TEXAS DEPARTMENT OF TRANSPORTATION

Texas Mobility Fund

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

Financial Statements - For Fiscal Year Ended August 31, 2011

Texas Mobility Fund

A Debt Service Fund of the Texas Department of Transportation

FINANCIAL STATEMENTS
For the Fiscal Year Ended
August 31, 2011

Prepared by:
Finance Division of the Texas Department of Transportation

Texas Mobility Fund
FINANCIAL STATEMENTS
For the Fiscal Year Ended
August 31, 2011

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Texas Mobility Fund
INTRODUCTORY SECTION

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

December 14, 2011

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

The audited annual financial statements of the Texas Mobility Fund (Mobility Fund) for the year ended Aug. 31, 2011, are submitted herewith. The Master Resolution, dated as of May 4, 2005, as amended and supplemented by the first through eighth Supplemental Master Resolutions (Resolution) requires the preparation and submission of audited annual financial statements. This report was prepared by the Accounting Management staff in the Finance Division of the Texas Department of Transportation (TxDOT).

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

The Texas State Auditor's Office performed an independent audit, in accordance with generally accepted auditing standards, of the Mobility Fund's basic financial statements for the year ended Aug. 31, 2011. The audit opinion is presented in this report preceding the financial statements.

Profile of the Government

This report includes financial statements for the Mobility Fund. The Mobility Fund is part of TxDOT's reporting entity. TxDOT is an agency of the state of Texas created to provide safe, effective and efficient movement of people and goods. TxDOT is managed by an Executive Director and is governed by the five-member Texas Transportation Commission (Commission). TxDOT is organized into 25 districts, 29 divisions and offices, four regional offices and currently has an annual budget of approximately $9 billion and a staff of approximately 12,000, which manages approximately $3.5 billion in annual highway contract lettings.

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

Legislation enacted under the Constitutional Provision authorized the Commission to issue and sell obligations of the state and enter into related credit agreements that are payable from and secured by a pledge of and a lien on all or part of the money on deposit in the Mobility Fund. As of Aug. 31 2011, the Commission had issued a par amount of $6.26 billion in Mobility Fund bonds.

The Mobility Fund is administered by the Commission as a revolving fund to provide a method of financing for the construction, reconstruction, acquisition and expansion of state highways, including costs of any necessary design and costs of acquisition of rights of way, as determined by the Commission in accordance with standards and procedures established by law. Monies in the Mobility Fund may also be used to provide state participation in the payment of a portion of the costs of constructing and providing publicly owned toll roads and other public transportation projects in accordance with procedures, standards and limitations established by law.

By expediting the delivery of transportation infrastructure, the Mobility Fund is an important tool in meeting TxDOT's goals to address future multimodal transportation needs, enhance safety, maintain the transportation system, promote strategies for congestion relief, enhance system connectivity and facilitate the development and exchange of comprehensive multimodal funding strategies.

Accounting System and Budgetary Controls

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.

Information Useful in Assessing the Mobility Fund's Financial Condition

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

In 2003, the 78^{th} Legislature dedicated sources of revenue to the Mobility Fund. The funds generated by these dedicated revenues, as well as funds generated through other pledged revenues, are required to be accounted for in accounts established in the Mobility Fund.

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

- Mobility Fund General Account – monies in this account may be used for any lawful purpose for which the Mobility Fund may be used.

- Mobility Fund Portfolio Account – any Transportation Assistance Bonds acquired for the Mobility Fund are to be promptly deposited into this account and held therein until paid. As of Aug. 31, 2011, no Transportation Assistance Bonds were held by the Mobility Fund.

- Mobility Fund Interest and Sinking Account – monies in this account are used to pay amounts due on or with respect to Parity Debt, including the principal of, premium, if any, and interest on Parity Debt as they become due and payable. This account is required as long as Parity Debt is outstanding.

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

- Rebate Account – the fifth Supplemental Resolution established the rebate account. Money on deposit in the rebate account, if any, is paid to the federal government in compliance with arbitrage earnings requirements. Money in the rebate account, if any, does not constitute security.

- Purchase Account – money obtained from the remarketing of the bonds and from draws under a liquidity facility are deposited to the purchase account. Money on deposit in the purchase account is used solely to pay the purchase price of the bonds or to reimburse a liquidity facility issuer for a drawing on the liquidity facility to pay the purchase price of the bonds.

- Reserve Accounts or Subaccounts – these accounts are established as required by any supplements to the Resolution.

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

Risk Financing & Management

The Mobility Fund does not have any employees. TxDOT employees and contractors perform the work of the Mobility Fund. TxDOT provides all debt financing, accounting and administrative services.

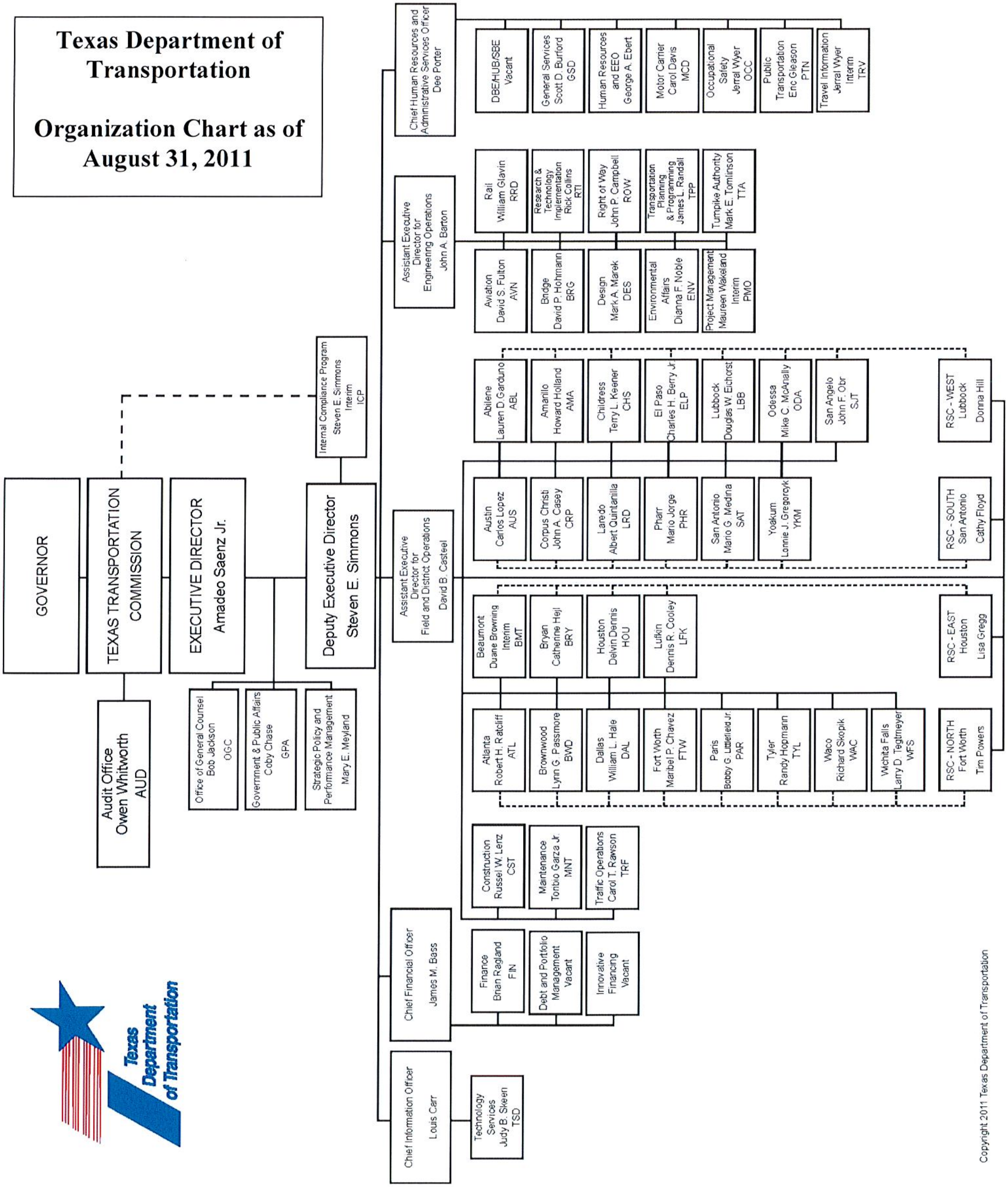
Acknowledgements

Production of this report would not have been possible without the efficient and dedicated staff of TxDOT. We extend special appreciation to Glen Knipstein, Amanda Landry, Silvia G. Morales, Jennifer Wright and the rest of the Finance Division for their professionalism and devotion in preparing this complex financial document.

Phil Wilson
Executive Director

Texas Department of Transportation

Organization Chart as of August 31, 2011



Commission and Key Personnel
As of August 31, 2011

TEXAS TRANSPORTATION COMMISSION

DEIRDRE DELISI....................Chair
Austin

NED S. HOLMES....................Commissioner
Houston

TED HOUGHTON....................Commissioner
El Paso

WILLIAM MEADOWS....................Commissioner
Fort Worth

FRED UNDERWOOD....................Commissioner
Lubbock

TEXAS DEPARTMENT OF TRANSPORTATION

AMADEO SAENZ, Jr., P.E. ....Executive Director
STEVEN E. SIMMONS, P.E. .... Deputy Executive Director
DAVID CASTEEL, P.E. ....Assist. Exec. Dir. for District Operations
JOHN A. BARTON, P.E .... Assist. Exec. Dir. for Engineering Operations
DEE PORTER ....Chief Human Resources & Admin. Services Officer
JAMES M. BASS .... Chief Financial Officer
LOUIS CARR....................Chief Information Officer
ROBERT W. JACKSON....................General Counsel
COBY CHASE ....Director of Government and Public Affairs

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Texas Mobility Fund
FINANCIAL SECTION

State Auditor's Office
John Keel, CPA
State Auditor

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and the major fund of the Texas Mobility Fund (Fund) as of and for the year ended August 31, 2011, which collectively comprise the Fund's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Department of Transportation's (Department) management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Fund's fiscal year 2010 financial statements and, in our report dated December 14, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Fund, a debt service fund of the Department and the State of Texas and do not purport to, and do not, present fairly the financial position of the Department or the State of Texas as of August 31, 2011, or the changes in the Department's or the State's financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Fund as of August 31, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Fund adopted the provisions of Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. In addition, the Fund was reclassified from a special revenue fund to a debt service fund in fiscal year 2011.

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SAO No. 12-310

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements. The Introductory Section and Supplementary Information, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2011, on our consideration of the Department's internal control over Fund financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

John Keel, CPA
State Auditor

December 12, 2011

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Management's Discussion and Analysis

As management of the Texas Department of Transportation (TxDOT), we offer readers of the Texas Mobility Fund's (Mobility Fund) financial statements this narrative overview and analysis of its financial activities for the fiscal years ended Aug. 31, 2011, 2010 and 2009. The information presented should be read in conjunction with our letter of transmittal, the financial statements and the accompanying notes to the financial statements.

Highlights

Net Assets

Overall the Mobility Fund continues to report a deficit net assets balance. The deficit net asset balance reported as of Aug. 31, 2011 was approximately $4.99 billion, an increase of $12.9 million from fiscal 2010. The deficit is created because the proceeds of long-term debt issuances are transferred to the state highway fund to accelerate transportation projects, while dedicated fees are used to pay debt service on the Mobility Fund bonds over a 30-year period. The Mobility Fund has no ownership interest in the highway projects that it is helping to accelerate in the state highway fund, and is not responsible for the maintenance of these roadways, which will become part of the Texas state highway system.

Governmental Fund

As of Aug. 31, 2011, the Mobility Fund's governmental fund balance was approximately $1.3 billion, a decrease of $78.3 million from fiscal 2010. Transfers to the state highway fund for fiscal 2011 totaled $141.7 million, a decrease of $122 million, or 46 percent, when compared to fiscal 2010 transfers. Transfers to the state highway fund are decreasing because the Mobility Fund is approaching its currently approved $6.4 billion debt issuance capacity and remaining bond proceeds available for project expenditures are decreasing.

Overview of the Financial Statements

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

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

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. TxDOT, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Mobility Fund is reported as a governmental fund.

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

The Mobility Fund's $1.3 billion positive fund balance as of Aug. 31, 2011, represents a 5.8 percent decrease from fiscal 2010. Contributing to the lower balance was the decrease in cash in state treasury, which continues to decline as funds are transferred to the state highway fund and debt service payments increase.

Entity-Wide Financial Statements

Entity-wide financial statements provide additional detail about the Mobility Fund's financial position and activities. Some information presented in the entity-wide financial statements differs from the fund financial statements due to the perspective and basis of accounting used.

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

Financial Analysis

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

Condensed Statement of Net Assets
August 31, 2011, 2010 and 2009

	Governmental Activities		
	2011	2010	2009
Current Assets	$1,291,632,643	$1,400,554,008	$1,584,153,651
Noncurrent Assets	51,137,381	34,757,455	26,835,997
Total Assets	1,342,770,024	1,435,311,463	1,610,989,648
Current Liabilities	187,648,271	211,942,995	166,217,358
Noncurrent Liabilities	6,141,868,627	6,197,224,909	6,245,552,810
Total Liabilities	6,329,516,898	6,409,167,904	6,411,770,168
Net Assets (Deficit):			
Unrestricted	(4,986,746,874)	(4,973,856,441)	(4,800,780,520)
Total Net Assets (Deficit)	$(4,986,746,874)	$(4,973,856,441)	$(4,800,780,520)

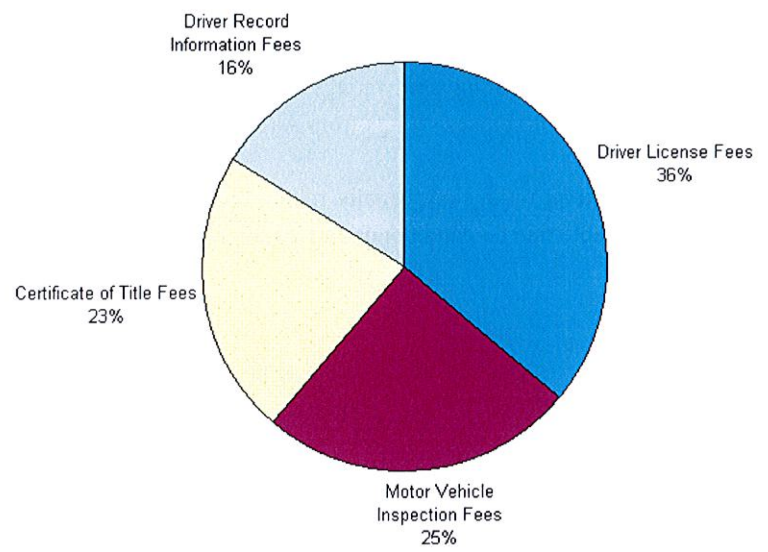
Condensed Statement of Activities
For the Fiscal Years Ended August 31, 2011, 2010 and 2009

	2011	2010	2009
Revenues			
Federal Revenue	$23,303,934	$23,303,934	$323,666
Charges for Services - Licenses, Fees and Permits	355,808,529	320,404,949	319,044,133
Operating Grants and Contributions - Interest and Investment Income	28,603,330	20,418,021	15,087,643
Total Revenues	407,715,793	364,126,904	334,455,442
Expenses			
Professional Fees & Services	18,014	420,361	273,859
Debt Service	278,898,592	279,804,292	221,207,466
Other Expenses		4,937	28,546
Total Expenses	278,916,606	280,229,590	221,509,871
Excess of Revenues over Expenses	128,799,187	83,897,314	112,945,571
Transfers Out to the State Highway Fund	(141,689,620)	(263,724,988)	(599,980,487)
Change in Net Assets	(12,890,433)	(179,827,674)	(487,034,916)
Total Net Assets (Deficit) – beginning	(4,973,856,441)	(4,800,780,520)	(4,313,745,604)
Restatement		6,751,753	
Total Net Assets (Deficit) – ending	$(4,986,746,874)	$(4,973,856,441)	$(4,800,780,520)

Current assets continue to decrease due to the transferring out of cash in state treasury to the state highway fund for the funding of eligible transportation projects. The increase of noncurrent assets in fiscal 2011 is due to an increase in fair value of the basis swap agreements associated with the fixed rate debt of the Mobility Fund. The swaps are reported as investment derivatives. Total revenues increased by 12 percent from fiscal 2010, due to a 195 percent increase in the fair value of investment derivatives and an 11 percent increase in dedicated fee revenues.

The major dedicated revenue sources of the Mobility Fund for the year ended Aug. 31, 2011 are summarized in the following chart. A detailed listing of all dedicated revenue sources can be found in the supplementary information section of this report.

Major Dedicated Revenue Sources
For the Fiscal Year Ended August 31, 2011



Debt Administration

The Mobility Fund bonds are considered to be self-supporting general obligation debt. The issuance of Mobility Fund bonds is limited by debt service coverage requirements, which are certified by the Texas Comptroller of Public Accounts. As of Aug. 31, 2011, the approved debt capacity of the Mobility Fund is $6.4 billion. As of Aug. 31, 2011 the Commission has issued $6.3 billion in bonds towards that amount. All Mobility Fund debt issuances must be approved by the Texas Bond Review Board prior to issuance. See Note 4 for additional information on the Mobility Fund's outstanding debt.

The balance of bonds payable, for fiscal 2011, 2010 and 2009, respectively, is presented below.

	Bonds Payable 2011	2010	2009
Current Liabilities:			
General Obligation Bonds Payable	$ 46,770,000	$ 39,645,000	$34,730,000
Premium/Discount	8,586,282	8,682,901	8,762,477
Subtotal – Current Liabilities	55,356,282	48,327,901	43,492,477
Noncurrent Liabilities:			
General Obligation Bonds Payable	6,010,910,000	6,057,680,000	6,097,325,000
Premium/Discount	130,958,627	139,544,909	148,227,810
Subtotal – Noncurrent Liabilities	6,141,868,627	6,197,224,909	6,245,552,810
Total Bonds Payable	$6,197,224,909	$6,245,552,810	$6,289,045,287

Bond Credit Ratings

The Mobility Fund bonds were rated by each of the three major Nationally Recognized Statistical Rating Organizations. Long term ratings do not normally change unless the credit or insurance enhancement deteriorates or improves substantially. The Mobility Fund debt experienced many ratings downgrades with the collapse of several bond insurers in 2008. After the crisis, the rating agencies decided to drop insured ratings if the underlying credit was stronger.

As of Aug. 31, 2011, the Mobility Fund bonds carried a long term rating of AAA, Aaa and AA+ from Fitch Ratings (Fitch), Moody's Investor Services (Moody's) and Standard & Poor's, respectively. In April 2010 Fitch and Moody's recalibrated their ratings on the Mobility Fund debt based on a systematic overhaul of their credit rating approach to the credit quality of state and local governments. Fitch recalibrated their ratings and changed all Mobility Fund long term ratings from AA+ to AAA. Moody's recalibrated their ratings and changed all Mobility Fund long term ratings from Aa1 to Aaa.

Short term ratings are usually reliant upon the supporting liquidity facility and its strength. The Mobility Fund variable rate demand bonds carried the following short term credit ratings as of Aug. 31, 2011.

	Fitch	Moody's	Standard & Poor's
Series 2005-B Variable Rate Interest Bonds	F1+	VMIG 3	A-2
Series 2006-B Variable Rate Interest Bonds	F1+	VMIG 1	n/a

On Oct. 10, 2010 Moody's downgraded the Series 2005-B enhanced short term rating from VMIG 1 to VMIG 3. The downgrade on the short term ratings was a direct result of a credit rating downgrade to Depfa Bank plc. Depfa Bank plc is the liquidity provider for the Series 2005-B bonds.

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

Requests for Information

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

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

BASIC FINANCIAL STATEMENTS

EXHIBIT I

TEXAS MOBILITY FUND

Statement of Net Assets and Governmental Fund Balance Sheet

August 31, 2011

		Debt Service Fund*		Adjustments		Statement of Net Assets
ASSETS						
Current Assets:						
Cash and Cash Equivalents in State Treasury (Note 3)	$	1,291,097,973	$		$	1,291,097,973
Accrued Swap Payment Receivable		532,668				532,668
Prepaid Assets		2,002				2,002
Total Current Assets		1,291,632,643				1,291,632,643
Noncurrent Assets:						
Deferred Charges				24,885,198		24,885,198
Investment Derivative Instruments (Notes 3 & 5)				26,252,183		26,252,183
Total Noncurrent Assets				51,137,381		51,137,381
TOTAL ASSETS		1,291,632,643		51,137,381		1,342,770,024
LIABILITIES						
Current Liabilities:						
Accounts Payable		32,350				32,350
Interest Payable				120,882,113		120,882,113
Unearned Revenue		1,941,995				1,941,995
Due to State Highway Fund		9,435,531				9,435,531
General Obligation Bonds Payable (Note 4)				46,770,000		46,770,000
Premium/Discount (Note 4)				8,586,282		8,586,282
Total Current Liabilities		11,409,876		176,238,395		187,648,271
Noncurrent Liabilities:						
General Obligation Bonds Payable (Note 4)				6,010,910,000		6,010,910,000
Premium/Discount (Note 4)				130,958,627		130,958,627
Total Noncurrent Liabilities		0		6,141,868,627		6,141,868,627
TOTAL LIABILITIES		11,409,876		6,318,107,022		6,329,516,898
FUND BALANCE*						
Nonspendable:		2,002		(2,002)		
Restricted:		1,280,220,765		(1,280,220,765)		
TOTAL FUND BALANCE		1,280,222,767		(1,280,222,767)		
TOTAL LIABILITIES AND FUND BALANCE	$	1,291,632,643				
Net Assets (Deficit):						
Unrestricted**				(4,986,746,874)		(4,986,746,874)
TOTAL NET ASSETS (DEFICIT)			$	(6,266,969,641)	$	(4,986,746,874)

August 31, 2010

		Special Revenue Fund*		Adjustments		Statement of Net Assets
ASSETS						
Current Assets:						
Cash and Cash Equivalents in State Treasury	$	1,390,311,368	$		$	1,390,311,368
Federal Receivable		9,709,973				9,709,973
Accrued Swap Payment Receivable		532,667				532,667
Total Current Assets		1,400,554,008				1,400,554,008
Noncurrent Assets:						
Deferred Charges				25,860,599		25,860,599
Investment Derivative Instruments				8,896,856		8,896,856
Total Noncurrent Assets		0		34,757,455		34,757,455
TOTAL ASSETS		1,400,554,008		34,757,455		1,435,311,463
LIABILITIES						
Current Liabilities:						
Accounts Payable		34,889				34,889
Interest Payable				121,613,078		121,613,078
Due to State Highway Fund		41,967,127				41,967,127
General Obligation Bonds Payable				39,645,000		39,645,000
Premium/Discount				8,682,901		8,682,901
Total Current Liabilities		42,002,016		169,940,979		211,942,995
Noncurrent Liabilities:						
General Obligation Bonds Payable				6,057,680,000		6,057,680,000
Premium/Discount				139,544,909		139,544,909
Total Noncurrent Liabilities		0		6,197,224,909		6,197,224,909
TOTAL LIABILITIES		42,002,016		6,367,165,888		6,409,167,904
FUND BALANCE*						
Restricted:		1,358,551,992		(1,358,551,992)		
TOTAL FUND BALANCE		1,358,551,992		(1,358,551,992)		
TOTAL LIABILITIES AND FUND BALANCE	$	1,400,554,008				
Net Assets (Deficit):						
Unrestricted**				(4,973,856,441)		(4,973,856,441)
TOTAL NET ASSETS (DEFICIT)			$	(6,332,408,433)	$	(4,973,856,441)

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

*The Mobility Fund was reclassified to a debt service fund in fiscal 2011. See Note 1 for more details.

** The classification of fund balance and net assets were changed in fiscal 2011. See Note 1 for more details.

EXHIBIT II

TEXAS MOBILITY FUND

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

For the fiscal year ended August 31, 2011

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

For the fiscal year ended August 31, 2010

		Special Revenue Fund*		Adjustments		Statement of Activities
REVENUES						
Federal Revenue	$	23,627,600	$	(323,666)	$	23,303,934
Charges for Services -						
Licenses, Fees and Permits		320,404,949				320,404,949
Operating Grants and Contributions -						
Interest and Investment Income		18,272,918		2,145,103		20,418,021
TOTAL REVENUES		362,305,467		1,821,437		364,126,904
EXPENDITURES/EXPENSES						
Professional Fees & Services		420,361				420,361
Debt Service:						
Principal		34,730,000		(34,730,000)		0
Interest		260,764,636		26,183,895		286,948,531
Amortization of Premium/Discount				(8,762,477)		(8,762,477)
Amortization of Bond Issue Costs				975,399		975,399
Other Financing Fees		642,839				642,839
Other Expenditures/Expenses		4,937				4,937
TOTAL EXPENDITURES/EXPENSES		296,562,773		(16,333,183)		280,229,590
Excess of Revenues over Expenditures		65,742,694		18,154,620		83,897,314
OTHER FINANCING SOURCES (USES)						
Operating Transfers Out to the State Highway Fund		(263,724,988)				(263,724,988)
TOTAL OTHER FINANCING SOURCES (USES)		(263,724,988)		0		(263,724,988)
Change in Fund Balance/Net Assets		(197,982,294)		18,154,620		(179,827,674)
Fund Balance/Net Assets (Deficit):						
FUND BALANCE/NET ASSETS (DEFICIT), September 1, 2009		1,556,534,286		(6,357,314,806)		(4,800,780,520)
Restatement				6,751,753		6,751,753
FUND BALANCE/NET ASSETS (DEFICIT), August 31, 2010	$	1,358,551,992	$	(6,332,408,433)	$	(4,973,856,441)

The accompanying notes to the financial statements are an integral part of this financial statement.
*The Mobility Fund was reclassified to a debt service fund in fiscal 2011. See Note 1 for more details.

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

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

	2011	**2010**
Total Fund Balance - Governmental Fund	$1,280,222,767	$1,358,551,992
Deferred Charges	24,885,198	25,860,599
Investment Derivative Instruments	26,252,183	8,896,856
Interest Payable	(120,882,113)	(121,613,078)
General Obligation Bonds Payable	(6,057,680,000)	(6,097,325,000)
Premium/Discount	(139,544,909)	(148,227,810)
Total Net Assets (Deficit) - Governmental Activities	$(4,986,746,874)	$(4,973,856,441)

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

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

	2011	**2010**
Net Change in Fund Balance - Governmental Fund	(78,329,225)	$(197,982,294)
Federal Revenue		(323,666)
Interest and Investment Income	17,355,326	2,145,103
Debt Service Principal	39,645,000	34,730,000
Debt Service Interest	730,964	(26,183,895)
Amortization of Premium/Discount	8,682,901	8,762,477
Amortization of Bond Issue Costs	(975,399)	(975,399)
Change in Net Assets - Governmental Activities	(12,890,433)	$(179,827,674)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements reflect the financial position of the Texas Mobility Fund (Mobility Fund). The Mobility Fund is a debt service fund of the Texas Department of Transportation (TxDOT), an agency of the state of Texas. The Texas Transportation Commission (Commission), the governing body of TxDOT, has the authority to commit the Mobility Fund to various legal agreements.

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

The Commission may sell obligations of the state that are payable from and secured by a pledge of and a lien on all or part of the money dedicated to and on deposit in the Mobility Fund. As of Aug. 31, 2011, a total of $6,255,100,000 par value of general obligation bonds were issued. The proceeds of the Mobility Fund bonds are used to pay, or reimburse the state highway fund for eligible expenditures.

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

The Mobility Fund does not have any employees. TxDOT provides all accounting, debt financing and administrative services.

Basis of Presentation

The records of the Mobility Fund are maintained in accordance with the practices set forth in the provisions of the bond Resolutions. The accompanying financial statements present only the financial position and changes in financial position of the Mobility Fund, and are not intended to and do not present fairly the financial position or changes in financial position of TxDOT.

The Mobility Fund implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* in fiscal 2011. As a result, the classification of fund balance has changed. Previously, fund balances were reported as unreserved. The fiscal 2011 fund balance is classified as nonspendable and restricted fund balance. The governmental balance sheet for fiscal 2010 was similarly restated to retroactively reflect the fund balance presentation requirements of GASB 54

Measurement Focus and Basis of Accounting

The basis of accounting determines when revenues and expenditures are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Mobility Fund's dedicated revenues are restricted to paying debt service on the outstanding Mobility Fund bond obligations. GASB 54 clarified the definitions of governmental funds and after an analysis it was determined that the activity of the Mobility Fund met the definition of a debt service fund and no longer could be reported as a special revenue fund.

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

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

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

Budgets and Budgetary Accounting

The Mobility Fund budget is prepared biennially and represents appropriations authorized by the Legislature and approved by the governor (the General Appropriations Act). The Mobility Fund has collected revenue budgets for debt service and for in-house design, contracted design, construction and right of way. After mobility-related expenditures are incurred in the state highway fund, the Mobility Fund transfers cash and collected budget as reimbursement to the state highway fund. Since the Mobility Fund budgets are collected budgets, budgets can be increased up to the amount of receipts collected in the Mobility Fund.

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

Assets and Liabilities

Cash and Cash Equivalents in State Treasury

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

Accrued Swap Payment Receivable

Accrued swap payment receivable represents the August 2011 swap receivable, which was outstanding at the end of the fiscal year. See Notes 4 and 5 for more information on the Mobility Fund's outstanding interest rate swap agreements.

Deferred Charges

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

Investment Derivative Instruments

Investment derivative instruments represent the fair value at Aug. 31, 2011 of the Constant Maturity Swaps (CMS basis swaps) that are associated with the Mobility Fund's Series 2006-A fixed-rate bonds. See Note 3 for more details.

Accounts Payable

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

Interest Payable

Interest payable represents the amount of interest expense accrued for fiscal 2011 that becomes due Oct. 1, 2012. Interest on long-term debt that is payable more than 30 days after fiscal year end is not accrued in the fund financial statements.

Due to State Highway Fund

The due to state highway fund represents the amount owed for the costs of certain projects incurred as of Aug. 31, 2011, that will receive reimbursement from the Mobility Fund after fiscal year end.

General Obligation Bonds Payable

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

Premium/Discount

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

Fund Balance/Net Assets

The Mobility Fund's fund balance is classified as nonspendable and restricted. Restricted fund balance includes those resources that have constraints placed on their use through external parties or by law through constitutional provisions.

The Mobility Fund's fund balance is restricted due to bond covenants and constitutional provisions. The majority of current year revenues relate to fees pledged for debt service on outstanding bonds. Proceeds from the sale of bonds and interest earned on the bond proceeds account are constitutionally restricted for the purpose of funding transportation projects. The Mobility Fund records transfers out to the state highway fund, which records the expenditures associated with the projects funded with Mobility Fund resources.

The Mobility Fund's fiscal 2011 ending fund balance is further disaggregated by category and amount below.

Mobility Fund	
Fund Balance Classification as of August 31, 2011	
Nonspendable – Prepaid Interest	$ 2,002
Restricted – for Debt Service	404,546,628
Restricted – for Future Mobility Projects	875,674,137
Total Fund Balance	$ 1,280,222,767

The presentation of fund balance required updating as a result of the implementation of GASB 54. Under GASB 54, fund balance classifications depict the nature of constraints on the use of net resources in a governmental fund. Previous fund balance categories focused on providing information about amounts and their availability for appropriation.

On the accrual basis of accounting, the Mobility Fund's liabilities exceed its assets, creating a deficit net assets balance. As such, the net assets as of Aug. 31, 2011 are classified as unrestricted. This classification is a change from prior years and is the correction of a prior error in the classification of net assets. More detail is disclosed in Note 11.

Revenues, Expenditures/Expenses and Transfers

Federal Revenue

Federal revenue relates to the federal interest rate subsidy provided in relation to the Mobility Fund's Build America Bond issuance. Although the amount is recognized as revenue on the financial statements, the subsidy is specifically restricted to use as an offset of debt service costs. Refer to Note 4 for more information on the Mobility Fund's involvement with the Build America Bond program.

Charges for Services - Licenses, Fees and Permits

The major sources of dedicated revenue to the Mobility Fund for fiscal 2011 were driver license fees, motor vehicle inspection fees, certificate of title fees and driver record information fees. A list of all fiscal 2011 dedicated revenues can be found in the supplementary information section of this report.

Operating Grants and Contributions - Interest and Investment Income

Cash in the state treasury earns interest income at stated rates established by the Texas Comptroller of Public Accounts. Investment income reported is related to the change in fair value of investment derivative instruments.

Expenditures/Expenses

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

Operating Transfers Out to the State Highway Fund

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

NOTE 2 – CAPITAL ASSETS

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

NOTE 3 – DEPOSITS AND INVESTMENTS

Investments – Treasury Pool

The Mobility Fund is established in the state Treasury, thus all monies are pooled with other state funds and invested under the direction of the Comptroller of Public Accounts Treasury Operations Division (Treasury). The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires 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 2011. 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.

As of Aug. 31, 2011, and Aug. 31, 2010, the Mobility Fund's pro rata share of participation in the Treasury Pool was $1,291,097,973 and $1,390,311,368, respectively. No further detail of this balance is available due to the management policies of the Treasury Pool.

Investment Derivative Instruments

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

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

The CMS basis swaps are reported at their fair value on the statement of net assets. The changes in fair value of investment derivative instruments are reported as investment revenue in the statement of activities. As of Aug. 31, 2011, and Aug. 31, 2010, the fair value of the investment derivative instruments in the Mobility Fund was $26,252,183 and $8,896,856, respectively.

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 ends on Dec. 1, 2012. The original terms and the suspension period terms are summarized as follows.

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

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

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

CMS Basis Swaps Counterparty Credit Ratings as of August 31, 2011	
Counterparty	**Fitch/Moody's/Standard & Poor's**
JPMorgan Chase Bank, N.A.	AA-/Aa1/AA-
Goldman Sachs Mitsui Marine Derivative Products	NR*/Aa1/AAA
Morgan Stanley Capital Services Inc.	A/A2/A
*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. No collateral was held related to these agreements as of Aug. 31, 2011 and Aug. 31, 2010. The aggregate positive fair value of investment derivatives represents the maximum amount of loss that would be recognized at Aug. 31, 2011 if all counterparties failed to perform as contracted.

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

NOTE 4 – LONG-TERM LIABILITIES

Changes in Long-Term Liabilities

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

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

During the year ended Aug. 31, 2010, the following changes occurred in the Mobility Fund's long-term liabilities (including the amortization of premiums and discounts).

Governmental Activities	Beginning Balance 09/01/09	Additions	Amortization	Principal Payments	Ending Balance 08/31/10	Amounts Due Within One Year	Amounts Due Thereafter
General Obligation Bonds	$6,132,055,000			$(34,730,000)	$6,097,325,000	$39,645,000	$6,057,680,000
Premium (Discount)	156,990,287		(8,762,477)		148,227,810	8,682,901	139,544,909
Total Bonds Payable	$6,289,045,287		$(8,762,477)	$(34,730,000)	$6,245,552,810	$48,327,901	$6,197,224,909

General Obligation Bonds Payable

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

The Mobility Fund bond Resolutions may be amended by the Commission without bondholder consent. As of Aug. 31, 2011, the Commission has authorized up to $6.5 billion of outstanding Mobility Fund debt.

Prior to issuance of Parity debt, the Texas Comptroller of Public Accounts must certify that there will be sufficient future resources on deposit in the Mobility Fund to ensure 110 percent coverage of debt service requirements during the period that the debt will be outstanding. The Texas Bond Review Board (BRB) must approve proposed debt issuances before new Mobility Fund debt can be issued. As of Aug. 31, 2011, the BRB has approved $6.4 billion of Mobility Fund bond issuances.

The Commission is subject to various covenants imposed by the bond resolutions. As of Aug. 31, 2011, the Commission and management believe that they were in compliance with all significant covenants.

Miscellaneous Bond Information
As of August 31, 2011

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

* The bonds issued column does not include $61,109,369 of premiums associated with the above bonds.
** Average interest rates on the Series 2005-B and Series 2006-B variable rate bonds are 2.9 percent and 0.97 percent, respectively.
*** The variable rate bonds and the Series 2009-A fixed rate bonds are subject to redemption prior to their respective maturities at the option of the Commission.

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

The interest payments shown below do not reflect the federal interest rate subsidy payment related to the Mobility Fund Build America Bonds Series 2009-A, which will be used to offset debt service cost.

Debt Service Requirements
Governmental Activities

	General Obligation Bonds		
Year	**Principal**	**Interest***	**Total**
2012	$46,770,000	$292,164,300	$338,934,300
2013	53,190,000	289,989,103	343,179,103
2014	60,385,000	287,493,297	347,878,297
2015	67,925,000	284,741,890	352,666,890
2016	75,930,000	281,566,837	357,496,837
2017-2021	519,885,000	1,346,748,146	1,866,633,146
2022-2026	827,915,000	1,193,566,354	2,021,481,354
2027-2031	1,243,655,000	954,361,235	2,198,016,235
2032-2036	1,781,515,000	606,301,899	2,387,816,899
2037-2039	1,380,510,000	153,005,788	1,533,515,788
Total Requirements	$6,057,680,000	$5,689,938,849	$11,747,618,849

* The interest rates in effect as of Aug. 31, 2011 for the Series 2005-B and Series 2006-B variable rate bonds used to calculate the interest debt service requirements were 2.25 percent and 0.15 percent respectively.

Pledged Future Revenues

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

Pledged Future Revenue	**Governmental Activities**
Pledged Revenue Required for Future Principal and Interest on Existing General Obligation Bonds	$11,747,618,849
Term of Commitment Year Ending August 31,	2039
Percentage of Revenue Pledged	98%
Current Year Pledged Revenue*	$381,948,192
Current Year Principal and Interest Paid	$326,570,264

* Current year pledged revenue is net of $429,809 of operating expenses and $7,982,466 of interest income earned on the bond proceeds account.

Build America Bonds

The American Recovery and Reinvestment Act of 2009 (ARRA) granted municipal debt issuers access to a broader investor base in the taxable market by providing a federal interest rate subsidy payment to offset debt service costs through the Build America Bonds (BABs) program. The Commission issued $1,208,495,000 of Direct Payment BABs during fiscal 2009 (Series 2009-A bonds). The full amount issued remains outstanding at Aug. 31, 2011. ARRA provides federal reimbursements to the Mobility Fund equal to 35 percent of the interest paid on the Direct Payment BABs.

Demand Bonds

The Mobility Fund Series 2005-B and Series 2006-B variable rate bonds are demand bonds. A bondholder may tender any of these bonds for repurchase prior to maturity at a price equal to principal plus accrued interest. Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or, if not successfully remarketed, from amounts drawn under the standby bond purchase agreements. The following tables provide details for outstanding demand bonds and related standby bond purchase agreements as of Aug. 31, 2011.

Demand Bonds		
Governmental Activities	**Bonds Held by Liquidity Providers**	**Principal Balance Outstanding**
General Obligation Bonds		
Series 2005-B	None	$ 82,315,000
Series 2006-B	None	150,000,000
Total		$232,315,000

Demand Bonds – Standby Bond Purchase Agreement Provisions			
Governmental Activities	**Counterparties**	**Annual Liquidity Fee**	**Agreement Termination Date**
General Obligation Bonds			
Series 2005-B	Depfa Bank plc	0.08%	04/08/12
Series 2006-B	State Street Bank and Trust Company & California Public Employees' Retirement System	0.10%	12/13/13

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

Demand Bonds – Takeout Provisions				
Governmental Activities	**Estimated Debt Service**	**Rate**	**Basis**	**Replacement Debt Terms**
General Obligation Bonds				
Series 2005-B	$ 92,317,907	3.56%	Daily Fed Fds rate + 1.25%	Semi-annual payments over seven years starting on the first day of the third month of that period
Series 2006-B	158,731,963	4.37%	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
Total	$251,049,870			

Interest Rate Swaps

Using rates as of Aug. 31, 2011, the debt service requirements of the Series 2006-A bonds and associated net swap payments were estimated and are presented in the following table. The swap payments were projected assuming the current fixed annuity rates, average historical rates and swap index relationships remain the same for their terms. Interest payments and net swap payments will vary in the future in correlation with the underlying interest rate indexes.

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

	Series 2006-A Fixed-Rate Bonds		Constant Maturity Swaps	
Year	**Principal**	**Interest**	**Payments**	**Net Debt Service**
2012	$3,215,000	$49,635,50	$(6,392,000)	$46,458,500
2013	4,185,000	49,506,900	(5,816,600)	47,875,300
2014	5,115,000	49,339,500	(5,624,800)	48,829,700
2015	6,045,000	49,134,900	(5,624,800)	49,555,100
2016	6,955,000	48,893,100	(5,624,800)	50,223,300
2017-2021	82,685,000	236,774,50	(28,124,000)	291,335,500
2022-2026	197,085,00	205,325,00	(28,124,000)	374,286,000
2027-2031	346,335,00	144,450,95	(468,733)	490,317,217
2032-2035	384,485,00	44,583,000		429,068,000
Total	**$1,036,105,000**	**$877,643,350**	**$(85,799,733)**	**$1,827,948,617**

NOTE 5 – 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, and the 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 2011 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, 2011 are as follows:

Summary of Derivative Activity – CMS Basis Swaps			
GOVERNMENTAL ACTIVITIES			
Counterparty	**Change in Fair Value**	**Fair Value As of 8/31/2011**	**Notional Amount**
JPMorgan Chase Bank, N.A.	$ 8,693,490	$ 13,104,816	$ 200,000,000
Morgan Stanley Capital Services, Inc.	4,361,582	6,532,462	100,000,000
Goldman Sachs Mitsui Marine Derivative Products	4,300,254	6,614,905	100,000,000
Total	$17,355,326	$ 26,252,183	$ 400,000,000

NOTE 6 – EMPLOYEES' RETIREMENT PLANS

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

NOTE 7 – CONTINUANCE SUBJECT TO REVIEW

TxDOT is currently subject to a continuance review. Under the Texas Sunset Act, TxDOT will be abolished effective Sept. 1, 2015, unless continued in existence by the 84th Legislature as provided by the Act. If abolished, TxDOT may continue until Sept. 1, 2016 to close out its operations. In the event that TxDOT is abolished pursuant to the Texas Sunset Act or other law, Texas Government Code, Section 325.017(f), acknowledges that such action will not alter the obligation of the state to pay bonded indebtedness and all other obligations of the abolished agency.

NOTE 8 – RISK FINANCING & RELATED INSURANCE

The Mobility Fund does not have any employees or equipment. TxDOT retains all potential risks associated with Mobility Fund projects and provides all debt financing, accounting and administrative services. Potential risks include property and casualty losses, workers' compensation and health benefit claims, theft and damage of assets.

NOTE 9 –COMMITMENTS AND CONTINGENCIES

Arbitrage earnings, defined as earnings on tax-exempt bond proceeds in excess of the yield on the bonds, must be repaid to the federal government per Internal Revenue Code Section 148(f) (IRC §148). Pursuant to the Master Resolution, a Rebate Fund has been established within the Mobility Fund to which deposits will be made upon the determination by a verification agent that a rebate payment may be due pursuant to IRC §148.

Per IRC §148, the amount of rebate due the federal government is determined and payable during each five-year period and upon final payment of the tax-exempt bonds. IRC §148 also provides for certain rebate exceptions, including an exception if certain spend-out requirements of the bond proceeds are met. For Series 2005-A, Series 2005-B and Series 2006 an initial determination was made that the bonds satisfy the requirements for rebate exception and no arbitrage rebate is due to the federal government. Analysis and determination of rebate payments due, if any, will be made on the remaining series of bonds as the computation dates occur for those bonds.

NOTE 10 – SUBSEQUENT EVENTS

John A. Barton was named interim executive director of TxDOT upon the retirement of Amadeo Sanchez Jr., effective Aug. 31, 2011. On Sept. 29, 2011, the Commission named Phil Wilson as the new executive director of TxDOT effective Oct. 17, 2011. Commission chair Deirdre Delisi resigned from her position on Oct. 6, 2011. The Governor appointed Commissioner Ted Houghton chair on Oct. 7, 2011. On Oct. 10, 2011, the Governor appointed Jeff Austin III to the Commission.

To mitigate credit risk exposure, swap counterparties are required to post collateral should the positive fair market value of the trade rise above a specified threshold based on the counterparty's credit ratings. On Sept. 2, 2011 Morgan Stanley Capital Services Inc. posted $3 million in cash collateral. The amount of collateral held by the Mobility Fund is based upon the fair market value of the trade which is subject to daily market movements. Thus, the amount of collateral required to be held will fluctuate daily.

NOTE 11 – RESTATEMENTS AND ADJUSTMENTS

In fiscal 2011, the presentation of net assets on the accompanying financial statements was reassessed. As a result of this analysis the presentation of net assets was changed to be in conformance with Generally Accepted Accounting Principles. A deficit net assets balance must be reported as unrestricted net assets. Previously, net assets were reported as restricted. The fiscal 2010 presentation of net assets was restated to facilitate financial analysis.

Restatements – Net Asset Allocation

	Sept. 1, 2010 as Previously Reported	Restatements	Sept. 1, 2010 as Restated
Net Assets			
Restricted	$ (4,973,856,441)	$ 4,973,856,441	$ 0
Unrestricted		(4,973,856,441)	(4,973,856,441)
Total	$ (4,973,856,441)	$ 0	$ (4,973,856,441)

Texas Mobility Fund
SUPPLEMENTARY INFORMATION

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Texas Mobility Fund Dedicated Revenues
For the Fiscal Year Ended August 31, 2011
(UNAUDITED)

Major Sources of Funds		
Driver License Fees	$	126,527,352
Motor Vehicle Inspection Fees		90,080,018
Certificate of Title Fees		80,282,516
Driver Record Information Fees		57,119,319
	$	354,009,205
Miscellaneous Sources		
Motor Carrier Act Penalties	$	1,794,612
United We Stand License Fees		4,712
Depository Interest		11,248,004
	$	13,047,328
Total Dedicated Revenues	$	367,056,533

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

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Texas
Department
of Transportation

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