

TEXAS TRANSPORTATION COMMISSION

ALL Counties

MINUTE ORDER

Page 1 of 1

ALL Districts

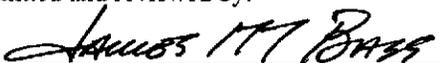
Article III, Section 49-k of the Texas Constitution created the Texas Mobility Fund (Mobility Fund) within the treasury of the State of Texas (state) to be administered by the Texas Transportation Commission (commission) as a revolving fund to (i) provide a method of financing the construction, reconstruction, acquisition, and expansion of state highways, including costs of any necessary design and costs of acquisition of rights of way, as determined by the commission in accordance with standards and procedures established by law and (ii) provide participation by the state 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 the procedures, standards, and limitations established by law.

Transportation Code, Chapter 201 and other applicable law authorizes the commission to issue obligations secured by and payable from a pledge of and lien on all or part of the moneys in the Mobility Fund in the name and on behalf of the state and the Texas Department of Transportation (department) in multiple series and issues from time to time for one or more of the following purposes: (i) to pay all or part of the costs of constructing, reconstructing, acquiring, and expanding state highways, including any necessary design and acquisition of rights of way, in the manner and locations determined by the commission that, according to conclusive findings of the commission, have an expected useful life, without material repair, of not less than 10 years; (ii) to provide participation by the state in the payment of part of the costs of constructing and providing publicly owned toll roads and other public transportation projects that are determined by the commission to be in the best interests of the state in its major goal of improving the mobility of the residents of the state; (iii) to create debt service reserve accounts; (iv) to pay interest on obligations for a period of not longer than two years; (v) to refund or cancel outstanding obligations; and (vi) to pay the commission's costs of issuance. The commission also authorized the execution of a Master Resolution and two supplemental Master Resolutions (Resolution) to secure general obligation bonds for the Mobility Fund Revenue Financing Program. The Resolution dated May 4, 2005 prescribes the terms, provisions and covenants related to the issuance of general obligation bonds.

Under Section 5 (j) of the Resolution, the commission covenants to prepare, or cause to be prepared, no more than 120 days after the last day of each fiscal year, a financial report of the Mobility Fund. The financial report is required to be prepared in accordance with generally accepted accounting principles and certified by a Certified Public Accountant. Audited financial statements, contained in the attached Exhibit A, have been prepared for the year ended August 31, 2006 and for the period from inception through August 31, 2005.

IT IS THEREFORE ORDERED by the commission that the audited financial statements of the Mobility Fund, attached as Exhibit A, are accepted.

Submitted and reviewed by:


Chief Financial Officer

Recommended by:


Executive Director

110786 DEC 14 06

Minute Number Date Passed

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, 2006 and
From Inception through August 31, 2005**

Texas Mobility Fund

FINANCIAL STATEMENTS

**For the year ended August 31, 2006 and
From Inception through August 31, 2005**

Prepared by:
Finance Division of the Texas Department of Transportation

Texas Mobility Fund

Financial Statements

For the year ended August 31, 2006 and
For the period from Inception through August 31, 2005

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/from Other Funds	32
Note 7 – Employees' Retirement Plans	32
Note 8 – Continuance Subject to Review	32
Note 9 – Risk Financing & Related Insurance	32
Note 10 – Subsequent Events	32

INTRODUCTORY SECTION

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December 1, 2006

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 Third Supplemental Master Resolutions (collectively, the "*Resolution*") requires the Texas Transportation Commission (the "*Commission*") to provide audited annual financial statements of the Texas Mobility Fund. Pursuant to this requirement, we hereby present to you the Financial Statements for the Texas Mobility Fund for the year ended August 31, 2006 and for comparative purposes, for the period from the Texas Mobility Fund's inception on November 1, 2001 through August 31, 2005. This report has been prepared by the Accounting Management staff in the Finance Division of the Texas Department of Transportation.

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 Texas Mobility Fund (the "*Mobility Fund*") in conformity with Generally Accepted Accounting Principles ("*GAAP*"). Because the cost of internal controls should not outweigh their benefits, the Texas Department of Transportation'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.

Auditors from the Texas State Auditor's Office performed an independent audit of the Mobility Fund's basic financial statements for the year ended August 31, 2006 and for the period from inception through August 31, 2005. The auditors issued an unqualified opinion on the financial statements in accordance with GAAP.

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 Texas Department of Transportation (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 28 divisions/offices and currently has an annual budget of approximately \$7.7 billion and a staff of approximately 15,000 which manage approximately \$5.4 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 Texas Mobility Fund. In particular, Article III, Section 49-k of the Texas Constitution (the "*Constitutional Provision*") created the Texas Mobility Fund within the treasury of the State of Texas. The creation of the Mobility Fund allows the Commission 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. Moneys 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 Texas 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 quality of our transportation system.

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, 2006, the Department has issued \$1.75 billion in bonds and has received approval from the Bond Review Board to issue an additional \$2.25 billion in obligations.

Information useful in assessing the government's financial condition

Cash Management policies and practices: In 2003, the 78th Legislature dedicated 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 – moneys 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 – moneys in this account shall be 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 shall remain in the Bond Proceeds Account until expended to accomplish the purposes for which such Parity Debt was issued.
5. 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.

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.

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 self-insurance and safety programs, which are the responsibility of the Department's Occupational Safety Division.

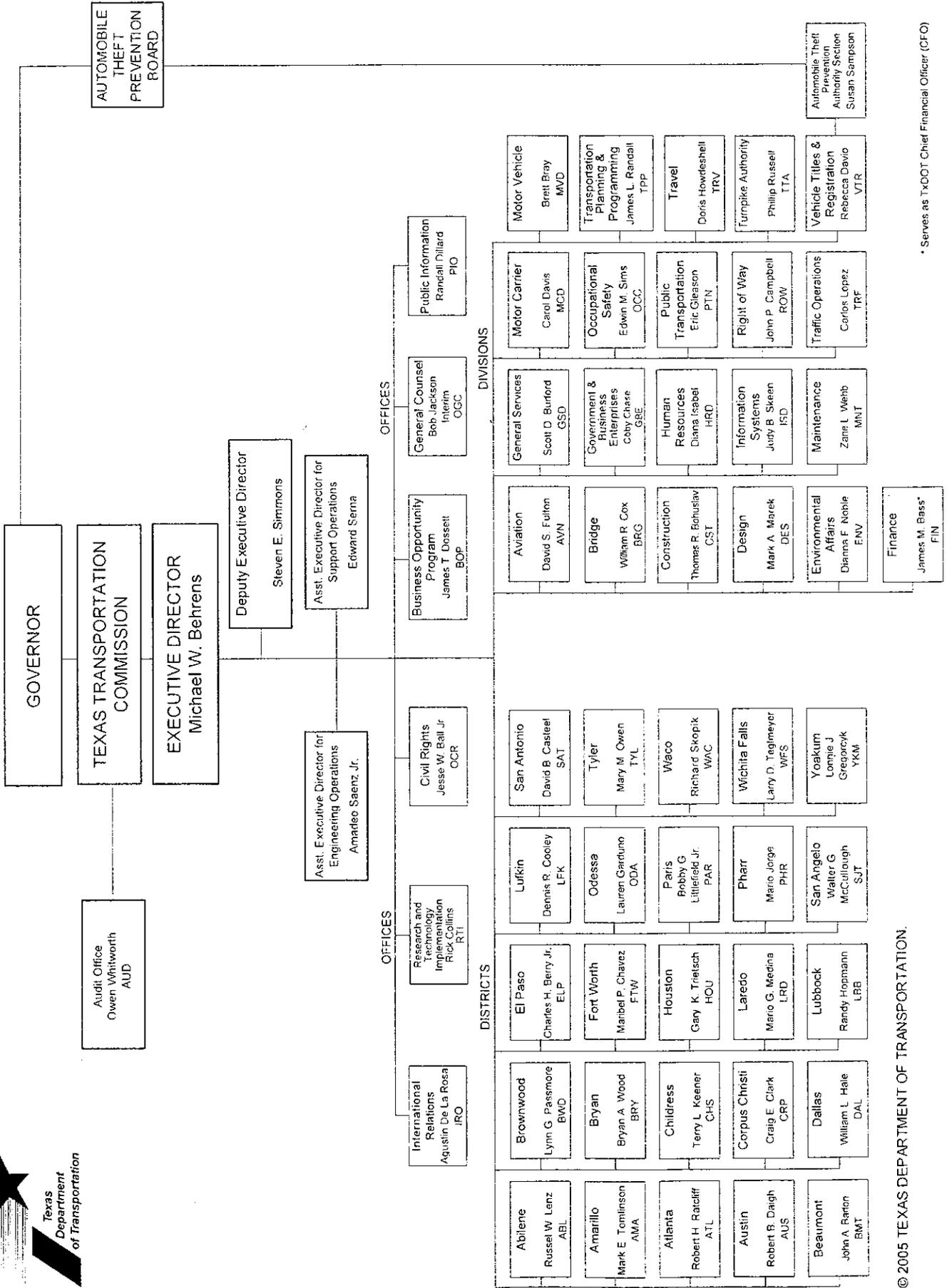
Pension Benefits and Postemployment benefits: The state has joint contributory retirement plans for virtually all its employees. The Department participates in the plans administered by the Employees Retirement System of Texas ("ERS") by making monthly payments based on actuarial calculations. Future pension costs are liabilities for the retirement system. ERS does not account for each state agency separately. Annual financial reports prepared by the system include audited financial statements and actuarial assumptions and conclusions.

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.



Michael W. Behrens, P.E.
Executive Director



**Commission and Key Personnel
As of August 31, 2006**

TEXAS TRANSPORTATION COMMISSION

RIC WILLIAMSONChair
Weatherford

JOHN W. JOHNSONCommissioner
Houston

HOPE ANDRADE.....Commissioner
San Antonio

TED HOUGHTONCommissioner
El Paso

VACANTCommissioner

TEXAS DEPARTMENT OF TRANSPORTATION

MICHAEL W. BEHRENS, P.E..... Executive Director

STEVEN E. SIMMONS, P.E. Deputy Executive Director

AMADEO SAENZ, Jr., P.E..... Assist. Exec. Dir., Engineering Operations

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

JAMES M. BASS Chief Financial Officer

BOB JACKSONInterim General Counsel

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Members of the Texas Transportation Commission
Mr. Michael W. Behrens, P.E., Executive Director, Texas Department of Transportation

We have audited the accompanying basic financial statements of the Texas Mobility Fund (Fund) as of and for the fiscal year ended August 31, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The summarized comparative information for the prior period has been derived from the Fund's financial statements for the period from the Fund's inception on November 1, 2001, through August 31, 2005, and, in our report dated October 28, 2005, 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 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 opinion.

As discussed in Notes 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 State of Texas as of August 31, 2006, and the changes in the State's financial position for the reporting period then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of August 31, 2006, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 an opinion on the Fund's financial statements taken as a whole. We did not audit the introductory section and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of the Resolution for the Texas Mobility Fund General Obligation Bonds and other laws and regulations. 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 read in conjunction with this report in considering the results of our audit.



John Keel, CPA
State Auditor

December 1, 2006

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, 2006 and with comparative information presented for the period from inception through August 31, 2005. These financial statements reflect the financial position of the Texas 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 Texas Mobility Fund to advance highways and other public transportation projects.
- In 2003, the 78th Legislature dedicated revenue from transportation-related fees to the fund.
- In May 2005, the Texas Bond Review Board approved \$4 billion of bonds through one or more issuances from the Mobility Fund.
- As of August, 2006, the Mobility Fund has received \$201,230,284 in dedicated revenue.
- As of August, 2006, the Commission has issued \$1.75 billion in bonds and has been approved by the Texas Bond Review Board to issue an additional \$2.25 billion in obligations.
- The Department transferred \$1,300,757,489 and \$342,182,776 during fiscal years 2006 and 2005, respectively to the State Highway Fund to accelerate various transportation projects.

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 attempt 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 20-33 of this report.

Entity-Wide Financial Analysis

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

<u>CONDENSED NET ASSETS</u>		
	<u>FY 2006</u>	<u>FY 2005</u>
Restricted and other assets	\$ 535,795,121	\$ 832,750,220
Capital Assets	0	0
Total Assets	\$535,795,121	\$832,750,220.00
Long-term Liabilities	(1,725,515,000)	(1,000,000,000)
Other Liabilities	(225,616,523)	(24,483,217)
Total Liabilities	(1,951,131,523)	(1,024,483,217)
Net assets:		
Restricted for: Mobility Projects	(1,415,336,402)	(191,732,997)
Total Net Assets	\$ (1,415,336,402)	\$ (191,732,997)

Changes in Net Assets

The total net liabilities of the Mobility fund exceed its assets by \$1,415,336,402 and \$191,732,997 for the years ended August 31, 2006 and 2005, respectively. The primary reason for this is that the Mobility Fund issued \$.75 billion in debt in fiscal year 2006 and \$1 billion in debt in fiscal year 2005 and transferred out \$1,300,757,489 and \$342,182,776 to the State Highway Fund in 2006 and 2005, respectively to speed up the completion of various transportation projects. 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 and for the transportation fees dedicated to the fund to pay off this debt over a thirty-year period. As shown on the changes in condensed net assets on the following page, the Mobility Fund recognized fee revenue of about \$84 million in fiscal year 2006 and \$117 million for the period from inception through August 31, 2005.

CONDENSED CHANGES IN NET ASSETS

Revenues	<u>FY 2006</u>	<u>FY 2005</u>
Charges for Services-Violations, Fines & Penalties	\$ 84,287,959	\$ 116,942,325
Interest & Investment Income (Operating Grants and Contributions)	27,985,334	6,176,192
Operating G & C-Other Operating Grant Revenue	<u>1</u>	<u>1</u>
Total Revenues	<u>112,273,293</u>	<u>123,118,518</u>
Expenses		
Interest on State Bonds	(54,691,156)	(11,587,486)
Other Financing Fees	(274,009)	(202,194)
Bond Issue Costs	(2,941,769)	(5,633,194)
Professional Fees & Services	(472,049)	
Other	(28,501)	
Total Expenses	<u>(58,407,484)</u>	<u>(17,422,874)</u>
Increase in net assets before transfers	<u>53,865,809</u>	<u>105,695,644</u>
Premium on Bonds Issued	23,288,275	45,033,347
Discount on Bonds Issued		(279,212)
Operating Transfer Out	(1,300,757,489)	(342,182,776)
Change in Net Assets	<u>(1,223,603,405)</u>	<u>(191,732,997)</u>
Total Net Assets - beginning	<u>(191,732,997)</u>	<u>0</u>
Total Net Assets – ending	<u>\$ (1,415,336,402)</u>	<u>\$ (191,732,997)</u>

Financial Analysis of the Mobility Fund's Fund Financial Statements

The Mobility Fund's fund financial statements show a fund balance of \$310,178,598 and \$808,267,003 for the periods ended August 31, 2006 and 2005, respectively. This is in contrast to the Statements of Net Assets which show net assets of a negative \$1,415,336,402 in 2006 and \$191,732,997 in 2005. 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 \$1.726 billion in long term debt as of the end of August 31, 2006 and \$1 billion in long term debt as of the end of August 31, 2005 that is not shown on the Fund Financial Statements which are more concerned with current resources.

Debt Administration

Long-term debt. As of August 31, 2006, the Mobility Fund had total long-term debt outstanding of \$1,725,515,000.

Bonds Payable	2006	2005
Series 2005-A Fixed Rate Interest Bonds	878,730,000	900,000,000
Series 2005-B Variable Rate Interest Bonds	96,785,000	100,000,000
Series 2006 Fixed Rate Interest Bonds	750,000,000	
Total Long-term Debt	1,725,515,000	1,000,000,000

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. Generally Accepted Accounting Principles ("GAAP") require that the other financing source reported for the issuance of long term debt be equal to the face value of the debt. The Mobility fund issued the Series 2006 bonds with a premium of \$23,288,275 and the Series 2005 bonds with a premium of \$45,033,347 and a discount of \$279,212. The premium and discount are reported as other financing sources and uses in accordance with GAAP.

Bond Credit Ratings

Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Ratings Services have assigned ratings of "AA+," "Aa1," and "AA," respectively, to the Series 2006 General Obligation Mobility Fund Bonds. Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Ratings Services have assigned ratings of "AA+," "Aa1," and "AA," respectively, to the Series 2005 Fixed Rate Bonds. Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Ratings Services has assigned ratings of "AA+/"F1+," "Aa1/"VMIG1," and "AA/"A-1+" respectively, to the Series 2005 Variable Rate 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, 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

Statements of Net Assets and Government Fund Balance Sheet

August 31, 2006 and 2005

	<u>Special Revenue Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets 8/31/2006</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents in State Treasury	\$ 535,795,121	\$	\$ 535,795,121
Total Current Assets	<u>535,795,121</u>	<u>0</u>	<u>535,795,121</u>
TOTAL ASSETS	<u>535,795,121</u>	<u>0</u>	<u>535,795,121</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	956,485		956,485
Interest Payable	26,776,897		26,776,897
Due to Texas Department of Transportation	197,883,141		197,883,141
General Obligation Bonds Payable		35,175,000	35,175,000
Total Current Liabilities	<u>225,616,523</u>	<u>35,175,000</u>	<u>260,791,523</u>
Non-Current Liabilities:			
General Obligation Bonds Payable		1,690,340,000	1,690,340,000
Total Non-Current Liabilities	<u>0</u>	<u>1,690,340,000</u>	<u>1,690,340,000</u>
TOTAL LIABILITIES	<u>225,616,523</u>	<u>1,725,515,000</u>	<u>1,951,131,523</u>
FUND BALANCES/NET ASSETS			
Unreserved:	<u>310,178,598</u>	<u>(310,178,598)</u>	
TOTAL FUND BALANCES	<u>310,178,598</u>	<u>(310,178,598)</u>	
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 535,795,121</u>		
Net Assets:			
Restricted for Mobility Projects		<u>(1,415,336,402)</u>	<u>(1,415,336,402)</u>
Total Net Assets		<u>\$ (1,725,515,000)</u>	<u>\$ (1,415,336,402)</u>

	<u>Special Revenue Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets 8/31/2005</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents in State Treasury	\$ 832,750,220	\$	\$ 832,750,220
Total Current Assets	<u>832,750,220</u>	<u>0</u>	<u>832,750,220</u>
TOTAL ASSETS	<u>832,750,220</u>	<u>0</u>	<u>832,750,220</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	1,639,328		1,639,328
Interest Payable	10,751,276		10,751,276
Due to Texas Department of Transportation	12,092,613		12,092,613
General Obligation Bonds Payable		24,485,000	24,485,000
Total Current Liabilities	<u>24,483,217</u>	<u>24,485,000</u>	<u>48,968,217</u>
Non-Current Liabilities:			
General Obligation Bonds Payable		975,515,000	975,515,000
Total Non-Current Liabilities	<u>0</u>	<u>975,515,000</u>	<u>975,515,000</u>
TOTAL LIABILITIES	<u>24,483,217</u>	<u>1,000,000,000</u>	<u>1,024,483,217</u>
FUND BALANCES/NET ASSETS			
Unreserved:	<u>808,267,003</u>	<u>(808,267,003)</u>	
TOTAL FUND BALANCES	<u>808,267,003</u>	<u>(808,267,003)</u>	
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 832,750,220</u>		
Net Assets:			
Restricted for Mobility Projects		<u>(191,732,997)</u>	<u>(191,732,997)</u>
Total Net Assets		<u>\$ (1,000,000,000)</u>	<u>\$ (191,732,997)</u>

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

EXHIBIT II

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

For the year ended August 31, 2006 and for the period from Inception through August 31, 2005

	Special Revenue Fund	Adjustments	Statement of Activities
REVENUES			
Charges for Services -	\$	\$	\$
Violations, Fines & Penalties	84,287,959		84,287,959
Interest and Investment Income (Operating Grants and Contributions)	27,985,334		27,985,334
Total Revenues	112,273,293	0	112,273,293
EXPENDITURES/EXPENSES			
Professional Fees & Services	472,049		472,049
Debt Service:			
Principal	24,485,000	(24,485,000)	0
Interest	54,691,156		54,691,156
Bond Issue Costs	2,941,769		2,941,769
Other Financing Fees	274,009		274,009
Other Expenditures/Expenses	28,501		28,501
Total Expenditures/Expenses	82,892,484	(24,485,000)	58,407,484
Excess (Deficit) of Revenues over Expenditures	29,380,809	24,485,000	53,865,809
OTHER FINANCING SOURCES (USES):			
Bond and Note Proceeds	750,000,000	(750,000,000)	0
Premium on Bonds Issued	23,288,275		23,288,275
Operating Transfer Out	(1,300,757,489)		(1,300,757,489)
TOTAL OTHER FINANCING SOURCES (USES):	(527,469,214)	(750,000,000)	(1,277,469,214)
Change in Fund Balance/Net Assets	(498,088,405)	(725,515,000)	(1,223,603,405)
Fund Balance/Net Assets:			
FUND BALANCES, August 31, 2005	808,267,003	(1,000,000,000)	(191,732,997)
FUND BALANCES, August 31, 2006	\$ 310,178,598	\$ (1,725,515,000)	\$ (1,415,336,402)

	Special Revenue Fund	Adjustments	Statement of Activities
REVENUES			
Charges for Services -	\$	\$	\$
Violations, Fines & Penalties	116,942,325		116,942,325
Interest and Investment Income (Operating Grants and Contributions)	6,176,192		6,176,192
Operating G & C - Other Operating Grant Revenue	1		1
Total Revenues	123,118,518	0	123,118,518
EXPENDITURES/EXPENSES			
Debt Service:			
Interest	11,587,486		11,587,486
Bond Issue Costs	5,633,194		5,633,194
Other Financing Fees	202,194		202,194
Total Expenditures/Expenses	17,422,874	0	17,422,874
Excess (Deficit) of Revenues over Expenditures	105,695,644	0	105,695,644
OTHER FINANCING SOURCES (USES):			
Bond and Note Proceeds	1,000,000,000	(1,000,000,000)	0
Discount on Bonds Issued	(279,212)		(279,212)
Premium on Bonds Issued	45,033,347		45,033,347
Operating Transfer Out	(342,182,776)		(342,182,776)
TOTAL OTHER FINANCING SOURCES (USES):	702,571,359	(1,000,000,000)	(297,428,641)
Change in Fund Balance/Net Assets	808,267,003	(1,000,000,000)	(191,732,997)
Fund Balance/Net Assets:			
At Inception	0	0	0
FUND BALANCES, August 31, 2005	\$ 808,267,003	\$ (1,000,000,000)	\$ (191,732,997)

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 one functional divisions, seven 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 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 Fund. The Legislature has dedicated to the Fund certain revenues of the State.

The Commission issued \$750,000,000 par value of general obligation bonds on June 8, 2006 and \$1,000,000,000 par value of general obligation bonds on June 8, 2005. These proceeds will be 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, 2006 and with comparative information presented for the period from inception through August 31, 2005. Voter approval in 2001 of Proposition 15 (Texas constitutional amendment) and enactment of legislation by the 77th Legislature in 2001 created the Texas Mobility Fund. Dedicated revenue and investment earnings began to be deposited into the 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 an original maturity of three months or less 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, cash in State Treasury, and money market funds with original maturities of three months or less from the date of acquisition.

(2) Accounts Payable

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

(3) Bonds Payable – General Obligation Bonds

Bonds payable are reported at par value. Premiums and discounts are reported as “other financing sources and uses” in the period the bonds are sold. Payables are reported separately as either current or non-current in the statement of net assets.

E. Reservations of Fund Balance

(1) Unreserved

This amount represents the unexpended balance at year end which is available for use in subsequent years.

F. Revenues, Expenditures, Transfers, and Restatements

(1) Violations, Fines and Penalties

The Legislature has dedicated to the Fund certain revenues of the State. These dedicated revenues are those revenue sources allocated by the Legislature for the benefit of the Fund. Initially, the Fund was funded with certain revenue sources that were dedicated to the Fund until August 31, 2005. These initial sources consisted of Court Fines and a Driver License Point Surcharge. In fiscal year 2004, \$39,159,912 from dedicated revenue sources was deposited into the fund. An additional \$77,782,413 was deposited in fiscal year 2005.

On September 1, 2005, the initial revenue sources of the Fund were redirected to the State of Texas General Revenue Fund. New sources of revenue were phased into the 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 2006, \$84,287,959 was deposited into the fund. Driver Record Information Fees are to be added in fiscal year 2007, Driver License Fees in fiscal year 2008, and Certificate of Title Fees 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 Series 2006 bonds. Interest and investment income earned is revenue to the Fund in the period earned.

(3) Operating Transfers Out

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>2006</u>	<u>2005</u>
Total Fund Balance, governmental funds	\$310,178,598	\$808,267,003
Bonds Payable in governmental activities are long term debt and, therefore, are not reported as liabilities in governmental funds		
Bonds Payable	(1,725,515,000)	(1,000,000,000)
Total Net Assets – governmental activities	<u>\$(1,415,336,402)</u>	<u>\$(191,732,997)</u>

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

	<u>2006</u>	<u>2005</u>
Net change in fund balances – total governmental funds	\$(498,088,405)	\$808,267,003
Governmental funds report Bond and Note Proceeds as Other Financing Sources and report Debt Service Principal payments as expenditures. However, in the Statement of Activities, these proceeds are set up as Bonds Payable Liability and these payments are a reduction of the Bond Payable liability.		
Bond and Note Proceeds	(750,000,000)	(1,000,000,000)
Debt Service Principal	24,485,000	0
Change in net assets of governmental activities	<u>\$(1,223,603,405)</u>	<u>\$(191,732,997)</u>

NOTE 4 – DEPOSITS AND INVESTMENTS

The carrying amount of deposits for the Fund was \$535,795,121 as of August 31, 2006 and \$832,750,220 as of August 31, 2005, 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 insuring adequate collateralization of all state deposits, including those held in local banks. On August 31, 2006, 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 had no investments at August 31, 2006 and 2005, respectively.

NOTE 5 - SUMMARY OF LONG TERM LIABILITIES

Changes in Long-Term Liabilities

During the period ended August 31, 2006, the following changes occurred in liabilities.

Debt	Balance 8/31/2005	Additions	Principal Payments	Balance 08-31-06	Amounts Due Within One Year (Principal)
General Obligation Bonds	\$1,000,000,000	750,000,000	(24,485,000)	\$1,725,515,000	\$35,175,000
Total Governmental Type Activities	\$1,000,000,000	750,000,000	(24,485,000)	\$1,725,515,000	\$35,175,000

During the period ended August 31, 2005, the following changes occurred in liabilities.

Debt	Inception	Additions	Principal Payments	Balance 08-31-05	Amounts Due Within One Year (Principal)
General Obligation Bonds	\$0	1,000,000,000	0	\$1,000,000,000	\$24,485,000
Total Governmental Type Activities	\$0	1,000,000,000	0	\$1,000,000,000	\$24,485,000

Debt Service Requirements

Yearly Service Requirements	GENERAL OBLIGATION BONDS		TOTAL
	Principal	Interest	
2007	\$35,175,000	\$76,115,283	\$111,290,283
2008	29,755,000	80,819,129	110,574,129
2009	31,165,000	79,400,961	110,565,961
2010	32,655,000	77,906,456	110,561,456
2011	34,195,000	76,364,648	110,559,648
2012-2016	196,810,000	355,893,721	552,703,721
2017-2021	246,220,000	306,351,780	552,571,780
2022-2026	309,380,000	243,030,866	552,410,866
2027-2031	392,060,000	160,243,569	552,303,569
2032-2036	418,100,000	55,369,300	473,469,300
Total Requirements	\$1,725,515,000	\$1,511,495,713	\$3,237,010,713

Fixed interest rates for the 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 3.67%. Fixed interest rates on the 2006 Bonds vary from 3.625% to 5.000%.

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. In May 2005, the Texas Bond Review Board approved \$4,000,000,000 of bonds through one or more issuances from the Texas Mobility Fund. The Commission issued \$750,000,000 of Series 2006 General Obligation bonds on June 8, 2006, \$900,000,000 of Series 2005-A Fixed Rate Bonds and \$100,000,000 of Series 2005-B Variable Rate Bonds on June 8, 2005 to pay, or reimburse the State Highway Fund for the payment of 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.

General information related to the bonds is summarized below:

I. Series 2006 Serial Bonds

- Issued 06-08-2006
- \$750,000,000
- 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.
- 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 Fund, and may pledge the full faith and credit of the State to payments due on Parity Debt if revenues in the Fund are insufficient to make payments due on such obligations. With respect to Parity Debt, including the Bonds and the previously issued Outstanding Parity Debt, pursuant to the Resolution, 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 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. During fiscal years 2004 and 2005, the primary sources of funding for the Mobility Fund were provided by Court Fines and Driver License Point Surcharge Fees. On September 1, 2005, the initial revenue sources of the Fund were redirected to the State of Texas General Revenue Fund. New sources of revenue for the Fund are being phased into the Fund. In fiscal year 2006 the sources of revenue were United We Stand License Plate Fees, Investment Income, and Motor Vehicle Inspection Fees. Driver Record Information Fees are added in fiscal year 2007, Driver License Fees in fiscal year 2008, and Certificate of Title Fees in fiscal year 2009.

\$750,000,000		
State of Texas General Obligation Bonds		
Mobility Fund Bonds, Series 2006		
MATURITY DATE	PRINCIPAL AMOUNT	Initial Offering Yield to Maturity
April 1, 2007	\$18,350,000	3.570%
April 1, 2008	12,275,000	3.680%
April 1, 2009	12,860,000	3.720%
April 1, 2010	13,485,000	3.760%
April 1, 2011	14,115,000	3.810%
April 1, 2012	14,785,000	3.880%
April 1, 2013	15,485,000	3.980%
April 1, 2014	16,225,000	4.050%
April 1, 2015	16,940,000	4.120%
April 1, 2016	17,770,000	4.180%
April 1, 2017	18,630,000	4.250%
April 1, 2018	19,560,000	4.300%
April 1, 2019	20,540,000	4.350%
April 1, 2020	21,565,000	4.390%
April 1, 2021	22,645,000	4.420%
April 1, 2022	23,775,000	4.450%
April 1, 2023	24,965,000	4.480%
April 1, 2024	26,215,000	4.510%
April 1, 2025	27,525,000	4.690%
April 1, 2026	28,805,000	4.550%
April 1, 2027	30,245,000	4.580%
April 1, 2028	31,755,000	4.600%
April 1, 2029	33,345,000	4.620%
April 1, 2030	35,010,000	4.640%
April 1, 2031	36,760,000	4.660%
April 1, 2036	30,000,000	4.840%
TOTAL	\$583,630,000	
Maturity Schedule – Term Bonds		
April 1, 2035	\$166,370,000	5.000%

2. Series 2005-A Fixed Rate & Term Bonds

- Issued 06-08-2005
- \$900,000,000
- To pay, or reimburse the State Highway Fund for, the payment of 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 Fixed Rate Bonds
- 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 Fund, and may pledge the full faith and credit of the State to payments due on Parity Debt if revenues in the Fund are insufficient to make payments due on such obligations. With respect to Parity Debt, including the Bonds and the Commission’s payment obligations to the Liquidity Facility Issuer under the Liquidity Facility, pursuant to the Resolution, the Department will pledge to the Owners as security for the payment of the Bonds and the Commission’s payment obligations to the Liquidity Facility Issuer under the Liquidity Facility, a first lien interest 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 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. During fiscal years 2004 and 2005, the primary sources of funding for the Mobility Fund were provided by Court Fines and Driver License Point Surcharge Fees. On September 1, 2005, the initial revenue sources of the Fund were redirected to the State of Texas General Revenue Fund. New sources of revenue for the Fund are being phased into the Fund. In fiscal year 2006 the sources of revenue were United We Stand License Plate Fees, Investment Income, and Motor Vehicle Inspection Fees. Driver Record Information Fees are added in fiscal year 2007, Driver License Fees in fiscal year 2008, and Certificate of Title Fees in fiscal year 2009.

\$900,000,000		
State of Texas General Obligation Bonds		
Mobility Fund Bonds, Series 2005-A		
MATURITY SCHEDULE - FIXED RATE SERIAL BONDS		
MATURITY DATE	PRINCIPAL AMOUNT	Initial Offering Yield to Maturity
April 1, 2006	\$21,270,000	2.70%
April 1, 2007	14,115,000	2.85
April 1, 2008	14,680,000	2.93
April 1, 2009	15,415,000	3.03
April 1, 2010	16,185,000	3.13
April 1, 2011	16,995,000	3.25
April 1, 2012	17,845,000	3.37
April 1, 2013	18,735,000	3.47
April 1, 2014	19,670,000	3.56
April 1, 2015	20,655,000	3.64
April 1, 2016	21,690,000	3.71
April 1, 2017	22,775,000	3.93
April 1, 2018	23,660,000	4.00
April 1, 2019	24,605,000	4.06
April 1, 2020	25,590,000	4.12
April 1, 2021	26,640,000	4.00
April 1, 2022	27,975,000	4.03
April 1, 2023	29,370,000	4.06
April 1, 2024	30,840,000	4.09
April 1, 2025	32,385,000	4.12
April 1, 2026	34,000,000	4.15
April 1, 2027	35,700,000	4.18
April 1, 2028	37,490,000	4.20
April 1, 2029	39,360,000	4.21
April 1, 2030	41,330,000	4.22
TOTAL	\$628,975,000	
Maturity Schedule – Fixed Rate Term Bond		
April 1, 2035	\$271,025,000	4.46%

3. Series 2005-B Variable Rate Bonds

- Issued 06-08-2005
- \$100,000,000
- To pay, or reimburse the State Highway Fund for, the payment of 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 Fixed Rate Bonds
- 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 Fund, and may pledge the full faith and credit of the State to payments due on Parity Debt if revenues in the Fund are insufficient to make payments due on such obligations. With respect to Parity Debt, including the Bonds and the Commission’s payment obligations to the Liquidity Facility Issuer under the Liquidity Facility, pursuant to the Resolution, the Department will pledge to the Owners as security for the payment of the Bonds and the Commission’s payment obligations to the Liquidity Facility Issuer under the Liquidity Facility, a first lien interest 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 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. During fiscal years 2004 and 2005, the primary sources of funding for the Mobility Fund were provided by Court Fines and Driver License Point Surcharge Fees. On September 1, 2005, the initial revenue sources of the Fund were redirected to the State of Texas General Revenue Fund. New sources of revenue for the Fund are being phased into the Fund. In fiscal year 2006 the sources of revenue were United We Stand License Plate Fees, Investment Income, and Motor Vehicle Inspection Fees. Driver Record Information Fees are added in fiscal year 2007, Driver License Fees in fiscal year 2008, and Certificate of Title Fees in fiscal year 2009.

\$100,000,000		
State of Texas General Obligation Bonds		
Mobility Fund Bonds, Series 2005-B		
Maturity Schedule – Variable Rate Bonds		
MATURITY DATE	PRINCIPAL AMOUNT	INTEREST RATE
April 1, 2030	\$100,000,000	Weekly Rate
TOTAL	\$100,000,000	

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 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, 2006.

Redemption

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 too, but not including, the redemption dates, set forth below:

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

* Final maturity

Series 2005 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 Mandatory Redemption

The Variable Rate 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:

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

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.

NOTE 6 – DUE TO/FROM OTHER FUNDS (the “DEPARTMENT”)

As of August 31, 2006, the Mobility Fund reports a Due To the Department in the amount of \$197,883,141. This represents accrued expenses which were paid in September 2006.

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.

NOTE 9 - RISK FINANCING & RELATED INSURANCE

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.

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 self-insurance and safety programs, which are the responsibility of the Department’s Occupational Safety Division.

NOTE 10 - SUBSEQUENT EVENTS

On October 31, 2006, the Commission issued \$1,040,275,000 in State of Texas General Obligation Mobility Fund Bonds Series 2006A to pay, or reimburse the State Highway Fund for the payment of 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. The interest rate on the bonds range from 4.00 – 5.00 percent and the maturity date is April 1, 2035.

On October 5, 2006, the Commission competitively bid a \$400 million forward starting constant maturity basis swap in connection with the issuance of the Commission's State of Texas General Obligation Mobility Fund Bonds, Series 2006-A. The effective date of the swap is Sept. 1, 2007, and the Commission will pay the weekly BMA index and receive 69.42% of the 10 year LIBOR rate during the 20 year term of the swap.

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**Produced by the Finance Division
Texas Department of Transportation**

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