

DALLAS AREA RAPID TRANSIT



**Quarterly Disclosure Update
for the nine-month period ended June 30, 2018**

This Quarterly Disclosure Update supplements the information contained in our Annual Disclosure Statement for the period ending September 30, 2017, and dated March 13, 2018; our Quarterly Disclosure Update for the three-month period ending December 31, 2017, dated March 27, 2018; and our Quarterly Disclosure Update for the six-month period ending March 31, 2017, and dated May 22, 2018. The Annual Disclosure Statement was filed as a public record with the Municipal Securities Rulemaking Board’s website at www.emma.msrb.org, and is posted on the Internet at our website, 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: Senior Vice President/Finance, DART, 1401 Pacific Avenue, Dallas, Texas 75202, (214) 749-3126.

GENERAL

We are posting and filing this Quarterly Disclosure Update to supplement our Annual Disclosure Statement for the period ending September 30, 2017, our Quarterly Disclosure Update for the three-month period ending December 31, 2017, and our Quarterly Disclosure Update for the six-month period ending March 31, 2018. 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 nine-month period ended June 30, 2018.

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, the actual outcomes may be different from what we include in forward-looking statements.

Dated: September 18, 2018

QUARTERLY DISCLOSURE UPDATE

The Annual Disclosure Statement for the period ending September 30, 2017 dated March 13, 2018, Quarterly Disclosure Update for the period ending December 31, 2017 dated March 27, 2018, and Quarterly Disclosure Update for the period ending March 31, 2018 dated May 22, 2018, are updated by the following supplemental information:

Unaudited Financial Information

Audited financial statements for our fiscal year ended September 30, 2017, are attached as Appendix A to the Annual Disclosure Statement. An unaudited statement of our principal accounts for the nine-month period ended June 30, 2018 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 nine-month period ended June 30, 2018, 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 nine-month period will not differ from the unaudited financial information presented herein and in Exhibit A.

Management's Comment Regarding Third Quarter Financial Information

DART's unaudited financial statements for the nine-month period ended June 30, 2018, and June 30, 2017, show sales tax revenues as \$451.6 million and \$429.6 million, respectively, which indicates an increase of 5.1% due to the continuing expansion in the local economy resulting in better retail sales in the DART Service Area. Our operating results for the nine-month period ended June 30, 2018 reflect a decrease in net position of \$71.0 million, compared to \$88.8 million for the nine-month period ended June 30, 2017. This was primarily due to increases 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 Account 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 Reserve Account or Capital Reserve Account, and the funds may be used for any purpose approved by the Board. In Fiscal Year 2017, our sales tax receipts exceeded our sales tax budget by \$3.0 million. In December 2017, excess sales tax receipts for Fiscal Year 2017 were transferred to the Capital Reserve because the Financial Reserve Account was already at the policy-capped balance of \$50 million. According to DART policy, future excess sales tax receipts are to be deposited into the Capital Reserve Account. The June 30, 2018 balances in the Financial Reserve Account and Capital Reserve Account were \$50.0 million and \$27.3 million, respectively. The General Operating Fund balance was \$454.2 million as of June 30, 2018. In accordance with Board-approved financial policy, we maintain a working cash balance in the General 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 June 30, 2018, one lease/leaseback transaction remained active and is in full compliance with the respective operative documents, as amended.

Future Debt

On August 28, 2018, we approved the Fifteenth Amended and Restated Supplemental Debt Resolution, which authorized the issuance of up to \$908 million in principal amount of Senior Lien Sales Tax Revenue Bonds to finance the "Cotton Belt Corridor Regional Rail Project," a 26-mile passenger rail line from DFW Airport to Plano and the Sixteenth Amended and Restated Supplemental Debt Resolution which authorized the issuance of up to \$1.09 billion in principal amount of Senior Lien Sales Tax Revenue Bonds to finance the "Second Central Business District Light Rail Alignment Project," a major subway and surface alignment in downtown Dallas. Such Senior Lien Obligations are secured by a senior lien on our Sales Tax Revenues and Pledged Farebox Revenues and have a priority over the lien pledged to the Senior I Notes. It is anticipated that Senior Lien Obligations relating to the Fifteenth Amended and Restated Supplement Debt Resolution will be issued over the next six months.

In addition, we anticipate authorizing the establishment of new Senior Subordinate Lien Obligations during the next several months in one or more series of commercial paper notes largely for Cotton Belt project development in an amount to be determined by the Board.

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."

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 September 18, 2018.

ATTEST:

/s/ Sue S. Bauman
Chair, Board of Directors

/s/ Michele Wong Krause
Secretary, Board of Directors

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

Exhibit A

**Unaudited Statement of Principal Accounts
for the nine-month period ended June 30, 2018**

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

JUNE 30, 2018 AND SEPTEMBER 30, 2017 (Dollars in Thousands)

	6/30/2018 Unaudited	9/30/2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$84,390	\$39,938
Investments	434,497	498,204
Sales and use tax receivable	105,566	95,344
Transit revenue receivable, net	6,753	8,528
Due from federal and other governments	13,897	19,959
Materials and supplies inventory, net	36,465	34,856
Prepaid transit expense and other	7,451	4,176
Restricted investments held by trustee for debt service	58,530	111,734
Restricted investments held for advance funding agreements	64,905	67,868
Restricted investments held to pay capital lease/leaseback liabilities	6,374	6,374
TOTAL CURRENT ASSETS	818,828	886,981
NONCURRENT ASSETS		
Restricted investments held as security for capital lease/leaseback liabilities	7,049	7,751
Investment in joint venture	11,199	12,030
Investment in managed HOV lane agreements	11,100	11,100
Capital assets		
Land and rights-of-way	619,026	619,026
Projects in progress	114,980	66,867
Depreciable capital assets, net of depreciation	3,528,284	3,705,322
Restricted investments held to pay capital lease/leaseback liabilities	105,361	105,342
Unamortized bond insurance premium and other	603	633
TOTAL NONCURRENT ASSETS	4,397,602	4,528,071
TOTAL ASSETS	5,216,430	5,415,052
DEFERRED OUTFLOWS OF RESOURCES	79,526	86,293
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	5,295,956	5,501,345
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	47,418	60,806
Commercial paper notes payable	140,000	140,000
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	627	685
Retainage payable	6,665	6,968
Unearned revenue and other liabilities	109,812	112,840
Accrued interest payable from restricted assets	13,761	55,329
Current portion of senior lien revenue bonds payable	58,291	55,936
TOTAL CURRENT LIABILITIES	383,772	439,762
NONCURRENT LIABILITIES		
Accrued liabilities	36,891	37,113
Net pension liability	46,705	52,127
Repayment due to State Comptroller	6,309	6,927
Senior lien revenue bonds payable	3,241,613	3,311,980
Transportation Infrastructure Finance and Innovation Act (TIFIA) bonds payable	98,726	100,878
Capital lease/leaseback liabilities	105,361	105,342
TOTAL NONCURRENT LIABILITIES	3,535,605	3,614,367
TOTAL LIABILITIES	3,919,377	4,054,129
DEFERRED INFLOWS OF RESOURCES	2,554	2,178
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	3,921,931	4,056,307
NET POSITION		
Net investment in capital assets	782,484	837,067
Restricted for debt service	44,768	56,405
Restricted as security for capital lease/leaseback liabilities	7,049	7,751
Unrestricted	539,724	543,815
TOTAL NET POSITION	\$1,374,025	\$1,445,038

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

FOR THE NINE MONTHS ENDED JUNE 30, 2018 and 2017 (Dollars in Thousands)

	2018 <u>Unaudited</u>	2017 <u>Unaudited</u>
OPERATING REVENUES		
Passenger revenues	\$47,322	\$48,658
Advertising, rent, and other	<u>10,273</u>	<u>10,662</u>
TOTAL OPERATING REVENUES	<u>57,595</u>	<u>59,320</u>
OPERATING EXPENSES		
Labor	180,882	173,604
Benefits	68,905	77,728
Services	30,512	27,980
Materials and supplies	34,667	30,910
Purchased transportation	41,227	39,052
Depreciation and amortization	187,409	178,114
Utilities	14,248	13,648
Taxes, leases, and other	3,507	2,973
Casualty and liability	<u>3,608</u>	<u>4,127</u>
TOTAL OPERATING EXPENSES	<u>564,965</u>	<u>548,136</u>
NET OPERATING LOSS	<u>(507,370)</u>	<u>(488,816)</u>
NON-OPERATING REVENUES (EXPENSES)		
Sales and use tax revenue	451,640	429,642
Investment income	3,703	4,123
Interest income from investments held to pay capital lease/leaseback	6,393	6,316
Interest expense on capital lease/leaseback	(6,393)	(6,316)
Interest and financing expenses	(115,494)	(116,376)
Build America Bonds tax credit	21,336	21,263
Other federal grants	50,942	43,115
Other non-operating revenues	16,191	13,629
Other non-operating expenses	<u>(3,878)</u>	<u>(1,845)</u>
NET NON-OPERATING REVENUES	<u>424,440</u>	<u>393,551</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<u>(82,930)</u>	<u>(95,265)</u>
CAPITAL CONTRIBUTIONS AND GRANTS		
Federal capital contributions	11,268	5,608
State capital contributions	<u>649</u>	<u>846</u>
TOTAL CAPITAL CONTRIBUTIONS AND GRANTS	<u>11,917</u>	<u>6,454</u>
CHANGE IN NET POSITION	(71,013)	(88,811)
TOTAL NET POSITION – BEGINNING OF YEAR	<u>1,445,038</u>	<u>1,570,583</u>
TOTAL NET POSITION – END OF THE REPORTING PERIOD	<u>\$1,374,025</u>	<u>\$1,481,772</u>

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

FOR THE NINE MONTHS ENDED JUNE 30, 2018 and 2017 (Dollars in Thousands)

	2018 Unaudited	2017 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$58,038	\$61,574
Cash flows from other sources	16,873	14,179
Payments to suppliers of goods and services	(96,358)	(84,057)
Payments to purchased transportation service providers	(40,353)	(38,337)
Payments to employees	(183,764)	(175,429)
Benefit payments on behalf of employees	(73,553)	(82,269)
NET CASH USED BY OPERATING ACTIVITIES	<u>(319,117)</u>	<u>(304,339)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Sales and use tax receipts	440,799	422,760
Other federal grants	51,594	41,947
Build America Bonds tax credit	28,451	28,360
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>520,844</u>	<u>493,067</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	6,065	4,207
Proceeds from sales and maturity of investments	226,414	332,221
Purchase of investments	(165,207)	(261,513)
Decrease (increase) in restricted assets	56,868	55,462
NET CASH USED BY INVESTING ACTIVITIES	<u>124,140</u>	<u>130,377</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(71,667)	(71,992)
Proceeds from the issuance of commercial paper notes	530,000	590,000
Payment on commercial paper notes	(530,000)	(620,000)
Principal payment on revenue bonds	(55,936)	(53,962)
Interest and financing expenses	(165,110)	(163,822)
Federal capital contributions	10,166	3,233
State capital contributions	937	5,608
Local capital contributions	195	846
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(281,415)</u>	<u>(310,089)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,452	9,016
CASH AND CASH EQUIVALENTS, BEGINNING OF THE FISCAL YEAR	<u>39,938</u>	<u>53,651</u>
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	<u><u>\$84,390</u></u>	<u><u>\$62,667</u></u>

(Continued)

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

FOR THE NINR MONTHS ENDED JUNE 30, 2018 and 2017 (Dollars in Thousands)

	2018 Unaudited	2017 Unaudited
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating loss	\$(507,370)	\$(488,691)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation and amortization	187,409	178,114
Miscellaneous non-operating income	15,996	13,629
Miscellaneous non-operating expenses	(3,878)	(1,845)
Changes in assets and liabilities		
Decrease in transit receivable	1,845	4,336
Increase in due from federal & other governments	(525)	-
Increase in materials and supplies inventory	(1,610)	(2,274)
Decrease in prepaid expenses and other current assets	(3,108)	(221)
Decrease in net pension liability	(5,422)	(7,604)
Increase in differed inflows of resources	377	2,629
Decrease in differed outflows of resources	581	1,256
Increase in accounts payable and accrued liabilities	(3,539)	(4,534)
Increase in unearned revenue and other liabilities	127	866
NET CASH USED BY OPERATING ACTIVITIES	<u>\$(319,117)</u>	<u>\$(304,339)</u>
NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Interest income from investments held to pay capital lease/leaseback	\$6,393	\$6,316
Interest expense on capital lease/leaseback	(6,393)	(6,316)
Increase in capital lease/leaseback obligations	19	58
Increase in investments held to pay capital lease/leaseback	(19)	(58)
Decrease in fair value of investments	(1,608)	(739)
Amortization of premium, discount, bond insurance premium costs, and loss on debt refunding	(14,223)	(8,463)
Purchases of capital assets in accounts payable at period-end	3,641	2,710

(Concluded)