

TEXAS DEPARTMENT OF TRANSPORTATION

Texas Mobility Fund

(A Special Revenue Fund of the Texas Department of Transportation of the State of Texas)



Financial Statements - August 31, 2008 and 2007

Texas Mobility Fund

FINANCIAL STATEMENTS

August 31, 2008

Prepared by:
Finance Division of the Texas Department of Transportation

Texas Mobility Fund

Financial Statements
August 31, 2008

TABLE OF CONTENTS

INTRODUCTORY SECTION (unaudited)

Letter of Transmittal	3
Organization Chart	7
List of the Commission and Key Personnel	8

FINANCIAL SECTION

Independent Auditors' Report	11
Management's Discussion and Analysis	13
Basic Financial Statements:	
Exhibit I - Statement of Net Assets and Governmental Fund Balance Sheet	18
Exhibit II - Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance	19
Notes to the Basic Financial Statements	
Note 1 – Organization and Summary of Significant Accounting Policies	20
Note 2 – Capital Assets	23
Note 3 – Adjustment of Governmental to Entity-Wide Basis	23
Note 4 – Deposits and Investments	24
Note 5 – Summary of Long Term Liabilities	24
Note 6 – Due to State Highway Fund.....	34
Note 7 – Employees' Retirement Plans.....	34
Note 8 – Continuance Subject to Review.....	35
Note 9 – Risk Financing & Related Insurance	35
Note 10 - Adjustments to Fund Balance/Net Assets	35
Note 11 – Subsequent Events	36

SUPPLEMENTARY SCHEDULE (unaudited)

Summary of Project Expenditures funded by the Texas Mobility Fund	37
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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 10, 2008

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

The Master Resolution, dated as of May 4, 2005, as supplemented by the First through Seventh Supplemental Master Resolutions (collectively, the "*Resolution*") requires the Texas Transportation Commission (the "*Commission*") to provide audited annual financial statements of the Texas Mobility Fund (the "*Mobility Fund*"). Pursuant to this requirement, we hereby present to you the Financial Statements for the Mobility Fund for the year ended August 31, 2008 and for comparative purposes the year ended August 31, 2007. This report has been prepared by the Accounting Management staff in the Finance Division of the Texas Department of Transportation (the "*Department*").

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 this financial report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the financial statements of the Mobility Fund in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, the Department's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, the financial report is accurate in all material respects and is 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.

Clifton Gunderson LLP, an independent certified public accounting firm, performed an independent audit of the Mobility Fund's basic financial statements for the year ended August 31, 2008. The auditors issued an unqualified opinion on the financial statements 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. The financial statements for the Mobility Fund as of August 31, 2007 were audited by the Texas State Auditor's Office; whose report dated December 7, 2007 expressed an unqualified opinion on those financial statements.

THE TEXAS PLAN

REDUCE CONGESTION • ENHANCE SAFETY • EXPAND ECONOMIC OPPORTUNITY • IMPROVE AIR QUALITY
INCREASE THE VALUE OF OUR TRANSPORTATION ASSETS

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*, which can be found on page 13.

Profile of the Government

The Department is an agency of the State of Texas (the "*State*") created to provide a safe, effective and efficient transportation system throughout the State. The Department is managed by the Executive Director and is governed by a five-member Commission. The Department is organized into 25 districts and 27 divisions/offices and currently has an annual budget of approximately \$8.4 billion and a staff of approximately 15,000 which manage approximately \$2.8 billion in annual highway contract lettings.

Voter approval in 2001 of Proposition 15 (Texas constitutional amendment) and enactment of legislation by the 77th Legislature in 2001 created the Mobility Fund. In particular, Article III, Section 49-k of the Texas Constitution (the "*Constitutional Provision*") created the Mobility Fund within the treasury of the State of Texas. The creation of the Mobility Fund allows the Department to issue bonds secured by future revenue. This allows the acceleration of mobility projects throughout the state. The Mobility Fund is to be administered by the Texas Transportation 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 tactic in meeting the Department's goals to reduce congestion, improve air quality, enhance safety, expand economic opportunity and preserve the value of transportation assets.

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 the end of August 2008, the Department has issued a par amount of \$5.05 billion in bonds.

Information useful in assessing the government's financial condition

Cash Management policies and practices: In 2003, the 78th Legislature dedicated sources of revenue to the Mobility Fund. The funds generated by these dedicated revenues, as well as funds generated through other pledged revenues, are required to be accounted for in accounts established in the Mobility Fund.

The following accounts have been created and established by the Commission in the Mobility Fund:

1. Mobility Fund General Account – monies in this account may be used for any lawful purpose for which the Mobility Fund may be used pursuant to the Constitutional Provision, the Enabling Act, and other State Law.
2. 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.
3. 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.
4. 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.
5. Rebate Account – the Fifth Supplemental resolution established the Rebate Account for the bonds. Money on deposit in the Rebate Account, if any, is paid to the United States of America in compliance with the provisions of section 148(f) of the Code. Money in the Rebate Fund, if any, does not constitute security.
6. Purchase Account – is used for the purpose of depositing money obtained from (a) the remarketing of the Bonds, and (b) draws under a Liquidity Facility, and such deposited money 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.
7. Reserve Accounts or Subaccounts – these accounts are established as required by any Supplements to the Master Resolution.

The Department is responsible for ensuring that accounts maintain the proper minimum balances as set forth in the Master Resolution and for investing in securities required to meet liquidity requirements. The investments suitable for each account have been determined using the following criteria that are detailed in the Commission's Investment Strategy: 1) safety; 2) liquidity; and 3) return on investments. For more detailed information, please see the latest Texas Transportation Commission Investment Policy. Requests for a copy of the Investment Policy should be addressed to the Finance Division, Accounting Management Section, 125 E. 11th Street, Austin, Texas, 78701-2483.

The Mobility Fund does not have any employees. Department employees and contractors perform the work of the Mobility Fund. The Department provides all accounting and administrative services. The Mobility Fund does not provide financing for any of the risks the Department is subject to in the course of its operations.

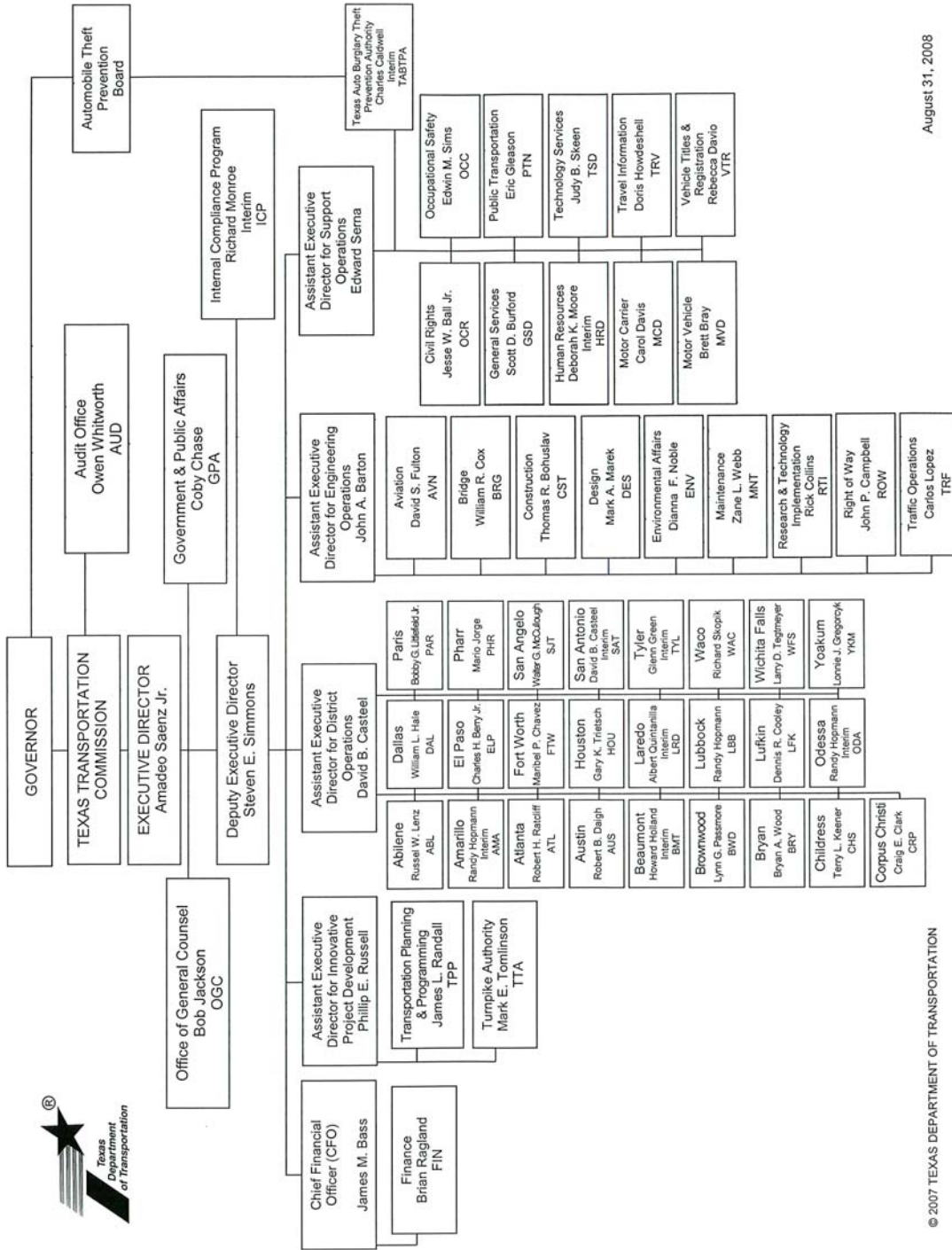
Risk Financing & Management: The Department is exposed to a wide range of risks due to the size, scope, and nature of its activities. Some of these risks include, but are not limited to, property and casualty losses, workers' compensation and health benefit claims, theft, damage of assets, etc. The Department retains these risks, and manages them through claims review and safety programs, which are primarily the responsibility of the Department's Occupational Safety Division.

Acknowledgements

Production of this report would not have been possible without the efficient and dedicated staff of the Department. We extend special appreciation to Duane Sullivan, Diana Smith, Glen Knipstein and the Finance Division for their professionalism and devotion in preparing this complex financial document.



Amadeo Saenz, Jr., P.E.
Executive Director



August 31, 2008

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**Commission and Key Personnel
As of August 31, 2008**

TEXAS TRANSPORTATION COMMISSION

DEIRDRE DELISI.....Chair
Austin

NED S. HOLMES.....Commissioner
Houston

TED HOUGHTONCommissioner
El Paso

WILLIAM MEADOWSCommissioner
Fort Worth

FRED UNDERWOODCommissioner
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

PHILLIP E. RUSSELL, P.E. Assist. Exec. Dir.for Innovative Project Dev.

EDWARD S. SERNA..... Assist. Exec. Dir. for Support Operations

JAMES M. BASS Chief Financial Officer

BOB JACKSON General Counsel

COBY CHASEDirector of Government and Public Affairs

FINANCIAL SECTION

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Independent Auditor's Report

Members of the Texas Transportation Commission
Texas Mobility Fund
Austin, Texas

We have audited the accompanying financial statements of the governmental activities and special revenue fund as of and for the year ended August 31, 2008, which collectively comprise Texas Mobility Fund's (Fund) basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements for the Fund as of August 31, 2007, were audited by other auditors whose report dated December 7, 2007, expressed an unqualified opinion on those 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 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(A) and 1(B), the financial statements present only the financial position of the Fund, which is a special revenue fund of the State of Texas. They do not purport to, and do not, present fairly the financial position of the entire State of Texas.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and special revenue fund of the Fund as of August 31, 2008 for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2008 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

The management's discussion and analysis on pages 13 through 16 are not a required part of the basic financial statements but are supplementary information required by 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 *Summary of Project Expenditures Funded by the Texas Mobility Fund by County for Fiscal Year 2008* listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory section listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Henderson LLP

Austin, Texas
December 10, 2008

Management's Discussion and Analysis

As management of the Texas Department of Transportation (the "*Department*"), we offer readers of the Texas Mobility Fund (the "*Mobility Fund*") financial statements this narrative overview and analysis of its financial activities for the year ended August 31, 2008 and for comparative purposes the year ended August 31, 2007. These financial statements reflect the financial position of the Mobility Fund. The Mobility Fund is a special revenue fund of the Department, an agency of the State of Texas. The Texas Transportation Commission, the governing body of the Department, has the authority to commit the Mobility Fund to various legal agreements. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on page 3 of this report.

Financial Highlights

- Voter approval in 2001 of Proposition 15 (Texas constitutional amendment) and enactment of legislation by the 77th Legislature in 2001 created the Mobility Fund in the State treasury. This fund permits the Texas Transportation Commission to issue bonds secured by the Mobility Fund to advance highways and other public transportation projects.
- In 2003, the 78th Legislature dedicated revenue from transportation-related fees to the Mobility Fund.
- In May 2005, the Texas Bond Review Board approved \$4 billion of bonds through one or more issuances from the Mobility Fund.
- In November 2007, the Texas Bond Review Board approved an additional \$2.4 billion in Mobility Fund bonds through one or more issuances.
- As of August 31, 2008, the Mobility Fund has received \$609,627,261 in dedicated revenue.
- As of August 31, 2008, the Commission has issued \$5.05 billion in bonds.
- The Department transferred \$1,212,608,361 and \$1,780,133,499 during fiscal years 2008 and 2007, respectively to the State Highway Fund to accelerate various transportation projects.
- During fiscal year 2008 certain accounting changes and adjustments were made which required the restatement of fund balances.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Mobility Fund's basic financial statements. The Mobility Fund's financial statements combine two types of financial statements into one statement. These two types of financial statements are the entity-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the entity-wide financial statements are presented to the right side of 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.

Entity-Wide Financial Statements. The focus of the entity-wide financial statement is on the overall financial position and activities of the Mobility Fund. The Mobility Fund's entity-wide financial statements include the statement of net assets and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net assets is to report all of the assets and liabilities of the Mobility Fund. The Mobility Fund reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

Fund financial statements. The focus of fund financial statements is directed to specific activities of the Mobility Fund rather than the Mobility Fund as a whole. 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. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activities related to the Mobility Fund are being accounted for in a special revenue fund. The accounts of the Mobility Fund are maintained in accordance with practices set forth in the provisions of the Master Resolution. These practices are modeled after generally accepted accounting principles for a special revenue fund on a modified accrual basis.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 20-36 of this report.

Entity-Wide Financial Analysis

The Mobility Fund's overall financial position and operations for the past years are summarized as follows based on the information included in the entity-wide financial statements.

	<u>CONDENSED NET ASSETS</u>		
	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>
Restricted and other assets	\$956,369,615	\$1,125,545,231	\$ 535,795,121
Deferred Charges	19,769,927	16,398,662	8,116,635
Total Assets	\$976,139,542	\$1,141,943,893	\$543,911,756
Long-term Liabilities	(5,089,381,178)	(3,969,456,546)	(1,752,490,227)
Other Liabilities	(200,503,968)	(378,226,484)	(260,791,523)
Total Liabilities	(5,289,885,146)	(4,347,683,030)	(2,013,281,750)
Net Assets (Deficit):			
Restricted for: Mobility Projects	(4,313,745,604)	(3,205,739,137)	(1,469,369,994)
Total Net Assets (Deficit)	\$(4,313,745,604)	\$(3,205,739,137)	
Total Net Assets (Deficit), August 31, 2006, as restated			\$(1,469,369,994)

Changes in Net Assets. The total net liabilities of the Mobility Fund exceed its assets by \$4,313,745,604 and \$3,205,739,137 as of August 31, 2008 and 2007, respectively. The primary reason for this is that the Mobility Fund issued \$1.1 billion, \$2.2 billion, and \$.75 billion in debt in fiscal years 2008, 2007, and 2006, respectively and transferred out \$1,212,608,361, \$1,780,133,499, and \$1,300,757,489 to the State Highway Fund in 2008, 2007, and 2006 respectively, to speed up the completion of various transportation projects. Bond issue costs are reported as deferred charges and are being amortized over the life of the bonds. The Mobility Fund has no ownership over the highway projects, which 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.

Even though this negative statement of net assets looks unfavorable, the purpose of the Mobility Fund is to issue debt in the short run to accelerate transportation projects, to track transportation fees dedicated to the Mobility Fund, and to pay off the debt over a thirty-year period. As shown on the condensed changes in net assets, the Mobility Fund recognized fee revenue of about \$268 million in fiscal year 2008 and \$140 million in fiscal year 2007.

	<u>CONDENSED CHANGES IN NET ASSETS</u>		
	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>
Revenues			
Charges for Services			
Violations, Fines & Penalties	\$267,915,922	\$140,481,055	\$84,287,959
Interest and Investment Income			
Operating Grants and Contributions	35,460,407	36,700,487	27,985,334
Total Revenues	303,376,329	177,181,542	112,273,293
Expenses			
Interest on State Bonds	(205,902,012)	(137,301,879)	(54,691,156)
Amortization	8,185,132	5,439,100	3,268,571
Other Financing Fees	(619,086)	(627,919)	(274,009)
Professional Fees & Services	(415,079)	(913,497)	(472,049)
Other	(23,390)	(12,991)	(28,501)
Total Expenses	(198,774,435)	(133,417,186)	(52,197,144)
Increase in net assets before transfers	104,601,894	43,764,356	60,076,149
Transfer to State Highway Fund	(1,212,608,361)	(1,780,133,499)	(1,300,757,489)
Change in Net Assets (Deficit)	(1,108,006,467)	(1,736,369,143)	(1,240,681,340)
Total Net Assets (Deficit) – beginning	(3,205,739,137)	(1,469,369,994)	
Total Net Assets (Deficit) – beginning, as restated			(228,688,654)
Total Net Assets (Deficit) – ending	\$(4,313,745,604)	\$(3,205,739,137)	\$(1,469,369,994)

Financial Analysis of the Mobility Fund's Fund Financial Statements

The Mobility Fund's fund financial statements show a fund balance of \$883,260,028 and \$840,858,938 for the periods ended August 31, 2008 and 2007, respectively. This is in contrast to the Statements of Net Assets which show net deficits of \$4,313,745,604 in 2008 and \$3,205,739,137 in 2007. The reason why there is a difference is because the fund financial statements do not show long term debt or capital assets, and the Mobility Fund has \$5.089 billion in long term debt as of the end of August 31, 2008 and \$3.969 billion in long term debt as of the end of August 31, 2007 that is not shown on the Fund Financial Statements which are more concerned with current resources.

The restatements to fiscal years 2007 and 2006 reflect an adjustment to assets and liabilities for bond premium, discount, and bond issue costs which were not capitalized or amortized in prior periods.

Debt Administration

Long-term debt. As of August 31, 2008, the Mobility Fund had total long-term debt outstanding of \$5,089,381,178. Total bonds payable of \$5,121,671,178, as detailed in the table below, includes \$32,290,000 of amounts due within one year.

Bonds Payable	2008	2007	2006
Series 2005-A Fixed Rate Interest Bonds	\$885,579,434	\$902,475,876	\$918,845,600
Series 2005-B Variable Rate Interest Bonds	91,275,000	94,075,000	96,785,000
Series 2006 Fixed Rate Interest Bonds	738,984,195	752,461,652	772,034,627
Series 2006-A Fixed Rate Interest Bonds	1,072,612,028	1,074,268,261	
Series 2006-B Variable Rate Interest Bonds	150,000,000	150,000,000	
Series 2007 Fixed Rate Interest Bonds	1,025,053,014	1,027,075,757	
Series 2008 Fixed Rate Interest Bonds	1,158,167,507		
Total Bonds Payable	\$5,121,671,178	\$4,000,356,546	\$1,787,665,227

The issuance of long term debt increased the Mobility Fund's current financial resources. However, including the debt-related inflows among the Mobility Fund's regular revenues could distort the Mobility Fund's revenue trends. The Mobility fund issued the Series 2008 bonds with a premium of \$61,109,369, the Series 2007 bonds with a premium of \$21,624,500, the Series 2006A bonds with a premium of \$35,844,494, and the Series 2006 bonds with a premium of \$23,288,275. Premiums and discounts are being amortized over the life of the bonds.

Bond Credit Ratings

	Fitch	Moody's	Standard & Poor's
Series 2008	AA+	Aa1	AA
Series 2007	AA+	Aa1	AA
Series 2006-A	AA+/CCC*	Aa1/B1*	AA/BB*
Series 2006-B	AA+/F1+	Aa1/VMIG1	n/a
Series 2006	AA+	Aa1	AA
Series 2005-A	AA+	Aa1	AA
Series 2005-B	AA+/F1+	Aa1/VMIG1	AA/A-1
* insurer rating			

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, or either of them, 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 Finance Division, Accounting Management Section, 125 E. 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, 2008 and 2007

	Special Revenue Fund	Adjustments	Statement of Net Assets 8/31/2008
ASSETS			
Current Assets:			
Cash and Cash Equivalents in State Treasury	\$ 955,909,300	\$	\$ 955,909,300
Accrued Swap Payment Receivable	460,315		460,315
Total Current Assets	<u>956,369,615</u>	<u>0</u>	<u>956,369,615</u>
Noncurrent Assets:			
Deferred Charges		19,769,927	19,769,927
Total Noncurrent Assets	<u>0</u>	<u>19,769,927</u>	<u>19,769,927</u>
TOTAL ASSETS	<u>956,369,615</u>	<u>19,769,927</u>	<u>976,139,542</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	18,565		18,565
Interest Payable		95,104,381	95,104,381
Due to State Highway Fund	73,091,022		73,091,022
General Obligation Bonds Payable		32,290,000	32,290,000
Total Current Liabilities	<u>73,109,587</u>	<u>127,394,381</u>	<u>200,503,968</u>
Noncurrent Liabilities:			
General Obligation Bonds Payable		4,923,560,000	4,923,560,000
Premium/Discount		165,821,178	165,821,178
Total Noncurrent Liabilities	<u>0</u>	<u>5,089,381,178</u>	<u>5,089,381,178</u>
TOTAL LIABILITIES	<u>73,109,587</u>	<u>5,216,775,559</u>	<u>5,289,885,146</u>
FUND BALANCES/NET ASSETS			
Unreserved:	883,260,028	(883,260,028)	
TOTAL FUND BALANCES	<u>883,260,028</u>	<u>(883,260,028)</u>	
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 956,369,615</u>		
Net Assets (Deficit):			
Restricted for Mobility Projects		(4,313,745,604)	(4,313,745,604)
Total Net Assets (Deficit)		<u>\$ (5,197,005,632)</u>	<u>\$ (4,313,745,604)</u>

	Special Revenue Fund	Adjustments	Statement of Net Assets 8/31/2007
ASSETS			
Current Assets:			
Cash and Cash Equivalents in State Treasury	\$ 1,125,545,231	\$	\$ 1,125,545,231
Total Current Assets	<u>1,125,545,231</u>	<u>0</u>	<u>1,125,545,231</u>
Noncurrent Assets:			
Deferred Charges		16,398,662	16,398,662
Total Noncurrent Assets	<u>0</u>	<u>16,398,662</u>	<u>16,398,662</u>
TOTAL ASSETS	<u>1,125,545,231</u>	<u>16,398,662</u>	<u>1,141,943,893</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	2,729,523		2,729,523
Interest Payable		62,640,191	62,640,191
Due to Comptroller of Public Accounts	144,348,568		144,348,568
Due to State Highway Fund	137,608,202		137,608,202
General Obligation Bonds Payable		30,900,000	30,900,000
Total Current Liabilities	<u>284,686,293</u>	<u>93,540,191</u>	<u>378,226,484</u>
Noncurrent Liabilities:			
General Obligation Bonds Payable		3,855,850,000	3,855,850,000
Premium/Discount		113,606,546	113,606,546
Total Noncurrent Liabilities	<u>0</u>	<u>3,969,456,546</u>	<u>3,969,456,546</u>
TOTAL LIABILITIES	<u>284,686,293</u>	<u>4,062,996,737</u>	<u>4,347,683,030</u>
FUND BALANCES/NET ASSETS			
Unreserved:	840,858,938	(840,858,938)	
TOTAL FUND BALANCES, as Restated	<u>840,858,938</u>	<u>(840,858,938)</u>	
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,125,545,231</u>		
Net Assets (Deficit):			
Restricted for Mobility Projects		(3,205,739,137)	(3,205,739,137)
Total Net Asset (Deficit)		<u>\$ (4,046,598,075)</u>	<u>\$ (3,205,739,137)</u>

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

EXHIBIT II

**TEXAS MOBILITY FUND
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE**

For the years ended August 31, 2008 and August 31, 2007

	Special Revenue Fund	Adjustments	Statement of Activities
REVENUES			
Charges for Services -	\$	\$	\$
Violations, Fines & Penalties	267,915,922		267,915,922
Interest and Investment Income			
Operating Grants and Contributions	35,460,407		35,460,407
Total Revenues	<u>303,376,329</u>	<u>0</u>	<u>303,376,329</u>
EXPENDITURES/EXPENSES			
Professional Fees & Services	415,079		415,079
Debt Service:			
Principal	30,900,000	(30,900,000)	0
Interest	173,437,824	32,464,188	205,902,012
Amortization of Premium/Discount		(8,894,737)	(8,894,737)
Bond Issue Costs	4,080,868	(4,080,868)	0
Amortization Bond Issue Costs		709,605	709,605
Other Financing Fees	619,086		619,086
Other Expenditures/Expenses	23,390		23,390
Total Expenditures/Expenses	<u>209,476,247</u>	<u>(10,701,812)</u>	<u>198,774,435</u>
Excess of Revenues over Expenditures/Expenses	93,900,082	10,701,812	104,601,894
OTHER FINANCING SOURCES (USES):			
Bond and Note Proceeds	1,100,000,000	(1,100,000,000)	0
Premium on Bonds Issued	61,109,369	(61,109,369)	0
Operating Transfer Out to the State Highway Fund	(1,212,608,361)		(1,212,608,361)
TOTAL OTHER FINANCING SOURCES (USES):	<u>(51,498,992)</u>	<u>(1,161,109,369)</u>	<u>(1,212,608,361)</u>
Change in Fund Balance/Net Assets (Deficit)	<u>42,401,090</u>	<u>(1,150,407,557)</u>	<u>(1,108,006,467)</u>
Fund Balance/Net Assets (Deficit):			
FUND BALANCES/NET ASSETS (DEFICIT), August 31, 2007	840,858,938	(4,046,598,075)	(3,205,739,137)
FUND BALANCES/NET ASSETS (DEFICIT), August 31, 2008	<u>\$ 883,260,028</u>	<u>\$ (5,197,005,632)</u>	<u>\$ (4,313,745,604)</u>

	Special Revenue Fund	Adjustments	Statement of Activities
REVENUES			
Charges for Services -	\$	\$	\$
Violations, Fines & Penalties	140,481,055		140,481,055
Interest and Investment Income			
Operating Grants and Contributions	36,700,487		36,700,487
Total Revenues	<u>177,181,542</u>	<u>0</u>	<u>177,181,542</u>
EXPENDITURES/EXPENSES			
Professional Fees & Services	913,497		913,497
Debt Service:			
Principal	35,370,000	(35,370,000)	0
Interest	101,438,585	35,863,294	137,301,879
Amortization of Premium/Discount		(6,012,675)	(6,012,675)
Bond Issue Costs	8,855,602	(8,855,602)	0
Amortization Bond Issue Costs		573,575	573,575
Other Financing Fees	627,919		627,919
Other Expenditures/Expenses	12,991		12,991
Total Expenditures/Expenses	<u>147,218,594</u>	<u>(13,801,408)</u>	<u>133,417,186</u>
Excess of Revenues over Expenditures/Expenses	29,962,948	13,801,408	43,764,356
OTHER FINANCING SOURCES (USES):			
Bond and Note Proceeds	2,196,605,000	(2,196,605,000)	0
Premium on Bonds Issued	57,468,994	(57,468,994)	0
Operating Transfer Out to the State Highway Fund	(1,780,133,499)		(1,780,133,499)
TOTAL OTHER FINANCING SOURCES (USES):	<u>473,940,495</u>	<u>(2,254,073,994)</u>	<u>(1,780,133,499)</u>
Change in Fund Balance/Net Assets (Deficit)	<u>503,903,443</u>	<u>(2,240,272,586)</u>	<u>(1,736,369,143)</u>
Fund Balance/Net Assets (Deficit):			
FUND BALANCES/NET ASSETS (DEFICIT), August 31, 2006, as restated	336,955,495	(1,806,325,489)	(1,469,369,994)
FUND BALANCES/NET ASSETS (DEFICIT), August 31, 2007	<u>\$ 840,858,938</u>	<u>\$ (4,046,598,075)</u>	<u>\$ (3,205,739,137)</u>

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

These financial statements reflect the financial position of the Texas Mobility Fund (the “Mobility Fund”). The Mobility Fund is a special revenue fund of the Texas Department of Transportation (the “Department”), an agency of the State of Texas. Also, the Texas Transportation Commission (the “Commission”), the governing body of the Department, has the authority to commit the Mobility Fund to various legal agreements.

The Commission

The State created the State Highway Commission on April 4, 1917, for the purpose of adopting and implementing a comprehensive system of state highways and promoting the construction of a state highway system by cooperation with counties or independently by the State Highway Commission. In 1975, the State Legislature changed the name of the State Highway Commission to the State Highway and Public Transportation Commission. In 1991, the State Legislature changed the name to the current name, the Texas Transportation Commission. The State Legislature directed the Commission to plan and make policies for the location, construction, and maintenance of a comprehensive system of state highways and public roads.

The Commission governs the Department and is charged by statute with policy-making responsibilities. The Department is charged with the management responsibilities for implementing the policies of the Commission. The Department is managed by the Executive Director and supported by the staff. The State Legislature provided that the Commission must divide the State into no more than 25 regional districts for the purpose of the performance of the Department’s duties. There are currently 25 districts.

The Commission consists of five members appointed by the Governor with the advice and consent of the State Senate. One member is designated by the Governor as the Chairman and serves as the chief executive officer of the Commission. A person is not eligible to be a member of the Commission if the person or the person’s spouse is employed by or manages a business that is regulated by or regularly receives funds from the Department, directly or indirectly owns or controls more than ten percent (10%) interest in a business that is regulated by or receives funds from the Department, uses or receives a substantial amount of goods, services or funds from the Department, or is registered, certified, or licensed by the Department. Members of the Commission serve six-year terms, with one to two members’ terms expiring February 1 of each odd-numbered year.

The Department

The Department was created to provide a safe, effective and efficient transportation system throughout the State. The Department is governed by the five-member Commission and an executive director selected by the Commission and is an agency of the State of Texas. The Department’s operations are conducted by a central office with twenty two functional divisions, five offices, and twenty-five geographic districts in the State.

The Mobility Fund

The Texas Legislature (the “Legislature”) established the Mobility Fund pursuant to the Constitutional Provision to be administered by the Commission 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 the

Department in the payment of a portion of the costs of constructing and providing publicly owned toll roads and other public transportation projects. Pursuant to the Enabling Act, 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. The Legislature has dedicated to the Mobility Fund certain revenues of the State. The Commission may also elect to pledge the general obligation of the State as additional repayment security for the bonds.

The Commission has issued a total of \$5,046,605,000 par value of general obligation bonds. These proceeds are used to pay, or reimburse the State Highway Fund for, the payment of the costs of (i) constructing, reconstructing, acquiring, and expanding certain State highways and providing participation by the State in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects as described below and (ii) issuing the bonds.

The Mobility Fund does not have any employees. The Department provides all accounting and administrative services. In addition, the Department's risk financing and insurance programs apply to the Mobility Fund.

B. Basis of Presentation

The records of the Mobility Fund are maintained in accordance with the practices set forth in the provisions of the Resolution for the Texas Mobility Fund General Obligation Bonds. These practices are modeled after generally accepted accounting principles for a special revenue fund. The Mobility Fund is a special revenue fund within the Department.

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 the Department in conformity with accounting principles generally accepted in the United States of America.

The reporting period is for the year ended August 31, 2008. Voter approval in 2001 of Proposition 15 (Texas constitutional amendment) and enactment of legislation by the 77th Legislature in 2001 created the Mobility Fund. Dedicated revenue and investment earnings began to be deposited into the Mobility Fund in March 2004.

C. Measurement Focus and Basis for Accounting

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.

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. A special revenue fund is a type of governmental fund used to account for a government's tax-supported activities. Special revenue funds are accounted for on 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. Note 3 provides further details for the adjustments from the governmental fund presentation to the entity-wide presentation.

D. Assets and Liabilities

(1) Cash and Cash Equivalents

Short-term highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents. On the Statement of Net Assets and Governmental Fund Balance Sheet, cash and cash equivalents are considered to be cash in bank and cash in the State Treasury.

(2) Accrued Swap Payment Receivable

Accrued Swap Payment Receivable represents the August 2008 Swap receivable, which was outstanding at the end of the fiscal year.

(3) Noncurrent Assets

The costs associated with debt issuance totaled \$21,511,433. These costs are not reported as an expense of the period in which they were incurred, but instead are reported as an adjustment to interest expense throughout the period during which the related debt is outstanding. Unamortized deferred charges equaled \$19,769,927 and \$16,398,662 as of August 31, 2008 and August 31, 2007, respectively.

(4) Accounts Payable

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

(5) Bonds Payable – General Obligation Bonds

Bonds payable are reported at par value plus the unamortized premium and discount. Premiums and discounts are amortized over the life of the bonds. Payables are reported separately as either current or non-current in the statement of net assets.

E. Fund Balance

(1) Unreserved

In the special revenue fund, fund equity is classified as fund balance. Fund balance can be further classified as reserved and unreserved. Unreserved fund balance is the amount that represents the unexpended balance at year end which is available for use in subsequent years.

(2) Net Assets (Deficit), restricted for Mobility Projects

In the entity-wide statements, equity is classified as net assets. Net assets can be classified into three components; invested in capital assets, restricted, and unrestricted. The Mobility Fund's net assets are restricted by enabling legislation.

F. Revenues, Expenditures, Transfers, and Restatements

(1) Violations, Fines and Penalties

The Legislature has dedicated to the Mobility Fund certain revenues of the State. These dedicated revenues are those revenue sources allocated by the Legislature for the benefit of the Mobility Fund. Initially, the Mobility Fund was funded with certain revenue sources that were dedicated to the Mobility Fund until August 31, 2005. These initial sources consisted of Court Fines and a Driver License Point Surcharge.

On September 1, 2005, the initial revenue sources of the Mobility Fund were redirected to the State of Texas General Revenue Fund. New sources of revenue were phased into the Mobility Fund. In fiscal year 2006 the sources of revenue were United We Stand License Plate Fees, Investment Income, and Motor Vehicle

Inspection Fees. In fiscal year 2007 the sources of revenue were Driver Record Information Fees, Investment Income, and Motor Vehicle Inspection Fees. In fiscal year 2008 the major sources of revenue were Driver License Fees, Driver Record Information Fees, Investment Income, and Motor Vehicle Inspection Fees. Certificate of Title Fees are to be added in fiscal year 2009.

(2) Interest and Investment Income

Cash held in the State Treasury consists of dedicated revenues and proceeds from the sale of the bonds. Interest and investment income earned is revenue to the Mobility Fund in the period earned.

(3) Operating Transfers Out to the State Highway Fund

Operating transfers out reflect the transfer of cash to reimburse the State Highway Fund for the payment of the costs of constructing, reconstructing, acquiring, and expanding certain State highways and providing participation by the State in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects.

NOTE 2 – CAPITAL ASSETS

The Mobility Fund does not have any capital assets. The purpose of the Mobility Fund is to provide a source of revenue to pay for the costs of constructing, reconstructing, acquiring, and expanding certain State highways and providing participation by the State in the payment of part of the costs of constructing and providing certain publicly owned toll roads and public transportation projects. The revenues accumulated in the Mobility Fund are used to pay the debt service of the Mobility Bonds. The infrastructure built with transfers from the Mobility Fund becomes part of the state highway system and a capital asset to the State Highway Fund.

NOTE 3 – ADJUSTMENT OF GOVERNMENTAL TO ENTITY-WIDE BASIS

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

	<u>2008</u>	<u>2007</u>
Total Fund Balance, governmental funds	\$883,260,028	\$840,858,938
Deferred Charges	19,769,927	16,398,662
Interest Payable	(95,104,381)	(62,640,191)
Premium/Discount on Bonds Payable	(165,821,178)	(113,606,546)
Bonds Payable	(4,955,850,000)	(3,886,750,000)
Total Net (Deficit) – governmental activities	<u><u>\$(4,313,745,604)</u></u>	<u><u>\$(3,205,739,137)</u></u>

Long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported as liabilities in governmental funds.

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Government Funds to the Statements of Activities

	<u>2008</u>	<u>2007</u>
Net change in fund balances – total governmental funds	\$42,401,090	\$503,903,443
Change in Interest Payable	(32,464,188)	(35,863,294)
Amortization of Bond Premium/Discount	8,894,737	6,012,675
Bond Issue Costs	4,080,868	8,855,602
Amortization of Bond Issue Costs	(709,605)	(573,575)
Bond and Note Proceeds	(1,100,000,000)	(2,196,605,000)
Debt Service Principal	30,900,000	35,370,000
Premium/Discount on Bonds Issued	(61,109,369)	(57,468,994)
Change in Net Assets (Deficit) of governmental activities	<u><u>\$(1,108,006,467)</u></u>	<u><u>\$(1,736,369,143)</u></u>

The issuance of long term debt provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes the current financial resources of governmental funds. Governmental funds also report 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.

NOTE 4 – DEPOSITS AND INVESTMENTS

The carrying amount of deposits for the Mobility Fund was \$955,909,300 as of August 31, 2008 and \$1,125,545,231 as of August 31, 2007, as reported on the Statement of Net Assets.

Custodial credit risk – deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. All of the Fund’s deposits are held by the Comptroller in the State Treasury. Deposits of the State of Texas are normally managed by the State Comptroller of Public Accounts (the “Comptroller”). Deposits that exceed the \$100,000 of insurance by the Federal Deposit Insurance Corporation (FDIC) must be collateralized in accordance with Comptroller policy. Collateral pledged must be equal to at least 105% of the principal amount deposited by the Department. The Comptroller has full responsibility for ensuring adequate collateralization of all State deposits, including those held in local banks. On August 31, 2008, the deposits were fully collateralized with securities held by an agent of the Comptroller, in the Department’s name, in accordance with the Comptroller’s requirements.

The Mobility Fund is established in the Treasury Operations Division – Comptroller’s office (Treasury) and it is pooled with other state funds for investment purposes. See the State of Texas Comprehensive Annual Financial Report (CAFR) for information on the investment policy and for the risks associated with the investment pool. The State of Texas CAFR may be found online at <https://fmx.cpa.state.tx.us/fm/pubs/cafr/index.php>.

NOTE 5 - SUMMARY OF LONG TERM LIABILITIES

Changes in Long-Term Liabilities

During the period ended August 31, 2008, the following changes occurred in liabilities (including premiums and discounts).

Debt	Balance 8/31/2007	Additions	Amortization	Principal Payments	Balance 08/31/08	Amounts Due Within One Year (Principal)
General Obligation Bonds	\$3,886,750,000	1,100,000,000	-	(30,900,000)	\$4,955,850,000	\$32,290,000
Premium (Discount)	\$113,606,546	61,109,369	(8,894,737)	-	\$165,821,178	-
Total Governmental Type Activities	\$4,000,356,546	1,161,109,369	(8,894,737)	(30,900,000)	\$5,121,671,178	\$32,290,000

During the period ended August 31, 2007, the following changes occurred in liabilities (including premiums and discounts).

Debt	Balance 8/31/2006	Additions	Amortization	Principal Payments	Balance 08/31/07	Amounts Due Within One Year (Principal)
General Obligation Bonds	\$1,725,515,000	2,196,605,000	-	(35,370,000)	\$3,886,750,000	\$30,900,000
Premium (Discount)	\$62,150,227	57,468,994	(6,012,675)	-	\$113,606,546	-
Total Governmental Type Activities	\$1,787,665,227	2,254,073,994	(6,012,675)	(35,370,000)	\$4,000,356,546	\$30,900,000

Debt Service Requirements

Yearly Service Requirements	GENERAL OBLIGATION BONDS		TOTAL
	Principal	Interest	
2009	\$32,290,000	\$232,748,811	\$265,038,811
2010	34,730,000	231,255,300	265,985,300
2011	39,645,000	229,678,011	269,323,011
2012	46,770,000	227,866,482	274,636,482
2013	53,190,000	225,704,845	278,894,845
2014-2018	382,575,000	1,084,833,317	1,467,408,317
2019-2023	622,575,000	974,355,360	1,596,930,360
2024-2028	941,480,000	794,008,288	1,735,488,288
2029-2033	1,351,735,000	530,967,493	1,882,702,493
2034-2037	1,450,860,000	167,929,978	1,618,789,978
Total Requirements	\$4,955,850,000	\$4,699,347,885	\$9,655,197,885

Fixed interest rates for the Series 2005-A bonds vary from 3.900% to 5.000% depending on maturities. The Series 2005-B bonds have a variable interest rate. To date, the average interest rate on the Series 2005-B bonds has been approximately 3.201%. Fixed interest rates on the Series 2006 bonds vary from 3.625% to 5.000%. Fixed interest rates on the Series 2006-A bonds vary from 4.0% to 5.0%, the Series 2006-B bonds have a variable interest rate. The average interest rate on the Series 2006-B bonds has been approximately 2.507%. Fixed interest rates on the Series 2007 bonds vary from 4.0% to 5.0%. Fixed interest rates on the Series 2008 bonds vary from 4.0% to 5.0%.

General Obligation Bonds Payable

Transportation Code, Chapter 201, Subchapter M. Obligations for Certain Highway and Mobility Projects authorized the Commission to issue Texas Mobility Fund bonds. The Commission issued these bonds to pay, or reimburse the State Highway Fund or the Mobility Fund for, the costs of (i) constructing, reconstructing, acquiring, and expanding State highways and providing participation by the State in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects and (ii) issuing the bonds.

Long-term obligations proposed to be issued by the Commission may not be issued unless the Comptroller projects in a Comptroller's certification that the amount of money dedicated to the fund and required to be on deposit in the fund, and the investment earnings on that money, during each year of the period during which the proposed obligations are scheduled to be outstanding will be equal to at least 110% of the debt service requirements during that year. The Commission through an amendment to the Master Resolution, which can be amended without bondholder consent, has authorized up to \$6.4 billion outstanding at any time.

Series	Par Value	Date Issued
Series 2008 General Obligation Bonds	\$1,100,000,000	February 28, 2008
Series 2007 General Obligation Bonds	1,006,330,000	June 21, 2007
Series 2006-B General Obligation Bonds	150,000,000	December 13, 2006
Series 2006-A General Obligation Bonds	1,040,275,000	October 31, 2006
Series 2006 General Obligation Bonds	750,000,000	June 8, 2006
Series 2005-A General Obligation Bonds	900,000,000	June 8, 2005
Series 2005-B General Obligation Bonds	100,000,000	June 8, 2005

Source of revenue for debt service – Pursuant to the Enabling Act, the Commission must secure payment of Parity Debt with all or part of the revenues dedicated to and on deposit in the Mobility Fund, and may pledge the full faith and credit of the State to payments due on Parity Debt if revenues in the Mobility Fund are insufficient to make payments due on such obligations. With respect to Parity Debt, the Commission has pledged to the Owners as security for the payment of the Bonds and the previously issued Outstanding Parity Debt, a first lien in the Security, which consists of: (i) all Pledged Revenues; (ii) all Transportation Assistance Bonds in the Portfolio Account and all amounts in the General Account and the Interest and Sinking Account; (iii) any additional account or subaccount within the Mobility Fund that is subsequently established and designated as being included within the Security; (iv) all of the proceeds of the foregoing, including, without limitation, investments thereof; (v) any applicable Credit Agreement to the extent set forth in such Credit Agreement; and (vi) any applicable guarantee of the State. Funds deposited to the Mobility Fund through August 31, 2005 include revenues from Court Fines and Driver License Point Surcharge Fees. On September 1, 2005, the initial revenue sources of the Mobility Fund were redirected to the State of Texas General Revenue Fund. New sources of revenue for the Mobility Fund are being phased into the Mobility Fund. In fiscal year 2006 the sources of revenue were the United We Stand License Plate Fees, Investment Income, and Motor Vehicle Inspection Fees. Driver Record Information Fees were added in fiscal year 2007, Driver License Fees in fiscal year 2008, and Certificate of Title Fees in fiscal year 2009.

With respect to the Series 2005-B Bonds and the Series 2006-B Bonds liquidity facilities have been executed with DEPFA Bank PLC (for Series 2005-B), and State Street Bank and Trust along with California Public Employees' Retirement System (for Series 2006-B), to provide liquidity in the event such bonds are tendered for purchase and such bonds are not remarketed by the remarketing agent. The repayment obligations under the liquidity facilities are parity debt and payable from the same source of revenues as the outstanding parity obligations.

General Obligation Bonds – Principal							
MATURITY	SERIES 2008	SERIES 2007	SERIES 2006-A	SERIES 2006-B	SERIES 2006	SERIES 2005-A	SERIES 2005-B
April 1, 2006	\$	\$	\$	\$	\$	\$21,270,000	\$3,215,000
April 1, 2007			195,000		18,350,000	14,115,000	2,710,000
April 1, 2008		1,145,000	0		12,275,000	14,680,000	2,800,000
April 1, 2009	500,000	250,000	375,000		12,860,000	15,415,000	2,890,000
April 1, 2010	500,000	250,000	1,325,000		13,485,000	16,185,000	2,985,000
April 1, 2011	2,925,000	250,000	2,275,000		14,115,000	16,995,000	3,085,000
April 1, 2012	7,490,000	250,000	3,215,000		14,785,000	17,845,000	3,185,000
April 1, 2013	11,245,000	250,000	4,185,000		15,485,000	18,735,000	3,290,000
April 1, 2014	13,625,000	2,350,000	5,115,000		16,225,000	19,670,000	3,400,000
April 1, 2015	15,645,000	5,130,000	6,045,000		16,940,000	20,655,000	3,510,000
April 1, 2016	17,765,000	8,125,000	6,955,000		17,770,000	21,690,000	3,625,000
April 1, 2017	19,465,000	10,890,000	8,895,000		18,630,000	22,775,000	3,745,000
April 1, 2018	21,935,000	12,420,000	12,490,000		19,560,000	23,660,000	3,870,000
April 1, 2019	23,860,000	14,035,000	16,305,000		20,540,000	24,605,000	4,000,000
April 1, 2020	25,905,000	15,735,000	20,340,000		21,565,000	25,590,000	4,130,000
April 1, 2021	28,045,000	17,540,000	24,655,000		22,645,000	26,640,000	4,265,000
April 1, 2022	30,310,000	19,450,000	29,195,000		23,775,000	27,975,000	4,405,000
April 1, 2023	32,695,000	21,470,000	34,015,000		24,965,000	29,370,000	4,550,000
April 1, 2024	35,880,000	23,595,000	39,105,000		26,215,000	30,840,000	4,700,000
April 1, 2025	38,565,000	25,840,000	44,530,000		27,525,000	32,385,000	4,855,000
April 1, 2026	41,395,000	28,165,000	50,240,000		28,805,000	34,000,000	5,015,000
April 1, 2027	44,375,000	30,605,000	56,035,000		30,245,000	35,700,000	5,180,000
April 1, 2028	47,515,000	33,170,000	62,405,000		31,755,000	37,490,000	5,350,000
April 1, 2029	51,500,000	35,865,000	68,865,000		33,345,000	39,360,000	5,530,000
April 1, 2030	55,015,000	38,725,000	75,975,000		35,010,000	41,330,000	5,710,000
April 1, 2031	58,715,000	41,625,000	83,055,000		36,760,000	49,295,000	
April 1, 2032	62,310,000	44,720,000	90,900,000		38,600,000	51,635,000	
April 1, 2033	66,090,000	47,895,000	99,285,000		40,530,000	54,090,000	
April 1, 2034	70,205,000	51,270,000	108,100,000		42,555,000	56,655,000	
April 1, 2035	75,210,000	66,015,000	86,200,000	19,890,000	44,685,000	59,350,000	
April 1, 2036	79,795,000	135,590,000		130,110,000	30,000,000		
April 1, 2037	121,520,000	273,710,000					
TOTAL	\$1,100,000,000	\$1,006,330,000	\$1,040,275,000	\$150,000,000	\$750,000,000	\$900,000,000	\$100,000,000

*Maturity dates and amounts for bonds subject to mandatory redemption prior to maturity are based on mandatory redemption schedules.

The bonds and the Commission's payment obligations to the Liquidity Facility Issuer under the Liquidity Facility are general obligations of the State, and as provided in the Enabling Act and the Resolution, the full faith and credit of the State is pledged for the payment of the bonds and the Commission's payment obligations to the Liquidity Facility Issuer under the Liquidity Facility in the event that the revenue and money dedicated to and on deposit in the Mobility Fund are insufficient.

The Commission is subject to various covenants imposed by the various bond resolutions. Management believes the Commission was in compliance with all significant covenants as of August 31, 2008.

Redemption

Series 2008 Optional Redemption

The Bonds maturing on and after April 1, 2019 will be subject to redemption on April 1, 2018 or any day thereafter, in whole or in part, at the option of the Commission, in such manner as the Commission may select, at a redemption price of par plus accrued interest to the date fixed for redemption.

Series 2008 Mandatory Redemption

The Bonds maturing on April 1 in the years 2032 and 2037 (the “Term Bonds”) are subject to mandatory sinking fund redemption prior to maturity in the aggregate principal amounts and on the dates set forth in the following table, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to, but not including, the redemption date, as follows.

<u>Term Bonds Maturing April 1, 2032</u>		<u>Term Bonds Maturing April 1, 2037</u>	
<u>Redemption Date</u>		<u>Redemption Date</u>	
<u>(April 1)</u>	<u>Principal Amount</u>	<u>(April 1)</u>	<u>Principal Amount</u>
2031	\$58,715,000	2033	\$66,090,000
2032*	\$62,310,000	2034	\$70,205,000
		2035	\$75,210,000
		2036	\$79,795,000
		2037*	\$121,520,000

* Stated maturity

Series 2007 Optional Redemption

The Bonds maturing on and after April 1, 2018 will be subject to redemption on April 1, 2017 or any day thereafter, in whole or in part, at the option of the Commission, in such manner as the Commission may select, at a redemption price of par plus accrued interest to the date fixed for redemption.

Series 2007 Mandatory Redemption

The Bonds maturing on April 1 in the years 2033 and 2037 (the “Term Bonds”) are subject to mandatory sinking fund redemption prior to maturity in the aggregate principal amounts and on the dates set forth in the following table, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to, but not including, the redemption date, as follows.

<u>Term Bonds Maturing April 1, 2033</u>		<u>Term Bonds Maturing April 1, 2037</u>	
<u>Redemption Date</u>		<u>Redemption Date</u>	
<u>(April 1)</u>	<u>Principal Amount</u>	<u>(April 1)</u>	<u>Principal Amount</u>
2030	\$38,725,000	2034	\$26,270,000
2031	\$41,625,000	2035	\$66,015,000
2032	\$44,720,000	2036	\$135,590,000
2033*	\$47,895,000	2037*	\$273,710,000

* Stated maturity

Series 2006-B Optional Redemption

Daily Mode or Weekly Mode. Variable Rate Bonds in the Daily Mode or Weekly Mode will be subject to redemption at the option of the Commission in whole or in part, on any interest payment date, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date.

Series 2006-B Mandatory Redemption

The Bonds will be subject to redemption prior to maturity on April 1 of such years and in such principal amounts as set forth in the following schedule:

Redemption Date	Principal Amount
<u>(April 1)</u>	<u>Principal Amount</u>
2035	\$19,890,000
2036*	\$130,110,000

* Stated Maturity

Series 2006-A Optional Redemption

The Bonds maturing on and after April 1, 2018 will be subject to redemption on April 1, 2017, or any day thereafter, in whole in part, at the option of the Commission, in such manner as the Commission may select, at a redemption price of par plus accrued interest to the date fixed for redemption.

Series 2006-A Mandatory Redemption

The Bonds maturing on April 1 in the years 2033 and 2035 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to maturity in the aggregate principal amounts and on the dates set forth in the following table, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to, but not including, the redemption dates, as follows:

<u>Term Bonds Maturing April 1, 2033</u>		<u>Term Bonds Maturing April 1, 2035</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
<u>(April 1)</u>		<u>(April 1)</u>	
2031	\$83,055,000	2034	\$108,100,000
2032	\$90,900,000	2035*	\$86,200,000
2033*	\$99,285,000		

* Stated maturity

Series 2006 Optional Redemption

The Bonds maturing on and after April 1, 2017 will be subject to redemption on April 1, 2016, or any day thereafter, in whole in part, at the option of the Commission, in such manner as the Commission may select, at a redemption price of par plus accrued interest to the date fixed for redemption.

Series 2006 Mandatory Redemption

The Bonds maturing on April 1, 2035 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to maturity in the aggregate principal amounts and on the dates set forth in the following table, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to, but not including, the redemption dates, set forth below:

Term Bonds Maturing	
April 1, 2035	
Redemption Date	Principal Amount
<u>(April 1)</u>	
2032	\$38,600,000
2033	40,530,000
2034	42,555,000
2035*	44,685,000
TOTAL	<u><u>\$166,370,000</u></u>

* Stated maturity

Series 2005-A Optional Redemption

The Fixed Rate Bonds maturing on and after April 1, 2016 will be subject to redemption on April 1, 2015 or any day thereafter, in whole or in part, at the option of the Commission, in such manner as the Commission may select, at a redemption price of par plus accrued interest to the date fixed for redemption.

Series 2005-A Mandatory Redemption

The Fixed Rate Bonds maturing on April 1, 2035 (the "Term Bond") are subject to mandatory sinking fund redemption prior to maturity in the aggregate principal amounts and on the dates set forth in the following tables, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to, but not including, the redemption date, as follows:

Term Bonds Maturing April 1, 2035	
Redemption Date (April 1)	Principal Amount
2031	\$49,295,000
2032	51,635,000
2033	54,090,000
2034	56,655,000
2035*	59,350,000
TOTAL	\$271,025,000

* Stated maturity

Series 2005-B Optional Redemption

Daily Mode or Weekly Mode. Variable Rate Bonds in the Daily Mode or Weekly Mode will be subject to redemption at the option of the Commission in whole or in part, on any interest payment date, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date.

Series 2005-B Mandatory Redemption

The Variable Rate Bonds will be subject to mandatory redemption prior to maturity on April 1 of such years and in such principal amounts as set forth in the following schedule:

Date	Principal Amount	Date	Principal Amount
2006	\$3,215,000	2019	4,000,000
2007	2,710,000	2020	4,130,000
2008	2,800,000	2021	4,265,000
2009	2,890,000	2022	4,405,000
2010	2,985,000	2023	4,550,000
2011	3,085,000	2024	4,700,000
2012	3,185,000	2025	4,855,000
2013	3,290,000	2026	5,015,000
2014	3,400,000	2027	5,180,000
2015	3,510,000	2028	5,350,000
2016	3,625,000	2029	5,530,000
2017	3,745,000	2030	5,710,000
2018	3,870,000	Total	<u>\$100,000,000</u>

Redemption in Part

In the event of redemption of less than all the Variable Rate Bonds, the Variable Rate Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar by lot in such manner as the Paying Agent/Registrar in its discretion may determine; provided, however, that the Variable Rate Bonds to be redeemed will be in authorized denominations; and provided, further, that any Variable Rate Bonds which are Purchased Bonds will be redeemed prior to any other Variable Rate Bonds.

Redemption of Purchased Bonds

Purchased Bonds are subject to redemption, at the option of the Commission in whole or in part on any business day, at a redemption price equal to the principal amount of the Purchased Bonds to be redeemed plus accrued interest thereon to the redemption date. Purchased Bonds are also subject to mandatory redemption in accordance with the terms of the Liquidity Facility. If less than all of the Variable Rate Bonds are to be redeemed, the Commission is required to redeem all Purchased Bonds prior to the redemption of any other Variable Rate Bonds.

DERIVATIVES

Pay-Variable, Receive-Variable Interest Rate Swaps

Objective of the Swaps

The Commission is currently a party to three pay-variable, receive-variable Constant Maturity Swaps (CMS basis swaps) associated with the Commission's State of Texas General Obligation Mobility Fund Series 2006-A fixed-rate bonds. The CMS basis swaps exchange the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index (formerly known as Bond Market Association (BMA) Municipal Swap Index) for 69.42% of the 10 year London Interbank Offered Rate (LIBOR) Swap Index. The purpose of the CMS basis swaps is to achieve reduced overall borrowing costs through the assumption of yield curve risk (the difference between short-term and long-term rates) and tax risk (the spread between the SIFMA/BMA tax-exempt rate and the LIBOR taxable rate).

Significant Terms

The \$400 million forward starting CMS basis swap was competitively bid on October 5, 2006 and agreements were executed with the following counterparties on October 6, 2006: JPMorgan Chase Bank, N.A., Goldman Sachs Mitsui Marine Derivative Products, L.P., and Morgan Stanley Capital Services Inc. The notional amount of the JPMorgan Chase CMS basis swap is \$200 million and the notional amounts of the Goldman Sachs and Morgan Stanley CMS basis swaps are each \$100 million. As of August 31, 2008 there was \$1,040,080,000 of Series 2006-A Bonds outstanding and the notional amount of the CMS basis swaps was \$400 million. Effective September 1, 2007, the Commission pays to each swap counterparty an amount equal to the SIFMA/BMA Municipal Swap Index on the notional amount of the swap agreements. In return, each swap counterparty will pay the Commission an amount equal to 69.42 percent of the USD-ISDA-Swap Rate assuming a 10-year Designated Maturity (which is a reported market rate at which 10-year interest rate swaps for a one month U.S. dollar LIBOR rate are entered into from time to time) on the notional amounts of each swap agreement. Regularly scheduled amounts owed by the Commission and the swap counterparties are due under the basis swap agreements on a net basis on the first business day of each month following the effective date of the basis swap agreements, which commenced October 2007 and ends on September 1, 2027. Following certain events, such as a credit rating downgrade of a counterparty, collateral posts may be required according to the credit support annex. In addition, the Commission has the option to terminate any swap transaction, in whole or in part, at any time. In the event that the Commission elects to terminate one or more

swap transactions, amounts due to and from the counterparty/counterparties will be calculated by an external calculation agent.

TERMS OF THE \$400 MILLION CMS BASIS SWAP

<i>Counterparty</i>	<i>Notional Amount</i>	<i>Variable Rate Paid</i>	<i>Variable Rate Received</i>	<i>Fair Value as of 8/31/08</i>	<i>Credit Ratings F/M/S&P</i>
JPMorgan Chase	\$200 million	SIFMA/BMA	69.42% of 10-yr LIBOR	\$2,040,341	AA-/Aa2/AA-
Goldman Sachs	\$100 million	SIFMA/BMA	69.42% of 10-yr LIBOR	1,020,170	NR/Aaa/AAA
Morgan Stanley	\$100 million	SIFMA/BMA	69.42% of 10-yr LIBOR	1,020,170	AA-/A1/A+
	<u>\$400 million</u>			<u>\$4,080,681</u>	

Fair Value

As of August 31, 2008, the fair market values of the CMS basis swaps with JPMorgan Chase, Goldman Sachs, and Morgan Stanley were \$2,040,341, \$1,020,170, and \$1,020,170, respectively for a total market value of \$4,080,681. The valuations are intended to serve as theoretical estimates of the market value of the swaps as of the date indicated.

Risks Involved

- a. 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. 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 amongst three counterparties. CMS basis swap agreements contain provisions for collateral posts by counterparties in the event of a credit rating downgrade. 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, but excluding 1) interest only and principal only securities, and 2) Collateralized Mortgage Obligations, Real Estate Mortgage Investment Conduits and similar derivative securities. Collateral will be held by the Commission and/or its designated custodian.
- b. Interest Rate Risk: Yield curve risk, a form of interest rate risk, exists when short-term and long-term interest rates change causing a change in the shape of the yield curve. Yield curve risk has been assumed in the swap transactions, with the anticipated benefit dependent upon the yield curve's return to a slope more closely related to historical norms. Long-term exposure to yield

curve risk is mitigated through the Commission's unilateral ability to terminate the swaps at any time should the yield curve not return to normal as projected.

- c. Basis Risk: Basis risk is the risk that occurs when derivative transactions incorporate variable interest rates based on different indexes, such as taxable versus tax-exempt indexes. Tax risk, a form of basis risk, is the risk that tax law changes would cause the SIFMA/BMA tax-exempt index to rise higher than the established percentage of the LIBOR taxable index. This change could cause the Commission's net cash outflows to be greater than the net cash inflows, thus reducing the cumulative interest rate savings intended by the swap transaction. To mitigate tax risk, the Commission executes swap agreements where the percentage of LIBOR closely matches historical trading relationships creating a net inflow of payments to the Commission, thus reducing interest cost. The Commission also mitigates tax risk by limiting the portion of the total portfolio that can be exposed to tax risk at a given time.
- d. Termination Risk: Termination risk exists if
 - i. The Commission opts to terminate the swap prior to maturity;
 - ii. The credit rating assigned to the long-term, unenhanced senior lien Texas Mobility Fund Revenue Financing Program Obligations of the Commission is withdrawn, suspended or falls below Baa2/BBB or the Commission fails to have any rated long-term, unenhanced senior lien Texas Mobility Fund Revenue Financing Program Obligations and the Commission is unable or not required to post collateral;
 - iii. The credit rating assigned to the long-term, unsecured, unenhanced, unsubordinated debt of a counterparty is withdrawn, suspended or falls below Baa2/BBB or a counterparty fails to have any rated long-term, unsecured, unenhanced, unsubordinated debt and the counterparty is unable to post collateral; or
 - iv. If the Commission or counterparty fails to perform under the terms of the respective swap agreements.

The Commission mitigates termination risk by maintaining a strong financial standing for its financing programs thus making involuntary termination unlikely. The Commission targets maintenance of sufficient reserves to cover all or part of a termination payment due to a counterparty if the swap is terminated prior to maturity and the swap has a negative fair value. Risk of involuntary termination due to counterparty downgrade is mitigated by a collateral posting requirement, and the use of a diverse group of highly-rated counterparties. Risk of involuntary termination due to a downgrade of the State of Texas below Baa2/BBB is highly unlikely given the General Obligation pledge and Aa1/AA/AA+ ratings supporting the obligations of the Mobility Fund. In addition, the Commission also has the sole option to terminate and cancel any swap transaction, at any time, in whole or in part.

- e. Rollover Risk: Rollover risk is the risk that the duration of the swap transaction does not match the final maturity of the underlying debt issue. This presents risk because once the swap terminates, the Commission will no longer benefit from the anticipated reduced interest cost provided by the swap. The CMS basis swaps present rollover risk because the swaps will terminate on September 1, 2027 and the final maturity of the associated debt series is April 1, 2035. The Commission accepted rollover risk because extending the term of the swap agreements to match the maturity of the bonds would have continued counterparty credit risk for only marginal projected benefit.
- f. Market-access Risk: Market-access risk is the risk that an entity will not be able to enter credit markets or that credit will become more costly. The CMS basis swap does not present market-access risk because the transaction does not require access to the credit market.

B. Associated Debt

The CMS basis swaps are associated with the Commission’s State of Texas General Obligation Mobility Fund Series 2006-A fixed-rate bonds. The debt service schedule for the bonds is shown in the table below. The effective date for the exchange of payments commencement on the CMS basis swaps was September 1, 2007. Projected cash flows according to assumptions are listed in the table below.

Debt Service Schedule				
State of Texas General Obligation Mobility Fund Series 2006-A Fixed-Rate Bonds			Constant Maturity Swaps	
FY	PRINCIPAL	INTEREST	PAYMENTS*	NET DEBT SERVICE
2009	\$375,000	49,794,500	(5,060,000)	45,109,500
2010	1,325,000	49,779,500	(5,060,000)	46,044,500
2011	2,275,000	49,726,500	(5,060,000)	46,941,500
2012	3,215,000	49,635,500	(5,060,000)	47,790,500
2013	4,185,000	49,506,900	(5,060,000)	48,631,900
2014-2018	39,500,000	244,152,550	(25,300,000)	258,352,550
2019-2023	124,510,000	227,491,000	(25,300,000)	326,701,000
2024-2028	252,315,000	184,776,900	(20,661,667)	416,430,233
2029-2033	418,080,000	109,458,000		527,538,000
2034-2038	194,300,000	12,622,500		206,922,500
	\$1,040,080,000	\$1,026,943,850	\$(96,561,667)	\$1,970,462,183

*Swap payments projected using the historical average annual spread differential of 1.265%, between BMA and 69.42% of 10-Year USD-ISDA-Swap Rate since 1985.

NOTE 6 – DUE TO THE STATE HIGHWAY FUND

As of August 31, 2008, the Mobility Fund is reporting Due To the State Highway Fund in the amount of \$73,091,022. This represents accrued expenses which were payable to the State Highway Fund.

NOTE 7- EMPLOYEES' RETIREMENT PLANS

The State has joint contributory retirement plans for virtually all its employees. The Department participates in the plans administered by the Employees Retirement System of Texas (“ERS”) by making monthly payments based on actuarial calculations. Future pension costs are the liabilities of the ERS. ERS does not account for each State agency separately. Annual financial reports prepared by the ERS include audited financial statements and actuarial assumptions and conclusions. The Mobility Fund does not have any employees. The Department provides all accounting and administrative services. The Mobility Fund does not have any contributions to the plan.

NOTE 8 – CONTINUANCE SUBJECT TO REVIEW

The Department is currently subject to a continuance review. Under the Texas Sunset Act, the Department will be abolished effective September 1, 2009, unless continued in existence by the 81st Legislature as provided by the Act. If abolished, the Department may continue until September 1, 2010 to close out its operations. In the event that the Department is abolished pursuant to the Texas Sunset Act or other law, Section 325.017(f), Texas Government Code, acknowledges that such action will not alter the obligation of the State to pay bonded indebtedness and all other obligations of the abolished agency. The Mobility Fund is a fund of the Department, as such, is subject to the Texas Sunset Act.

NOTE 9 - RISK FINANCING & RELATED INSURANCE

The Mobility Fund is established in the Treasury Operations Division – Comptroller’s office (Treasury) and is managed by the Texas Department of Transportation (Department). The fund does not have any employees or equipment. The Department provides all accounting and administrative services. In addition, the Department’s risk financing and insurance programs apply to the Mobility Fund.

NOTE 10 – ADJUSTMENTS TO FUND BALANCE/NET ASSETS

During fiscal year 2008 certain accounting changes and adjustments were made which required the restatement of fund balances as shown and discussed below.

Restatements to Fund Balances/Net Assets			
	As Previously Reported	Restatements	As Restated
Governmental Funds			
FUND BALANCES, August 31, 2006	\$ <u>310,178,598</u>	\$ <u>26,776,897</u>	\$ <u>336,955,495</u>
Governmental Activities			
NET ASSETS, August 31, 2006	<u>(1,415,336,402)</u>	<u>(54,033,592)</u>	<u>(1,469,369,994)</u>
Total Governmental Funds and Government-wide Activities	\$ <u>(1,105,157,804)</u>	\$ <u>(27,256,695)</u>	\$ <u>(1,132,414,499)</u>

Restatements by Activity		
A. Interest Payable – FY 2006	\$	26,776,897
Total Governmental Funds Restatement		<u>26,776,897</u>
B. Bond Premium/Discount on Bonds Issued		(68,042,410)
C. Amortization of Bond Premium/Discount		5,892,183
D. Bond Issue Costs		8,574,963
E. Amortization of Bond Issue Costs		<u>(458,328)</u>
Total Governmental Activities Restatement	\$	<u>(54,033,592)</u>
Total Restatements	\$	<u>(27,256,695)</u>

A. This restatement is necessary to correct an accrual of debt service expense made in error in the prior period that resulted in the overstatement of interest expenditures. Governmental fund liabilities and expenditures for debt service on general long term debt are recognized when due. Subsequent year debt service requirements are appropriately accounted for as expenditures in the year of payment.

B. – E. These restatements are to adjust assets and liabilities for bond premium, discount, and bond issue costs which were not capitalized or amortized in prior periods. The difference between the present value and the face amount of a bond issue should be capitalized as discount or premium and amortized as interest expense. Bond issue costs associated with debt issues should be shown as a deferred charge and amortized over the remaining life of the bonds.

NOTE 11 – SUBSEQUENT EVENTS

Since the conclusion of fiscal year 2008, adverse events in the financial markets led to a period where volatile and higher than historic interest rates were borne by the variable rate bonds. Additionally, the credit rating of a standby bond purchase provider was downgraded, which has resulted in sustained higher than comparable market rates on the Texas Mobility Fund Series 2005-B variable rate bonds, as well as tenders and failed remarketings of a portion of those bonds outstanding. Remedies to resolve the status of the bank held bonds are being pursued and are expected to be successful due to the high quality of the underlying general obligation credit rating of the State of Texas that the bonds bear.

Also due to turbulence in the financial markets and the resulting volatility in short term interest rates, the mark-to-market value of the swaps has moved fairly dramatically in a short period of time. The same has been true for the exchange of payments on the swaps; however the duration of the rate volatility was short and short term rates have stabilized to more what historic experience has been. Additionally, a credit rating downgrade was experienced by one of the swap counterparties, which makes that firm ineligible to participate in future derivative transactions with the Commission until their ratings are upgraded.

Supplementary Schedule

Summary of Project Expenditures Funded by the Texas Mobility Fund by County for Fiscal Year 2008

<u>County</u>	<u>Preliminary Engineering</u>	<u>Construction</u>	<u>Construction Engineering</u>	<u>Right-of-Way</u>	<u>Total Expenditures</u>
Anderson	\$ 640,213	\$ -	\$ -	\$ 3,820,148	\$ 4,460,361
Angelina	114,272	-	-	3,102,775	3,217,047
Aransas	-	-	-	631	631
Archer	123,665	-	-	88,653	212,318
Austin	519,060	-	-	-	519,060
Bastrop	(8,050)	1,830,988	85,844	116,559	2,025,341
Baylor	86,715	11,273,371	442,348	365,130	12,167,564
Bee	10,250	11,075,533	252,947	3,310	11,342,040
Bell	907,980	31,907,336	1,017,443	3,752,427	37,585,186
Bexar	2,331,342	101,133,343	4,591,414	2,072,823	110,128,922
Bowie	655,858	8,643,205	546,486	972,404	10,817,953
Brazoria	24,529	1,414,074	144,782	1,802,085	3,385,470
Brazos	75,884	12,127,472	610,597	818,537	13,632,490
Brooks	181,823	-	-	-	181,823
Burleson	-	1,893,984	95,598	536,796	2,526,378
Burnet	-	-	-	17,399	17,399
Caldwell	-	-	-	68,169	68,169
Calhoun	-	71,717	67	48,510	120,294
Callahan	-	-	-	87,018	87,018
Cameron	775,438	17,020,373	711,886	316,932	18,824,629
Carson	-	-	-	15,707	15,707
Cass	6,816	11,641,840	432,120	1,690	12,082,466
Chambers	799,338	24,089,052	529,002	-	25,417,392
Cherokee	586,468	-	-	154,233	740,701
Childress	-	-	-	14,948	14,948
Collin	110,635	6,561,436	330,676	8,872,661	15,875,408
Colorado	109,616	-	-	-	109,616
Comal	1,006,669	590,599	57,306	39,533	1,694,107
Comanche	1,416	-	-	-	1,416
Concho	1,230	-	-	372,361	373,591
Cooke	133,273	-	-	623,813	757,086
Coryell	999	3,692,521	211,625	344,840	4,249,985
Dallam	450	2,663,144	111,510	904,625	3,679,729
Dallas	6,377,354	58,602,614	2,967,303	108,441,605	176,388,876
Denton	8,076,519	31,250,613	1,301,313	11,522	40,639,967
Dewitt	-	-	-	716	716
Eastland	-	-	-	6,452	6,452
Ector	16,708	-	-	-	16,708
El Paso	694,061	113,257	38,603	1,630,140	2,476,061
Ellis	-	15,597,314	564,075	-	16,161,389
Erath	86,638	-	-	449,788	536,426
Falls	23,527	951,016	70,948	872,887	1,918,378
Fannin	-	-	-	507,749	507,749
Fort Bend	47,632	30,411,581	1,274,330	849,771	32,583,314
Galveston	47,637	11,739,822	607,236	-	12,394,695
Gillespie	4,300	-	-	-	4,300
Glasscock	48,985	-	-	-	48,985
Goliad	2,535	10,582,349	518,569	-	11,103,453
Grayson	-	-	-	318,106	318,106
Gregg	308,612	-	-	199,710	508,322
Grimes	32,479	-	-	-	32,479
Guadalupe	156,766	-	-	-	156,766
Hardin	72,151	-	-	3,472	75,623
Harris	(1,211,081)	79,867,902	6,819,258	30,368,045	115,844,124

Supplementary Schedule
Summary of Project Expenditures funded by the Texas Mobility Fund by County for
Fiscal Year 2008 (Continued)

<u>County</u>	<u>Preliminary Engineering</u>	<u>Construction</u>	<u>Construction Engineering</u>	<u>Right-of-Way</u>	<u>Total Expenditures</u>
Harrison	-	1,035,063	74,834	389,318	1,499,215
Hartley	39,837	-	-	-	39,837
Haskell	-	545,919	27,071	2,869	575,859
Hays	332,287	-	-	26,339	358,626
Henderson	153,049	16,119,974	443,672	2,292,790	19,009,485
Hidalgo	357,312	24,153,706	700,060	3,079,108	28,290,186
Hill	717,874	13,705,283	562,090	931,323	15,916,570
Houston	20,954	-	-	48,862	69,816
Hunt	407,617	-	65,147	3,526,067	3,998,831
Jasper	136,377	11,685,375	302,863	108,502	12,233,117
Jefferson	-	647,385	38,105	-	685,490
Johnson	1,786,446	-	-	1,120,689	2,907,135
Kaufman	171,810	-	-	-	171,810
Kerr	40,412	794,903	13,435	-	848,750
Kimble	101,653	-	-	-	101,653
Kinney	369,844	-	-	-	369,844
Knox	-	519,124	47,368	-	566,492
Lampasas	2,013	-	-	185,268	187,281
Lavaca	396	-	-	3,090	3,486
Liberty	360,578	2,244,973	67,126	348,775	3,021,452
Limestone	-	-	-	219,533	219,533
Live Oak	199,237	7,255,865	532,247	342,344	8,329,693
Lubbock	(26,282)	20,123,243	1,189,530	-	21,286,491
Madison	1,137	-	-	-	1,137
Marion	6,614	9,310,533	334,339	1,733	9,653,219
Matagorda	-	-	-	18,057	18,057
Maverick	1,668,915	-	-	3,219,700	4,888,615
McCulloch	5,281	-	-	-	5,281
McLennan	1,850,862	20,735,870	617,050	3,896,313	27,100,095
Menard	22,236	-	-	57,666	79,902
Midland	173,587	13,500	3,549	-	190,636
Milam	124,117	-	-	-	124,117
Montgomery	929,178	73,785,212	2,070,143	1,746,532	78,531,065
Nacogdoches	9,779	-	-	150,566	160,345
Navarro	-	14,067,169	521,810	-	14,588,979
Nueces	482,046	2,012,384	285,418	-	2,779,848
Orange	6,733	8,340,259	284,579	848,919	9,480,490
Pecos	5,999	-	-	-	5,999
Potter	418	1,657,353	102,179	11,637	1,771,587
Rains	16,653	-	-	3,372	20,025
Red River	-	79,043	656	-	79,699
Robertson	28,143	4,295,876	201,814	353,564	4,879,397
Rockwall	176,077	13,314,776	851,006	646,344	14,988,203
San Jacinto	16,310	-	-	693,897	710,207
San Patricio	4,037	17,580,773	497,375	1,084,002	19,166,187
Shelby	-	-	-	569	569
Smith	282,670	6,634,347	919,053	2,309,791	10,145,861
Starr	369,989	-	-	-	369,989
Sterling	5,226	-	-	545,607	550,833
Tarrant	5,952,887	6,753,347	293,181	5,561,906	18,561,321
Taylor	-	8,252,546	326,337	92,767	8,671,650
Tom Green	166	8,071,320	472,788	-	8,544,274
Travis	6,462,298	71,815,047	3,291,238	17,283,274	98,851,857
Tyler	151,382	-	-	820,166	971,548
Val Verde	346,408	-	-	-	346,408
Van Zandt	-	24,033	985	-	25,018

Supplementary Schedule
Summary of Project Expenditures funded by the Texas Mobility fund by County for
Fiscal Year 2008 (Concluded)

<u>County</u>	<u>Preliminary Engineering</u>	<u>Construction</u>	<u>Construction Engineering</u>	<u>Right-of-Way</u>	<u>Total Expenditures</u>
Victoria	99,015	3,900,239	133,602	18,632	4,151,488
Walker	763	1,132,255	96,327	-	1,229,345
Waller	32,447	-	-	-	32,447
Webb	1,451,340	14,369,799	686,646	92,639	16,600,424
Wichita	-	4,968,389	317,564	-	5,285,953
Willacy	773	5,690,522	148,213	-	5,839,508
Williamson	366,529	580,580	10,590	2,197,633	3,155,332
Wilson	-	-	24	-	24
Wise	273,690	2,637,276	370,656	1,606,487	4,888,109
Wood	366,934	1,663,275	54,271	95,018	2,179,498
Zapata	363,918	3,734,289	139,833	-	4,238,040
Totals	\$ 51,206,683	\$ 890,997,281	\$ 41,428,060	\$ 228,976,348	\$ 1,212,608,372

- Totals may vary from Operating Transfers Out due to rounding.
- Negative balances reflect conversion of projects to Special Revenue Fund 6 funding.
- A detailed listing by project may be found at http://www.dot.state.tx.us/services/finance/mobility_fund.htm

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125 East 11th Street, Austin, TX 78701
www.dot.state.tx.us

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