –Type Activities		\$ 2,829,735,000.00	\$ 1,158,454,375.00

**Texas Department of Transportation**  
**Schedule 2D – Analysis of Funds Available for Debt Service**  
 For the fiscal Year Ended August 31, 2012

**Governmental Activities**

Description of Issue	Application of Funds		Debt Service	
	Principal	Interest		
Texas Mobility and Texas Highway Improvement General Obligation Bonds	\$66,930,000.00	\$328,157,178.25		
	\$66,930,000.00	\$328,157,178.25		
<b>Pledged and Other Sources and Related Expenditures for FY 2012</b>				
<b>Net Available for Debt Service</b>				
Description of Issue	Total Pledged and Other Sources	Operating Expenses/Expenditures and Capital Outlay	Principal	Interest
State Highway Fund Revenue Bonds	\$6,552,269,465.02	(A)	\$114,510,000.00	\$200,386,886.84
	\$6,552,269,465.02		\$114,510,000.00	\$200,386,886.84

(A) TxDOT State Highway Fund expenditures associated with pledged sources were \$6,073,368,843.25.

**Business-Type Activities**

Description of Issue	Pledged and Other Sources and Related Expenditures for FY 2012		Debt Service	
	Total Pledged and Other Sources	Operating Expenses/Expenditures and Capital Outlay		
Series 2002-A and Series 2009 Revenue Bonds	\$93,052,094.82	(C)	\$4,500,000.00	\$41,266,900.00
	\$93,052,094.82		\$4,500,000.00	\$41,266,900.00

(C) Expenditures associated with pledged sources were \$645,541.90





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Texas Department of Transportation**

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