

## DALLAS AREA RAPID TRANSIT



### Quarterly Disclosure Update for the six-month period ended March 31, 2017

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*This Quarterly Disclosure Update supplements the information contained in our Annual Disclosure Statement for the period ending September 30, 2016, and dated March 7, 2017; and our Quarterly Disclosure Update for the three-month period ending December 31, 2016, dated March 28, 2017. The Annual Disclosure Statement will be filed as a public record with the Municipal Securities Rulemaking Board's website at [www.emma.msrb.org](http://www.emma.msrb.org), and is posted on the Internet at our website, [www.dart.org](http://www.dart.org). You may also obtain a free copy of this Quarterly Disclosure Update by contacting us at the following address or telephone number: Executive Vice President/Chief Financial Officer, DART, 1401 Pacific Avenue, Dallas, Texas 75202, (214) 749-3148.*

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#### GENERAL

We are posting and filing this Quarterly Disclosure Update to supplement our Annual Disclosure Statement for the period ending September 30, 2016, and our Quarterly Disclosure Update for the three-month period ending December 31, 2016. We continue to reserve the right to suspend or stop the postings on the Internet and the quarterly updates at any time. However, we will always provide the annual and periodic information called for under any undertaking made in compliance with Rule 15c2-12 under the Securities Exchange Act of 1934.

Whenever we use capitalized words in this Quarterly Disclosure Update, they refer to the defined terms that are found in or incorporated by reference in the Annual Disclosure Statement. See, Annual Disclosure Statement, Appendix B, "SUMMARY OF CERTAIN TERMS OF MASTER DEBT RESOLUTION."

In this Quarterly Disclosure Update, "we," "our," "us," and "DART" refer to Dallas Area Rapid Transit, a subregional transportation authority under the Act.

The information in this Quarterly Disclosure Update is as of the date stated below, except for the unaudited financial information included herein as Exhibit A, which is for the six-month period ended March 31, 2017.

**YOU SHOULD CAREFULLY CONSIDER THE INVESTMENT CONSIDERATIONS IN THE ANNUAL DISCLOSURE STATEMENT.**

#### FORWARD-LOOKING STATEMENTS

*We make "forward-looking statements" in the Annual Disclosure Statement and in Quarterly Disclosure Updates by using forward-looking words such as "may," "will," "should," "intends," "expects," "believes," "anticipates," "estimates," or others. You are cautioned that forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include general economic and business conditions, conditions in the financial markets, our financial condition, our sales tax revenues, receipt of federal grants, and various other factors that are beyond our control. Because we cannot predict all factors that may affect future decisions, actions, events, or financial circumstances, what actually happens may be different from what we include in forward-looking statements.*

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**Dated: June 27, 2017**

## QUARTERLY DISCLOSURE UPDATE

The Annual Disclosure Statement dated March 7, 2017 and Quarterly Disclosure Updated dated March 28, 2017 are updated by the following supplemental information:

### **Unaudited Financial Information**

Audited financial statements for our fiscal year ended September 30, 2016, are attached as Appendix A to the Annual Disclosure Statement. An unaudited statement of our principal accounts for the six-month period ended March 31, 2017 is included as Exhibit A to this Quarterly Disclosure Update. Such quarterly financial statements should be read in conjunction with our annual financial statements. This information is taken from our internal books and records that are created, maintained, and administered by DART in accordance with generally accepted accounting principles. The use of reasonable estimates is a normal part of the preparation of financial statements. Sales tax revenues included in the unaudited quarterly financial statements were accrued using estimates. Actual sales tax receipts could, therefore, differ from those reported in the quarterly financial statements.

We believe that the unaudited financial information for the six-month period ended March 31, 2017, fairly represents the financial position and operating results of DART and is complete as of, but no later than, such date. However, you are cautioned that such financial information has not been audited or reviewed by any independent accountants. We do not warrant or guarantee that subsequent audited information for these accounts for this six-month period will not differ from the unaudited financial information presented herein and in Exhibit A.

### **Management's Comment Regarding Second Quarter Financial Information**

DART's unaudited financial statements for the six-month period ended March 31, 2017, and March 31, 2016, show sales tax revenues as \$285.6 million and \$271.2 million, respectively, which indicates an increase of 5.3% due to the continuing expansion in the local economy resulting in better retail sales in the DART Service Area. Our operating results for the six-month period ended March 31, 2017 reflect an operating loss of \$60.6 million, compared to an operating loss of \$102.7 million for the six-month period ended March 31, 2016. This was primarily due to increased sales tax revenues and federal grant receipts and decreases in interest and financing expenses and non-operating expenses.

DART maintains various cash reserves including a Financial Reserve Account that is funded with sales tax collections that exceed budget during a given year, if any. In addition, the Board of Directors authorized the establishment of a Capital Reserve Account. Should the Financial Reserve exceed \$50 million, excess sales tax receipts are placed in the Capital Reserve Account. An affirmative vote of two-thirds of the Board is required to draw upon the Financial or Capital Reserves, and the funds may be used for any purpose approved by the Board. In Fiscal Year 2016, our sales tax receipts exceeded our sales tax budget by \$2.7 million. In December 2016, excess sales tax receipts for FY 2016 were transferred to the Capital Reserve because the Financial Reserve was already at the policy-capped balance of \$50 million. According to DART policy, future excess sales tax receipts are being deposited into the Capital Reserve. The March 31, 2017 balances in the Financial Reserve and Capital Reserve were \$50.0 million and \$23.2 million, respectively. The Board has authorized utilizing Capital Reserve funds in Fiscal year 2017 for Cotton Belt commuter rail project development. In October and November 2016, DART paid down a total of \$30 million in Commercial Paper Debt. The Operating Fund balance was \$466.4 million. We maintain a working cash balance in the Operating Fund equal to at least one month of projected payments.

### **Lease/Leaseback Transactions Update**

We have successfully terminated or repaired all lease/leaseback transactions that were non-compliant with their respective operative documents. As of March 31, 2017, one lease/leaseback transaction remained active and is in full compliance with the respective operative documents, as amended.

### **Moody's Issuer Comment on Partial Sales Tax Reduction Proposal**

On May 3, 2017, Moody's Investors Service published an issuer comment titled "DART Sales Tax Off Limits Until Debt Service is Paid." The commentary was related to a non-binding resolution passed by the Dallas Police and Fire Pension System Board to seek increased funding for its system by diverting a portion of the 1% sales tax levied by DART. Moody's stated in its comment that "DART's sales taxes are not Dallas' to divert and cannot be used for Dallas' pensions under current state law." To date, no bill or bill amendment has emerged in the Texas Legislature addressing the proposal by the Board of the Police and Fire pension fund, and the Dallas City Council has not taken up the matter for discussion.

### **Litigation**

No significant changes have occurred in the status of pending litigation involving DART since the date of the Annual Disclosure Statement. Accruals and estimated losses on claims that are asserted in pending litigation, if any, are included in accounts payable and accrued liabilities in the unaudited statement of our principal accounts attached hereto as Exhibit A.

Other than cases filed in the ordinary course of business as an operating transit agency, no new litigation has been filed against DART since the date of the Annual Disclosure Statement. See, Annual Disclosure Statement, "LITIGATION."

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This Quarterly Disclosure Update, in substantially the form and content presented above and in its Exhibit, was reviewed with the Board of Directors of DART on May 23, 2017.

ATTEST:

/s/ Faye Moses Wilkins  
Chair, Board of Directors

/s/ Gary Slagel  
Secretary, Board of Directors

/s/ Gary C. Thomas  
DART, President/Executive Director

**Exhibit A**

**Unaudited Statement of Principal Accounts  
for the six-month period ended March 31, 2017**

**DALLAS AREA RAPID TRANSIT  
STATEMENTS OF NET POSITION**

**MARCH 31, 2017 AND SEPTEMBER 30, 2016 (Dollars in Thousands)**

	03/31/2017 Unaudited	9/30/2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$22,287	\$53,651
Investments	520,970	562,223
Sales and use tax receivable	95,498	94,308
Transit revenue receivable, net	5,210	5,610
Due from federal and other governments	31,971	29,865
Materials and supplies inventory, net	36,450	33,828
Prepaid transit expense and other	6,420	4,385
Restricted investments held by trustee for debt service	83,840	112,301
Restricted investments held for advance funding agreements	66,417	67,055
Restricted investments held to pay capital lease/leaseback liabilities	6,374	6,374
TOTAL CURRENT ASSETS	<u>875,437</u>	<u>969,600</u>
<b>NONCURRENT ASSETS</b>		
Restricted investments held as security for capital lease/leaseback liabilities	8,174	8,560
Investment in joint venture	12,574	13,128
Investment in managed HOV lane agreements	10,500	10,500
Capital assets		
Land and rights-of-way	619,117	615,709
Projects in progress	61,466	190,992
Depreciable capital assets, net of depreciation	3,791,958	3,736,955
Restricted investments held to pay capital lease/leaseback liabilities	101,243	103,351
Unamortized bond insurance premium and other	670	707
TOTAL NONCURRENT ASSETS	<u>4,605,702</u>	<u>4,679,902</u>
<b>TOTAL ASSETS</b>	<u>5,481,139</u>	<u>5,649,502</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>95,800</u>	<u>101,279</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>5,576,939</u>	<u>5,750,781</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	43,134	56,011
Commercial paper notes payable	140,000	170,000
Current portion of capital lease/leaseback liabilities	6,374	6,374
Current portion of repayment due to State Comptroller	824	824
Local Assistance Program payable	685	685
Retainage payable	13,252	23,205
Unearned revenue and other liabilities	117,310	112,035
Accrued interest payable from restricted assets	55,383	52,933
Current portion of senior lien revenue bonds payable	55,936	53,962
TOTAL CURRENT LIABILITIES	<u>432,898</u>	<u>476,029</u>
<b>NONCURRENT LIABILITIES</b>		
Accrued liabilities	38,445	36,313
Net pension liability	52,127	63,697
Repayment due to State Comptroller	7,339	7,751
Senior lien revenue bonds payable	3,321,830	3,385,554
Transportation Infrastructure Finance and Innovation Act (TIFIA) bonds payable	100,878	102,968
Capital lease/leaseback liabilities	101,243	103,351
TOTAL NONCURRENT LIABILITIES	<u>3,621,862</u>	<u>3,699,634</u>
<b>TOTAL LIABILITIES</b>	<u>4,054,760</u>	<u>4,175,663</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>7,164</u>	<u>4,535</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u>4,061,924</u>	<u>4,180,198</u>
<b>NET POSITION</b>		
Net investment in capital assets	915,106	881,241
Restricted for debt service	28,457	59,368
Restricted as security for capital lease/leaseback liabilities	8,174	8,560
Unrestricted	563,278	621,414
<b>TOTAL NET POSITION</b>	<u>\$1,515,015</u>	<u>\$1,570,583</u>

**DALLAS AREA RAPID TRANSIT  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

**FOR THE SIX MONTHS ENDED MARCH 31, 2017 and 2016 (Dollars in Thousands)**

	2017 Unaudited	2016 Unaudited
<b>OPERATING REVENUES</b>		
Passenger revenues	\$33,149	\$35,086
Advertising, rent, and other	7,086	7,286
<b>TOTAL OPERATING REVENUES</b>	<b>40,235</b>	<b>42,372</b>
<b>OPERATING EXPENSES</b>		
Labor	118,830	118,687
Benefits	51,651	51,546
Services	16,903	18,378
Materials and supplies	21,042	20,692
Purchased transportation	25,865	24,870
Depreciation and amortization	118,413	118,240
Utilities	9,194	8,768
Taxes, leases, and other	1,810	2,095
Casualty and liability	2,771	2,387
<b>TOTAL OPERATING EXPENSES</b>	<b>366,479</b>	<b>365,663</b>
<b>NET OPERATING LOSS</b>	<b>(326,244)</b>	<b>(323,291)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Sales and use tax revenue	285,649	271,206
Investment income (loss)	1,477	2,623
Interest income from investments held to pay capital lease/leaseback	4,266	5,296
Interest expense on capital lease/leaseback	(4,266)	(5,296)
Street improvements		(1)
Interest and financing expenses	(77,687)	(85,270)
Build America Bonds tax credit	14,180	14,195
Other federal grants	34,555	14,894
Other non-operating revenues	7,976	7,559
Other non-operating expenses	(506)	(4,624)
<b>NET NON-OPERATING REVENUES</b>	<b>265,644</b>	<b>220,582</b>
<b>LOSS BEFORE CAPITAL CONTRIBUTIONS AND GRANTS</b>	<b>(60,600)</b>	<b>(102,709)</b>
<b>CAPITAL CONTRIBUTIONS AND GRANTS</b>		
Federal capital contributions	4,426	2,295
State capital contributions	606	1,127
Local capital contributions		67
<b>TOTAL CAPITAL CONTRIBUTIONS AND GRANTS</b>	<b>5,032</b>	<b>3,489</b>
<b>CHANGE IN NET POSITION</b>	<b>(55,568)</b>	<b>(99,220)</b>
<b>TOTAL NET POSITION – BEGINNING OF YEAR</b>	<b>1,570,583</b>	<b>1,759,506</b>
<b>TOTAL NET POSITION – END OF THE REPORTING PERIOD</b>	<b>\$1,515,015</b>	<b>\$1,660,286</b>

**DALLAS AREA RAPID TRANSIT  
STATEMENTS OF CASH FLOWS**

**FOR THE SIX MONTHS ENDED MARCH 31, 2017 and 2016 (Dollars in Thousands)**

	2017 Unaudited	2016 Unaudited
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$40,826	\$42,455
Cash flows from other sources	7,238	4,853
Payments to suppliers of goods and services	(55,224)	(63,618)
Payments to purchased transportation service providers	(25,244)	(24,323)
Payments to employees	(121,004)	(120,184)
Benefit payments on behalf of employees	(59,893)	(56,045)
NET CASH USED BY OPERATING ACTIVITIES	<u>(213,301)</u>	<u>(216,862)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Sales and use tax receipts	284,048	268,003
Other federal grants	29,744	14,195
Other non-capital financing receipts		1
Build America Bonds tax credit	14,180	14,845
Local Assistance Program and street improvements		(101)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>327,972</u>	<u>296,943</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	2,092	4,604
Proceeds from sales and maturity of investments	280,711	387,158
Purchase of investments	(239,906)	(351,629)
Decrease in restricted assets	29,099	22,995
NET CASH USED BY INVESTING ACTIVITIES	<u>71,996</u>	<u>63,128</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(61,463)	(41,265)
Proceeds from the issuance of commercial paper notes	405,000	435,000
Payment on commercial paper notes	(435,000)	(445,000)
Proceeds from the issuance of sales tax revenue bonds		692,426
Payment for advance refunding of sales tax revenue bonds		(695,699)
Payment of debt issuance costs		(2,569)
Principal payment on revenue bonds	(53,962)	(48,115)
Interest and financing expenses	(80,871)	(89,924)
Federal capital contributions	3,233	2,478
State capital contributions	4,426	3,836
Local capital contributions	606	67
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(218,031)</u>	<u>(188,765)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(31,364)	(45,556)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE FISCAL YEAR</b>	<u>53,651</u>	<u>66,985</u>
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>	<u>\$22,287</u>	<u>\$21,429</u>

(Continued)

**DALLAS AREA RAPID TRANSIT  
STATEMENTS OF CASH FLOWS**

**FOR THE SIX MONTHS ENDED MARCH 31, 2017 and 2016 (Dollars in Thousands)**

	2017 <u>Unaudited</u>	2016 <u>Unaudited</u>
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating loss	\$(326,244)	\$(323,291)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation and amortization	118,413	118,239
Miscellaneous non-operating income	7,976	7,538
Miscellaneous non-operating expenses	(506)	(4,603)
Changes in assets and liabilities		
(Increase) Decrease in transit receivable	1,226	397
(Increase) Decrease in materials and supplies inventory	(2,622)	(1,422)
(Increase) Decrease in prepaid expenses and other current assets	(1,803)	(1,449)
Increase (Decrease) in net pension liability	(11,570)	1,507
Increase (Decrease) in deferred inflows of resources	2,629	2,038
(Increase) Decrease in deferred outflows of resources	1,256	(8,796)
Increase in accounts payable and accrued liabilities	(5,334)	(10,814)
Increase (Decrease) in unearned revenue and other liabilities	3,278	3,794
NET CASH USED BY OPERATING ACTIVITIES	<u>\$(213,301)</u>	<u>\$(216,862)</u>
 NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Interest income from investments held to pay capital lease/leaseback	\$4,266	\$5,296
Interest expense on capital lease/leaseback	(4,266)	(5,296)
Increase (Decrease) in capital lease/leaseback obligations	2,108	(95,413)
(Increase) Decrease in investments held to pay capital lease/leaseback	(2,108)	95,413
Increase (Decrease) in fair value of investments	(1,675)	(532)
Amortization of premium, discount, bond insurance, and loss on debt refunding	(5,656)	(3,559)
Purchases of capital assets in accounts payable at period-end		3,329
Toll Credits		21
Toll Credits		(21)
Proceeds from the issuance of revenue bonds paid into escrow		692,426
Payment for advance refunding of revenue bonds		(695,699)

(Concluded)