Dallas Area Rapid Transit
Dallas, Texas

Financial Statements
Years Ended September 30, 2016 and 2015 and
Independent Auditor's Report

DALLAS AREA RAPID TRANSIT
DALLAS, TEXAS
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
Dallas Area Rapid Transit
Dallas, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Dallas Area Rapid Transit ("DART"), as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise DART's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to DART's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DART's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DART, as of September 30, 2016 and 2015, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Net Pension Liability, the Schedule of Employer's Contributions, and the Schedule of Funding Progress as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated January 31, 2017 on our consideration of DART's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DART's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Dallas, Texas
January 31, 2017

The management of Dallas Area Rapid Transit (DART) offers the users of DART's financial statements this narrative overview and analysis of the financial activities for the fiscal years ended September 30, 2016 and 2015. This discussion and analysis is designed to assist the reader to focus on significant financial activities and identify any significant changes in the financial position of DART. It should be read in conjunction with the financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

As of September 30, 2016 and 2015, total assets and deferred outflows of resources of DART exceeded total liabilities by $1,570,583 and $1,759,506 respectively. The amount of unrestricted net position as of September 30, 2016 was $621,414 compared to $761,771 at September 30, 2015.

The net position of DART decreased by $188,923 during the current fiscal year compared to a decrease of $209,436 last year. The decrease in 2016 is mainly due to a decrease in federal grants and an increase in expenses. The decrease during 2015 is mainly due to loss on HOV lane investments, transfer of assets to the City of Dallas and decreases in federal grants.

DART's total debt decreased by $218,168 (6%) during the current fiscal year compared to a decrease of $39,212 (1%) in 2015. The decrease in 2016 was due to principal payments and advance refunding, and a termination of one of the two outstanding lease/leaseback obligations. The decrease in 2015 was due to principal payments and advance refunding made during 2015. Debt information is summarized on page 12 of this management discussion and analysis.

Sales and use tax revenue was $545,907 in 2016 compared to $519,448 in 2015. It increased by 5% ($26,459) in 2016 compared to 7% ($32,884) increase in 2015.

Capital contributions from federal, state and local governments were $5,026 in 2016 and $18,400 in 2015. Such contributions were used to finance DART's transit system expansion projects and acquisition of light rail vehicles, buses and equipment.

Other federal grants were $43,731 in 2016 compared to $82,112 in 2015.

For fiscal year 2016, total expenses exceeded total revenues resulting in a loss before capital contributions of $193,949 compared to $227,836 for 2015. The loss in 2015 is higher than that of 2016 due primarily to a loss on investments in managed HOV lanes.

BASIC FINANCIAL STATEMENTS

Management's Discussion and Analysis serves as an introduction to DART's basic financial statements. DART's basic financial statements are comprised of four components: Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; Statements of Cash Flows; and Notes to the Financial Statements.

The Statements of Net Position present information on all of DART's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources equals net position. Over time, increases or decreases in net position may serve as a useful indicator of changes in the financial position of DART. The Statements of Net Position is shown on page 14 of this report.

The Statements of Revenues, Expenses, and Changes in Net Position present information on revenues, expenses, capital contributions, and how DART's net position changed during the two most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues, expenses, and capital contributions are reported in the statements for some items that result in cash flows only in future fiscal periods. The increase or decrease in net position may serve as an indicator of the effect of DART's current year operation on its financial position. The Statements of Revenues, Expenses, and Changes in Net Position are shown on page 15 of this report.

FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015 (Dollars in Thousands)

The Statements of Cash Flows summarize all of DART's cash flows into four categories: cash flows from operating activities; cash flows from non-capital financing activities; cash flows from investing activities; and cash flows from capital and related financing activities. The statements of cash flows, along with related notes and information in other financial statements, can be used to assess the following: DART's ability to generate positive cash flows and pay its debt as the debt matures; the reasons for differences between DART's operating cash flows and operating income (loss); and the effect of cash and non-cash investing, capital, and financing activities on DART's financial position. The Statements of Cash Flows are shown on pages 16-17 of this report.

Notes to the Financial Statements provide additional information that is essential to fully understand the data provided in the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows. The Notes to the Financial Statements are shown on pages 18-41 of this report.

DART's activities are accounted for as a proprietary fund and are presented in the financial statements of DART as business type activities. The activities of DART are supported by a 1% sales and use tax within the member jurisdictions, fare collections, federal, state, and local financial assistance, and other receipts such as advertising and rental income.

The financial statements of DART include the accounts and operations of blended component units Regional Rail Right-of-Way Corporation and Dallas Area Rapid Transit Bus Service, LGC.

FINANCIAL ANALYSIS

Statements of Net Position – DART's total assets and deferred outflows of resources exceeded total liabilities by $1,570,583 and $1,759,506 as of September 30, 2016 and 2015, respectively. The largest portion of this excess (56% in 2016 and 53% in 2015) was net investment in capital assets (capital assets less related outstanding debt). DART uses these capital assets to provide public transportation services to customers and member jurisdictions; consequently, these assets are not available for future spending. Although DART's investments in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be obtained from other sources such as sales and use tax and farebox revenues, since the capital assets themselves cannot be used to liquidate these liabilities.

Condensed Summary of Assets, Liabilities, Deferred Inflows of Resources, and Net Position

	2016	2015	2014
Current assets	$969,600	$1,123,204	$1,064,407
Other non-current assets	136,246	232,349	335,358
Capital assets (net of accumulated depreciation)	4,543,656	4,681,920	4,810,004
Total assets	5,649,502	6,037,473	6,209,769
Deferred outflows of resources	101,279	45,682	13,965
Total assets and deferred outflows of resources	5,750,781	6,083,155	6,223,734
Current liabilities	476,029	527,781	427,982
Non-current liabilities	3,699,634	3,793,857	3,756,165
Total liabilities	4,175,663	4,321,638	4,184,147
Deferred inflows of resources	4,535	2,011	-
Total liabilities and deferred inflows of resources	4,180,198	4,323,649	4,184,147
Net position			
Net investment in capital assets	881,241	938,644	1,071,576
Restricted for:			
Debt service	59,368	49,757	37,560
Security for lease/leaseback liabilities	8,560	9,334	9,785
Unrestricted	621,414	761,771	920,666
Total net position	$1,570,583	$1,759,506	$2,039,587

FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015 (Dollars in Thousands)

Other non-current assets decreased by $96,103 in 2016 compared to a decrease of $103,009 in 2015. The decrease in 2016 is due to a decrease in restricted investments held for lease/leaseback obligations as a result of a capital lease that was terminated in November 2015. The decrease in 2015 is mainly due to the decrease in investment in managed HOV lane agreements as a result of impairment.

As of September 30, 2016, $8,560 of DART's net position is restricted to satisfy the requirements of an amended lease/leaseback agreement compared to $9,334 as of September 30, 2015. The unrestricted portion of net position, $621,414 in 2016 and $761,771 in 2015 represent resources available to meet DART's ongoing obligations. The DART Board committed $71,876 and $55,985 of the unrestricted net position for self-insurance, financial, and capital reserves in 2016 and 2015, respectively. The decrease in unrestricted net position of $140,357 (18%) in 2016 was due to an increase in expenses and payment of commercial paper notes and a decrease in grant revenue. The decrease in unrestricted net position of $158,895 (17%) in 2015 was due to a recognition of net pension liability as a result of new pension accounting requirements and an impairment in the value of investment in managed HOV lanes.

Statements of Revenues, Expenses, and Changes in Net Position – During fiscal year 2016, DART's activities resulted in a decrease in net position of $188,923 compared to a decrease of $209,436 in 2015. The decrease during 2016 is due to an increase in expenses and a decrease in federal grants. The decrease during 2015 was due to expenses being higher than revenues, loss on HOV lane investments, and lower federal capital contributions. The key elements of the changes in net position for the fiscal years ended September 30, 2016 and 2015 with comparative information for 2014 are shown in the following table.

Summary of Revenues, Expenses, and Changes in Net Position

	2016	2015	2014
Operating revenues			
Passenger revenues	$67,749	$71,012	$70,902
Advertising, rent and other	14,121	14,412	13,573
Total operating revenues	81,870	85,424	84,475
Operating expenses			
Labor	229,795	220,723	216,188
Benefits	96,528	96,432	99,851
Services	41,998	35,785	33,869
Materials and supplies	43,458	38,487	44,327
Purchased transportation	50,316	45,608	46,900
Depreciation	246,794	239,439	236,406
Utilities	18,008	17,983	17,151
Taxes, leases, and other	4,835	4,829	5,245
Casualty and liability	7,536	5,983	4,582
Total operating expenses	739,268	705,269	704,519
Operating loss	(657,398)	(619,845)	(620,044)
Non-operating revenues (expenses)			
Sales and use tax revenue	545,907	519,448	486,564
Investment income	14,888	23,479	19,547
Build America Bonds tax credit	28,391	28,289	28,259
Other federal grants	43,731	82,112	92,211
Other non-operating revenues	16,412	24,371	15,760
Interest expense	(172,340)	(185,933)	(182,581)
Loss on HOV lane investments	(3,100)	(66,465)	-
Street improvements for member cities	(501)	(560)	(2,127)
Other non-operating expenses	(9,939)	(13,691)	(1,621)
Loss on transfer of HOV operations	-	-	(20,392)
Transfer of assets to the City of Dallas	-	(19,041)	-
Total net non-operating revenues	463,449	392,009	435,620
Loss before capital contributions and grants	(193,949)	(227,836)	(184,424)
Capital contributions	5,026	18,400	38,864
Decrease in net position	(188,923)	(209,436)	(145,560)
Net position, beginning of the year (as restated)	1,759,506	1,759,506	2,185,147
Net position, end of the year	$1,570,583	$1,759,506	$2,039,587

Significant changes in revenues and expenses are shown and explained on the following pages.

FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015 (Dollars in Thousands)

REVENUES

The following table summarizes revenues for fiscal years 2016 and 2015 with comparative information for 2014:

REVENUES AND CAPITAL CONTRIBUTIONS

Revenues	**2016**	**2015**	**2014**
Passenger revenues	$67,749	$71,012	$70,902
Advertising, rent and other	14,121	14,412	13,573
Sales and use tax revenue	545,907	519,448	486,564
Other federal grants	43,731	82,112	92,211
Investment income	14,888	23,479	19,547
Capital contributions	5,026	18,400	38,864
Build America Bonds tax credit	28,391	28,289	28,259
Other revenues	16,412	24,371	15,760
Total	**$736,225**	**$781,523**	**$765,680**

Passenger revenues – Include farebox receipts, monthly and annual pass revenues, paratransit revenue, and special event fares. Passenger revenues decreased by $3,263 (5%) in 2016 compared to a slight increase of $110 in 2015. The decrease in 2016 was due to a decrease in ridership. The increase in 2015 was due to an increase in light rail ridership.

Advertising, rent and other – Advertising income includes revenues from advertisements at transit stations, on DART buses, and electronic signs on light rail cars. Rental income includes revenue from the rental of land along the rail corridor and other properties. Advertising, rent and other income decreased by 2% ($291) in 2016 compared to an increase of 6% ($839) in 2015. The decrease in 2016 is because no media partnership advertising revenue (barter advertising) was recognized during 2016. The increase in 2015 is due to more media partnership advertising revenue (barter advertising) recognized during 2015. Rental revenue also increased due to a lease of the Cotton Belt rail right-of-way to the T.

Sales and use tax revenue **–** Sales and use tax revenue is a dedicated 1% tax imposed on certain items within DART's member jurisdictions or service area. Sales and use tax revenue increased by 5% ($26,459) in 2016 compared to an increase of 7% ($32,884) in 2015. The increases in both 2016 and 2015 are due to a relative improvement in the local economy resulting in better than previous year's retail sales. Sales and use tax revenue constituted approximately 74% of DART's total revenues in 2016 compared to 67% in 2015.

Other federal grants – Other federal grant revenues decreased by 47% ($38,381) in 2016 compared to a decrease of 11% ($10,099) in 2015. The decreases in both 2016 and 2015 were due to less federal grant money made available to DART. DART received less federal grant money for vanpool and ozone programs from the Federal Transit Administration (FTA), $955 in 2016 compared to $1,100 in 2015 and from the United States Department of Homeland Security, $225 in 2016 compared to $448 in 2015.

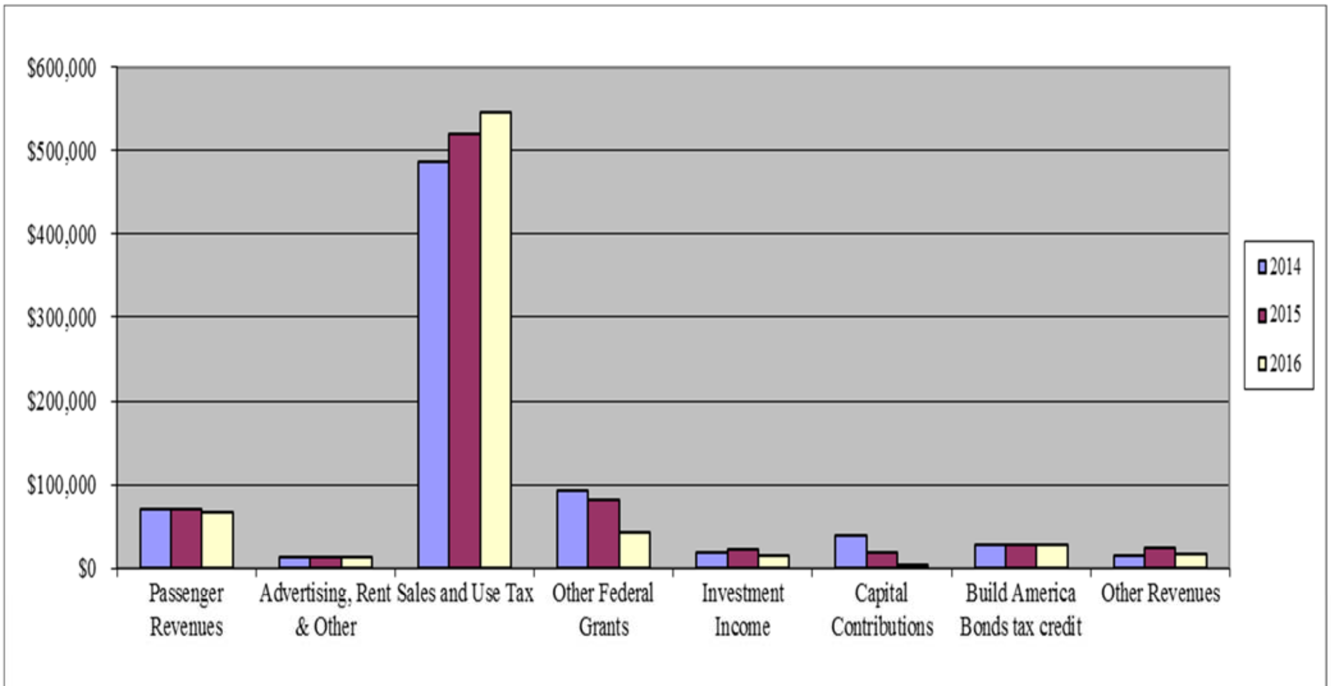
Capital contributions – Capital contributions include federal, state and local grants and contributions. Capital contributions decreased by 73% ($13,374) in 2016 compared to a decrease of 53% ($20,464) in 2015. The decreases in both 2016 and 2015 were mainly due to lower federal and state capital contributions as a result of completion of projects funded with such grants.

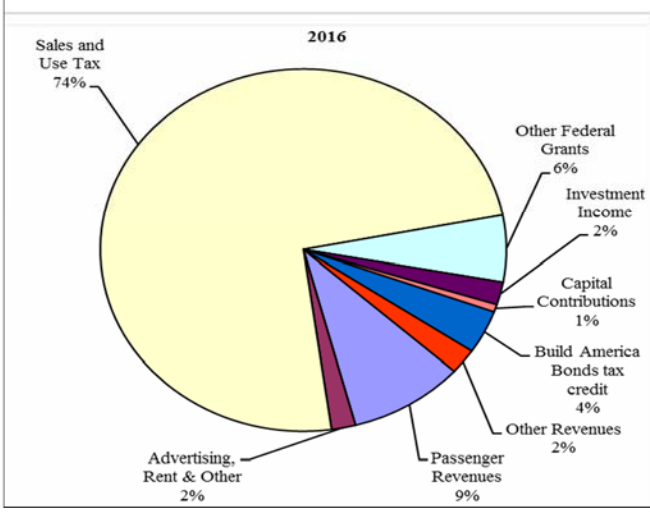
Investment income – Investment income decreased by 37% ($8,591) in 2016 compared to a 20% ($3,932) increase in 2015. The decrease in 2016 is due to a decrease in investments held to pay lease/leaseback obligations as a result of the termination of one of the two remaining capital lease obligations and a decrease in the market value of the DART investment portfolio. The increase in 2015 is due to appreciation of the market value of the DART investment portfolio.

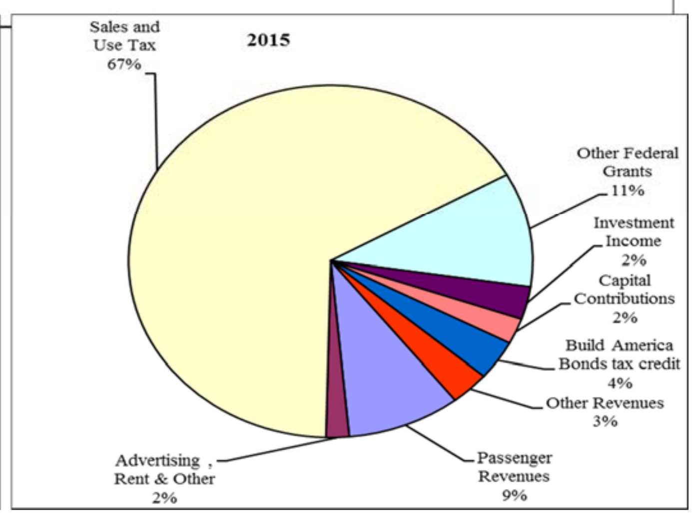
Build America Bonds tax credit – The Build America Bonds (BABs) tax credit increased by $102 in 2016 compared to a slight increase of $30 during 2015. The increases in both 2016 and 2015 were due to a lower rate of budget cut by the federal government compared to prior years.

Other revenues – Other revenues decreased by 33% ($7,959) in 2016 compared to a 55% ($8,611) increase in 2015. Other revenues include: revenues from billings to the Fort Worth Transportation Authority (The T) for their share of the Trinity Railway Express (TRE) commuter rail service; and recognition of Toll Credits received from the State of Texas. The decrease in 2016 and increase in 2015 were caused by changes in the amount of Toll Credits received from the State of Texas. More Toll Credits, $10,546, were received during 2015 compared to $22 during 2016.

The following charts summarize revenues for fiscal years 2014 through 2016:







FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015 (Dollars in Thousands)

EXPENSES

The following table summarizes expenses for fiscal year 2016 and 2015 with comparative information for 2014:

EXPENSES BY OBJECT CLASS

Expenses	**2016**	**2015**	**2014**
Labor	$229,795	$220,723	$216,188
Benefits	96,528	96,432	99,851
Services	41,998	35,785	33,869
Materials and supplies	43,458	38,487	44,327
Purchased transportation	50,316	45,608	46,900
Depreciation and amortization	246,794	239,439	236,406
Utilities	18,008	17,983	17,151
Taxes, leases and other	4,835	4,829	5,245
Casualty and liability	7,536	5,983	4,582
Street improvements for member cities	501	560	2,127
Interest and financing expenses	172,340	185,933	182,581
Other non-operating expense	9,939	13,691	1,621
Loss on HOV lane investments	3,100	66,465	-
Loss on transfer of HOV operations	-	-	20,392
Transfer of assets to the City of Dallas	-	19,041	-
Total	**$925,148**	**$990,959**	**$911,240**

Labor – Labor costs increased by 4% ($9,072) in 2016 compared to an increase of 2% ($4,535) in 2015. The increase in 2016 is due to merit increases and more positions filled during 2016. The increase 2015 was due to merit increases.

Benefits – Benefits increased slightly by ($96) in 2016 compared to a 3% ($3,419) decrease in 2015. The increase in 2016 is due to workers' compensation claims as a result of large claims. The decrease in 2015 was due to lower defined benefit pension expense and lower medical claim costs compared to 2014. The decrease in the defined benefit pension plan expense is due to implementation of the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Savings in medical claims costs during 2015 were due to several initiatives taken which included ensuring that only eligible individuals are insured.

Services – Services include contracted services such as: security, vehicles, equipment and right-of-way maintenance, advertising, marketing, computing, communication, legal, governmental, and environmental services. Services increased by 17% ($6,213) in 2016 compared to an increase of 6% ($1,916) in 2015. The increase in 2016 is due to increased spending on maintenance of rail right of way and other facilities, software maintenance and license, and technology-related consulting. The increase in 2015 is due to more media partnership advertising expense (barter advertising) recognized during 2015 and an increase in technology related consulting services.

Materials and supplies – Materials and supplies include the cost of fuel, parts and supplies used to operate and maintain vehicles, equipment, and facilities. Materials and supplies expenses increased by 13% ($4,971) in 2016 compared to a decrease of 13% (5,840) in 2015. The increase in 2016 was due to the need for more bus and rail parts as the vehicles got older. Investments made in upgrading DART technology software and hardware also contributed to the increase. The decrease in 2015 was due to less spending on bus parts and savings in fuel costs as a result of replacing the older bus fleet with new compressed natural gas (CNG) buses, and a decrease in allowance for obsolete parts. A decrease in the price per gallon of diesel fuel also contributed to the decrease during 2015.

Purchased transportation – Purchased transportation represents the costs of contracted transportation services such as commuter rail, paratransit, DART on-call, and shuttle services. Purchased transportation expenses increased by 10% ($4,708) in 2016 compared to a 3% ($1,292) decrease in 2015. The increase in 2016 is mainly due to rate increases in the commuter rail and paratransit services contracts. The decrease in 2015 is mainly due to a decrease in the price per gallon of diesel fuel for TRE service.

Depreciation – Depreciation expenses increased by 3% ($7,355) in 2016 compared to a 1% ($3,033) increase in 2015. The increase in 2016 is due to a change in the estimated useful lives of some commuter rail vehicles which resulted in additional depreciation expense being booked during 2016. The increase in 2015 was due to new assets, such as the DFW Rail Line and new CNG buses, placed in service.

Utilities – Utilities represent the cost of electricity, telecommunications, water, sewer, and natural gas. Utilities increased by less than 1% ($25) in 2016 compared to an increase of 5% ($832) in 2015. The slight increase in 2016 is due to warmer weather that resulted in less consumption of natural gas for heating. The increase in 2015 is due to an increase in electricity usage as a result of DART light rail extension to the DFW International Airport in August 2014.

Taxes, leases, and other **–** Taxes, leases, and other includes fuel and lube taxes, equipment rentals, leases of operating and passenger facilities, training, travel, business meetings, membership dues, subscriptions, employee programs and allowance for uncollectible receivables. Taxes, leases, and other expenses increased slightly by $6 in 2016 compared to a decrease of 8% ($416) in 2015. The decrease in 2015 is due to lower fuel taxes as a result of replacing diesel fuel operated buses with new compressed natural gas (CNG) buses.

Casualty and liability – Casualty and liability expenses increased by 26% ($1,553) in 2016 compared to an increase of 31% ($1,401) in 2015. The increases in both 2016 and 2015 were due to higher claim losses.

Street improvements – Local assistance is provided to eligible member jurisdictions in the form of technical and financial assistance to reduce traffic congestion and complement bus and public transit operations. The street improvement program costs decreased by 11% ($59) in 2016 compared to a 74% ($1,567) decrease in 2015. The decrease in both 2016 and 2015 was due to less work on intelligent transportation systems as a result of projects getting close to completion.

Interest **–** Interest expense decreased by 7% ($13,593) in 2016 compared to an increase of 2% ($3,352) in 2015. The decrease in 2016 is due to savings in interest expense as a result of bond refunding (refinancing) and a decrease in capital lease/leaseback obligations due to termination of one of the two remaining lease/leaseback transactions in November 2015. In 2015 interest expense increased due to additional borrowings and less interest capitalized as a result of the completion of Rowlett extension, Irving I, Irving II and Irving III light rail service expansion projects.

Other non-operating expenses – Other non-operating expenses decreased by 27% ($3,752) in 2016 compared to an increase of 745% ($12,070) in 2015. In 2016 $22 Toll Credit related expenses was incurred compared to $10,546, in 2015 and this resulted in a decrease in non-operating expenses. The increase in 2015 is due to recognition of Toll Credits.

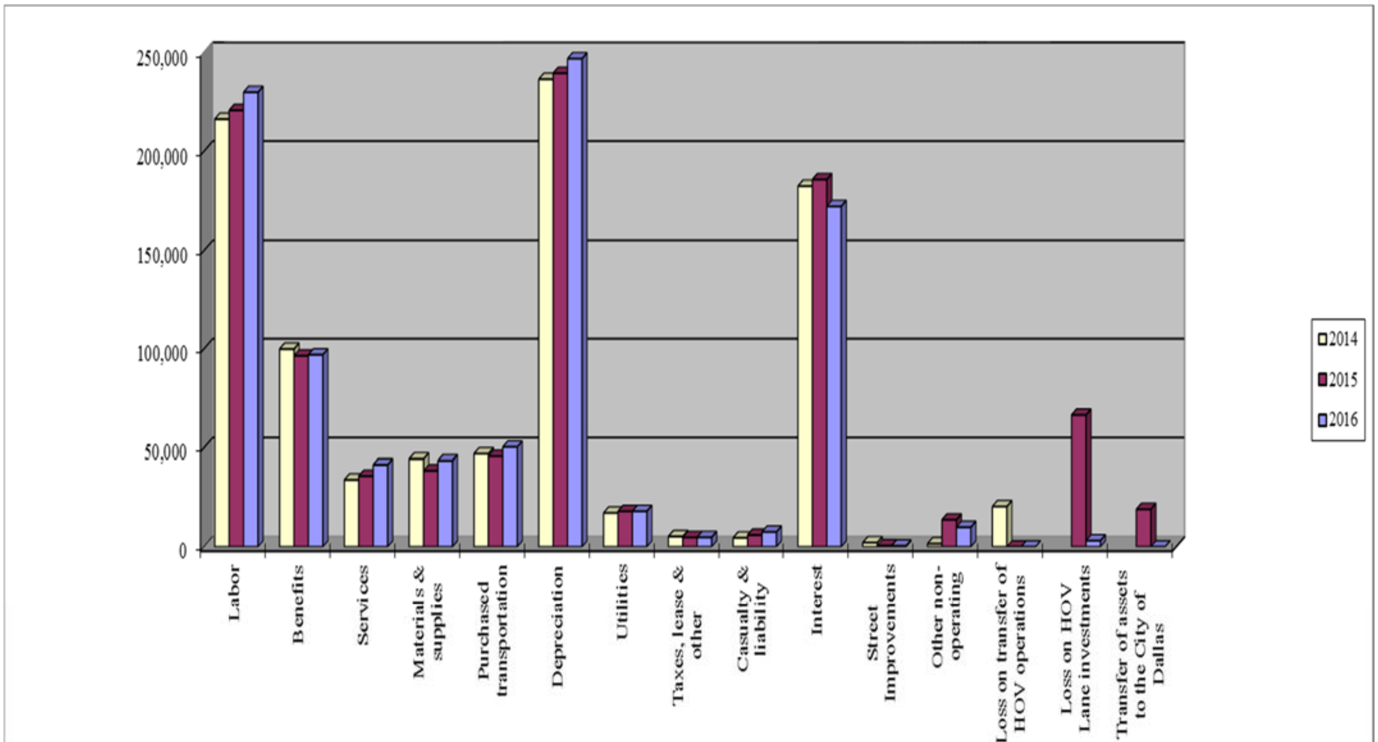
Loss on transfer of HOV operations: DART and the Texas Department of Transportation (TxDoT) entered into an agreement effective July 9, 2014 to transfer the responsibilities for operations and maintenance of high occupancy vehicle (HOV) lanes from DART to TxDoT. As of the transfer effective date, DART had $20,392 worth of HOV related assets on its books. As part of the transfer of HOV operations and assets, no consideration was paid to DART. As a result, DART recorded a loss of $20,392 which is the book value of HOV assets as of July 9, 2014 in accordance with Government Accounting Standards Statement No. 69, *Government Combinations and Disposal of Government Operations.*

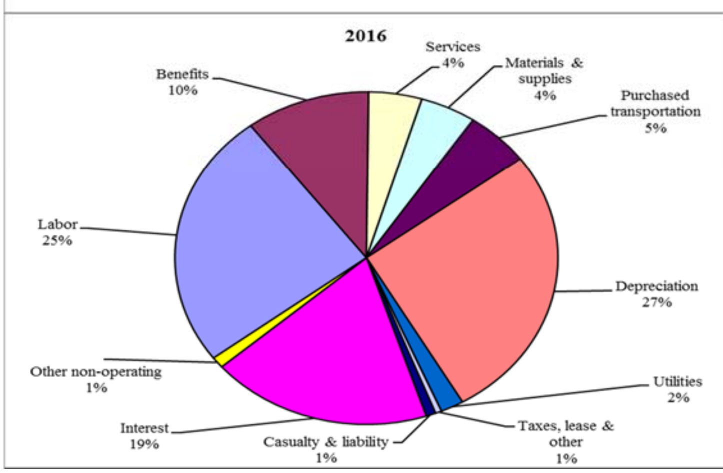
Loss on HOV lane investments: DART and TxDoT entered into agreements related to two managed HOV lane projects. In anticipation that DART would participate in a toll revenue stream, DART provided a portion of the funding for the two projects. DART's portion of the funding is recorded as Investment in Managed HOV Lane Agreements on the Statements of Net Assets. Every year a financial analysis of the value of DART investment in Managed HOV Lane projects is performed. As of September 30, 2016 and 2015, the value is estimated to be $10.5 million and $13.6 million, respectively. As a result, a decline in value in the amount of $3,100 in 2016 and $66,465 are recorded as a loss on HOV lane investments.

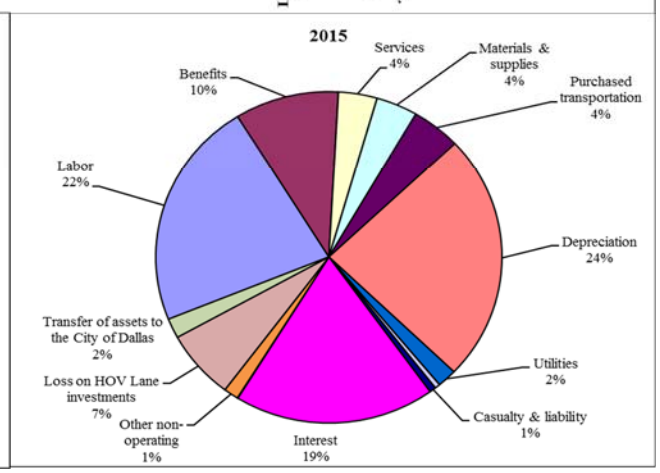
Transfer of assets to the City of Dallas: DART and the City of Dallas entered into various agreements related to the Dallas Streetcar programs and one transit related development project. Under these agreements, DART plays the role of project manager for the City of Dallas to build/acquire assets and the City owns, maintains and uses the assets. With respect to such project, DART bought the initial two streetcar vehicles by paying up to $9 million of the cost with its own money, and transferred the ownership of the vehicles to the City of Dallas. In the remaining two projects, DART is the grant recipient of the funding obtained from the Federal Transit Administration for the projects. As a result, DART kept the assets on its books and transferred them to the City of Dallas when the assets were placed in service. The transfer of assets worth $19 million took place during 2015 and this is shown in the Statements of Changes in Net Position as Transfer of assets to the City of Dallas.

The charts on the following page summarize expenses for fiscal years 2014 through 2016.

The following charts summarize expenses for fiscal years 2014 through 2016:





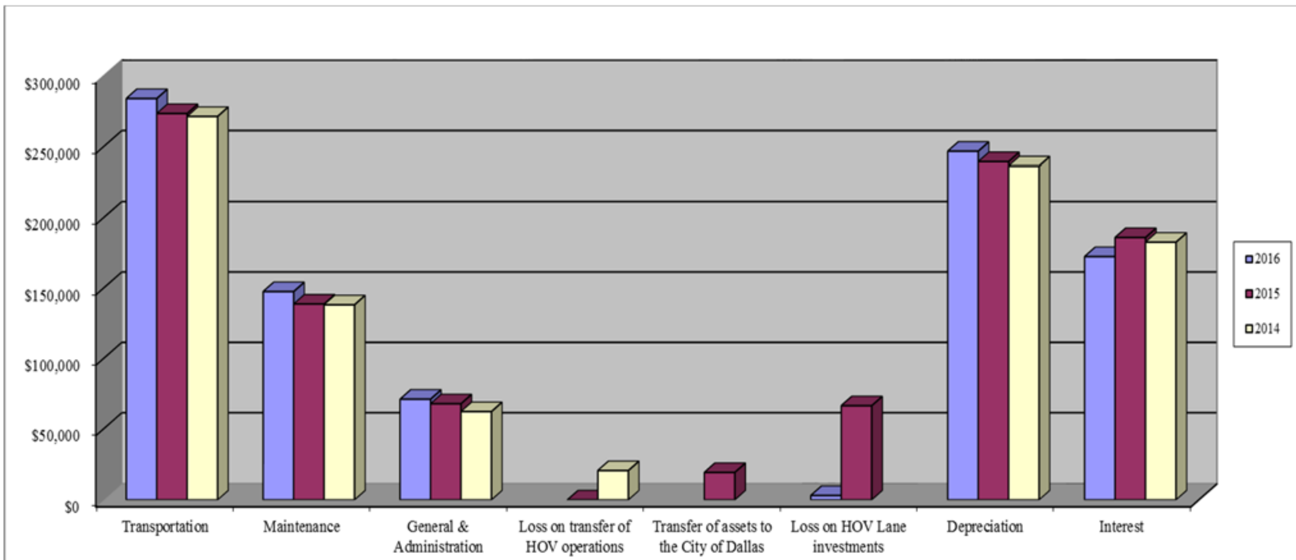


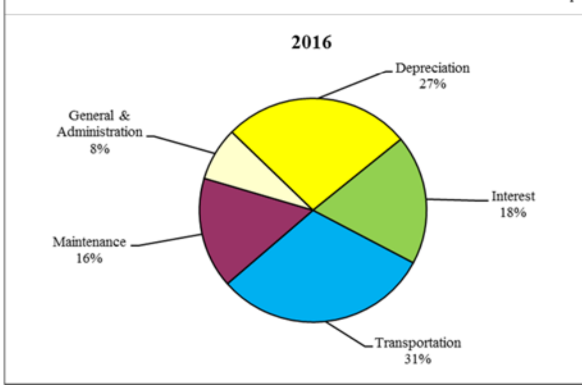
FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015 (Dollars in Thousands)

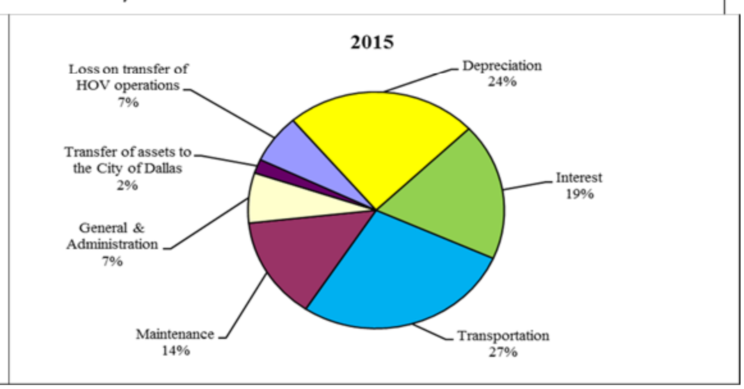
Expenses by function – *Transportation* - includes expenses that are directly related to the operation of bus, light rail, commuter rail, vanpool, paratransit, and DART on-call and shuttle services. These expenses include such items as wages and benefits for operators, transit center service employees, transportation supervisors and managers, DART police, cost of fuel, tires and tubes, propulsion power, purchased transportation, customer service, revenue collection, and other related costs. *Maintenance* – includes labor costs and benefits for vehicle and facility maintenance, materials and supplies, utilities, and all other costs incurred for maintenance purposes. *General and administration* – includes administrative personnel costs, benefits, accident, general liability and contract claims, street improvements, and other related costs. *Depreciation* – includes depreciation expense on all depreciable capital assets. *Interest* – includes interest expense incurred on debt net of capitalized interest.

EXPENSES BY FUNCTION

	2016	2015	2014
Transportation	$284,136	$273,552	$271,425
Maintenance	147,499	138,662	138,154
General and administration	71,279	67,867	62,282
Loss on HOV lane investments	3,100	66,465	-
Loss on transfer of HOV operations	-	-	20,392
Transfer of assets to the City of Dallas	-	19,041	-
Depreciation and amortization	246,794	239,439	236,406
Interest	172,340	185,933	182,581
Total	**$925,148**	**$990,959**	**$911,240**







FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015 (Dollars in Thousands)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets – Investment in capital assets includes: land and rights-of-way; transitways; buildings and improvements; revenue and non-revenue vehicles and equipment; and furniture, fixtures, and leasehold improvements. DART's investment in capital assets as of September 30, 2016, is $4,543,656 compared to $4,681,920 in 2015. The net decrease in capital assets during 2016 is $138,264 (3%) compared to a decrease of $128,084 (3%) in 2015.

The following table summarizes capital assets net of depreciation as of September 30 with comparative information for 2014.

Capital Assets (Net of Depreciation)

	2016	2015	2014
Land and rights-of-way	$615,709	$616,728	$609,498
Projects in progress	190,992	101,124	70,845
Transitways	2,671,832	2,800,198	2,914,631
Buildings and improvements	382,561	406,635	429,783
Revenue and non-revenue vehicles and equipment	676,793	750,296	776,348
Furniture, fixtures, and leasehold improvements	5,769	6,939	8,899
Total	$4,543,656	$4,681,920	$4,810,004

The net decreases in both 2016 and 2015 are due to depreciation. However, there were increases before depreciation in both fiscal years due to the cost of planning, designing and building the Light Rail Transit (LRT) Phase II and Phase III expansions. The Phase II expansion consists of approximately 46 miles of light rail transit lines. These new lines extend northwest from Downtown Dallas to the cities of Carrollton, Farmers Branch, and Irving and southeast from Downtown Dallas to Buckner Blvd. in South Dallas and northeast from the Downtown Garland Station to the Rowlett Park-and-Ride. The first section of the southeast extension, Bryan Street to Fair Park, opened for service on September 14, 2009. Other northwest and southeast extensions opened for service during fiscal year 2011 and the first section of Irving line segment opened for service in July 2012. The second section of the Irving line segment and the northeast segment (Rowlett) opened for service in December 2012 and the third Irving line segment to the DFW International Airport opened for service in August 2014. The Phase III light rail build-out consists of approximately a three-mile extension of the Blue Line from Ledbetter Station toward the University of North Texas (UNT) Dallas Campus located at the southeast corner of Camp Wisdom Road and University Hills Blvd.

Additional information on DART's capital assets is shown in note 7 on pages 27-28.

Outstanding debt – Outstanding debt includes sales tax revenue commercial paper notes, senior lien revenue bonds, TIFIA bonds payable, and capital lease/leaseback liabilities. As of September 30, 2016, DART had total outstanding debt of $3,600,545 compared to $3,818,713 as of September 30, 2015. Outstanding debt decreased by 6% ($218,168) in 2016 compared to a 1% ($39,212) decrease in 2015.

The following table summarizes DART's total outstanding debt.

	Outstanding Debt		
	2016	2015	2014
Sales tax revenue commercial paper notes	$170,000	$200,000	$180,000
Senior lien revenue bonds payable	3,215,820	3,312,615	3,377,920
TIFIA bonds payable	105,000	105,000	100,000
Capital lease/leaseback liabilities	109,725	201,098	200,005
Total debt	$3,600,545	$3,818,713	$3,857,925

The sales tax revenue commercial paper notes outstanding balance was $170,000 as of September 30, 2016 compared to $200,000 as of September 30, 2015. Commercial paper notes are issued as a senior subordinate lien to sales and use tax revenues and are payable from the 1% sales and use tax receipts. The decrease during 2016 was due to payments made on commercial paper notes. The increase during 2015 was due to additional borrowings to pay for capital project costs.

Senior lien revenue bonds outstanding are $3,215,820 as of September 30, 2016 and $3,312,615 as of September 30, 2015. These are senior lien bonds secured by and payable from the 1% sales and use tax receipts and farebox revenues (pledged revenues). The decrease of $96,795 is due to principal payment and advance refunding during 2016. Although the face value of the bonds increased, overall financing costs decreased during 2016. The decrease of $65,305 during 2015 is due to principal payment and advance refunding made in December 2014. All DART bonds are issued to finance capital projects. The senior lien revenue bonds are shown net of original issuance premium (discount) of $221,664 and $130,068 as of September 30, 2016 and 2015 in the Statements of Net Position.

During 2016, DART maintained a AA+ credit rating from Standard & Poor's, and a Aa2 from Moody's for its bonds.

TIFIA bonds payable are $105,000 as of September 30, 2016 and 2015. On December 13, 2012 DART entered into a Transportation Infrastructure Finance and Innovation Act (TIFIA) financing agreement with the U.S. Department of Transportation (DOT). Under this loan agreement, DART issued a Senior Lien Obligation bond to borrow up to $105,000 from the DOT. The proceeds from the bond are used to pay for the cost of the third phase of DART's light rail Orange Line extension project, which extends DART's light rail service from Irving to the Dallas Fort Worth International Airport. The TIFIA financing agreement is reimbursement-based and DART requested the money after paying for the capital project costs. The TIFIA bond is a Senior Lien Obligation and is secured by and payable from Pledged Revenues on parity with other Senior Lien Obligations.

Capital lease/leaseback liabilities are $109,725 and $201,098 as of September 30, 2016 and 2015, respectively. The decrease in capital lease/leaseback liabilities in 2016, $91,373 (45%), was due to a termination of one of the outstanding lease/leaseback obligations in November 2015. The increase in capital lease/leaseback liabilities in 2015, $1,093 (1%), is due to accrued interest.

Additional information on DART's outstanding debt is shown in footnotes 11-17.

ECONOMIC OUTLOOK

Sales and use tax is the largest source of revenue for DART, representing 74% of total revenues in 2016 compared to 67% in 2015. Sales and use tax revenues are affected by changes in the local economy. During fiscal year 2016, DART's sales and use tax revenues showed a 5% increase compared to the previous year. Actual sales and use tax revenues in 2016 are $545,907 compared to $519,448 in 2015. The sales and use tax budget for 2017 is $563,578 compared to $545,907 actual for 2016. The budget for 2017 represents a 3.2% increase from the 2016 actual sales and use tax revenues.

REQUESTS FOR INFORMATION

This financial report is designed to provide our member jurisdictions, customers, investors, and creditors with a general overview of DART's finances. If you have questions concerning any of the information provided in this report or need additional financial information, contact the Chief Financial Officer at Dallas Area Rapid Transit, 1401 Pacific Avenue, P.O. Box 660163, Dallas, TX 75266-7220.

DALLAS AREA RAPID TRANSIT
STATEMENTS OF NET POSITION

SEPTEMBER 30, 2016 and 2015 (Dollars in Thousands)

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$53,651	$66,985
Investments	562,223	714,640
Sales and use tax receivable	94,308	87,687
Transit revenue receivable, net	5,610	4,540
Due from federal and other governments	29,865	21,965
Materials and supplies inventory, net	33,828	35,674
Prepaid transit expense and other	4,385	2,975
Restricted investments held by trustee for debt service	112,301	108,952
Restricted investments held for advance funding agreements	67,055	67,576
Restricted investments held to pay capital lease/leaseback liabilities	6,374	12,210
TOTAL CURRENT ASSETS	969,600	1,123,204
NONCURRENT ASSETS		
Restricted investments held as security for capital lease/leaseback liabilities	8,560	9,334
Investment in joint venture	13,128	19,458
Investment in managed HOV lane agreements	10,500	13,600
Capital assets		
Land and rights-of-way	615,709	616,728
Projects in progress	190,992	101,124
Depreciable capital assets, net of depreciation	3,736,955	3,964,068
Restricted investments held to pay capital lease/leaseback liabilities	103,351	188,888
Unamortized bond insurance premium and other	707	1,069
TOTAL NONCURRENT ASSETS	4,679,902	4,914,269
TOTAL ASSETS	5,649,502	6,037,473
DEFERRED OUTFLOWS OF RESOURCES	101,279	45,682
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	5,750,781	6,083,155
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	56,011	69,793
Commercial paper notes payable	170,000	200,000
Current portion of capital lease/leaseback liabilities	6,374	12,210
Current portion of repayment due to State Comptroller	824	824
Local Assistance Program payable	685	1,336
Retainage payable	23,205	22,241
Unearned revenue and other liabilities	112,035	114,067
Accrued interest payable from restricted assets	52,933	59,195
Current portion of senior lien revenue bonds payable	53,962	48,115
TOTAL CURRENT LIABILITIES	476,029	527,781
NONCURRENT LIABILITIES		
Accrued liabilities	36,313	34,636
Net pension liability	63,697	62,190
Repayment due to State Comptroller	7,751	8,575
Senior lien revenue bonds payable	3,385,554	3,394,568
Transportation Infrastructure Finance and Innovation Act (TIFIA) bonds payable	102,968	105,000
Capital lease/leaseback liabilities	103,351	188,888
TOTAL NONCURRENT LIABILITIES	3,699,634	3,793,857
TOTAL LIABILITIES	4,175,663	4,321,638
DEFERRED INFLOWS OF RESOURCES	4,535	2,011
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	4,180,198	4,323,649
NET POSITION		
Net investment in capital assets	881,241	938,644
Restricted for debt service	59,368	49,757
Restricted as security for capital lease/leaseback liabilities	8,560	9,334
Unrestricted	621,414	761,771
TOTAL NET POSITION	$1,570,583	$1,759,506

The accompanying notes are an integral part of these financial statements.

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

FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015 (Dollars in Thousands)

	2016	2015
OPERATING REVENUES		
Passenger revenues	$67,749	$71,012
Advertising, rent, and other	14,121	14,412
TOTAL OPERATING REVENUES	81,870	85,424
OPERATING EXPENSES		
Labor	229,795	220,723
Benefits	96,528	96,432
Services	41,998	35,785
Materials and supplies	43,458	38,487
Purchased transportation	50,316	45,608
Depreciation and amortization	246,794	239,439
Utilities	18,008	17,983
Taxes, leases, and other	4,835	4,829
Casualty and liability	7,536	5,983
TOTAL OPERATING EXPENSES	739,268	705,269
NET OPERATING LOSS	(657,398)	(619,845)
NON-OPERATING REVENUES (EXPENSES)		
Sales and use tax revenue	545,907	519,448
Investment income	5,552	8,290
Interest income from investments held to pay capital lease/leaseback	9,336	15,189
Interest expense on capital lease/leaseback	(9,336)	(15,189)
Loss on HOV lane investments	(3,100)	(66,465)
Street improvements	(501)	(560)
Interest and financing expenses	(163,004)	(170,744)
Build America Bonds tax credit	28,391	28,289
Other federal grants	43,731	82,112
Other non-operating revenues	16,412	24,371
Other non-operating expenses	(9,939)	(13,691)
Transfer of assets to the City of Dallas	-	(19,041)
NET NON-OPERATING REVENUES	463,449	392,009
LOSS BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	(193,949)	(227,836)
CAPITAL CONTRIBUTIONS AND GRANTS		
Federal capital contributions	3,656	17,738
State capital contributions	1,217	333
Local capital contributions	153	329
TOTAL CAPITAL CONTRIBUTIONS AND GRANTS	5,026	18,400
CHANGE IN NET POSITION	(188,923)	(209,436)
TOTAL NET POSITION – BEGINNING OF YEAR	1,759,506	1,968,942
TOTAL NET POSITION – END OF YEAR	$1,570,583	$1,759,506

The accompanying notes are an integral part of these financial statements.

DALLAS AREA RAPID TRANSIT
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015 (Dollars in Thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$78,983	$83,732
Cash flows from other sources	17,487	39,565
Payments to suppliers of goods and services	(146,646)	(103,133)
Payments to purchased transportation service providers	(48,434)	(48,623)
Payments to employees	(236,396)	(218,592)
Benefit payments on behalf of employees	(99,110)	(103,767)
NET CASH USED BY OPERATING ACTIVITIES	(434,116)	(350,818)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Sales and use tax receipts	538,461	516,256
Other federal grants	43,889	82,045
Other non-capital financing receipts	17	25
Build America Bonds tax credit	28,391	28,239
Local Assistance Program and street improvements	(1,152)	(721)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	609,606	625,844
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	7,249	9,485
Proceeds from sales and maturity of investments	900,615	1,170,961
Purchase of investments	(748,733)	(1,126,102)
Decrease (increase) in restricted assets	(2,828)	(27,456)
Investment in managed HOV lane agreements	-	(13,360)
NET CASH USED BY INVESTING ACTIVITIES	156,303	13,528
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(109,486)	(146,147)
Proceeds from the issuance of commercial paper notes	880,000	530,000
Payment on commercial paper notes	(910,000)	(510,000)
Proceeds from TIFIA Bonds		5,000
Payment of debt issuance costs	(9,730)	(604)
Principal payment on revenue bonds	(48,115)	(38,215)
Interest and financing expenses	(153,744)	(174,937)
Federal capital contributions	1,693	25,788
State capital contributions	3,927	60,000
Local capital contributions	153	329
Proceeds from the sale of capital assets	175	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(345,127)	(248,786)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,334)	39,768
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	66,985	27,217
CASH AND CASH EQUIVALENTS, END OF YEAR	$53,651	$66,985

(Continued)

DALLAS AREA RAPID TRANSIT
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015 (Dollars in Thousands)

	2016	2015
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating loss	$(657,398)	$(619,845)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation and amortization	246,794	239,439
Miscellaneous non-operating income	16,199	13,799
Miscellaneous non-operating expenses	(13,018)	(3,146)
Changes in assets and liabilities		
(Increase) Decrease in transit receivable	(1,222)	(1,958)
(Increase) Decrease in due from federal & other governments	3,681	895
Increase in materials and supplies inventory	1,847	(6,980)
Decrease in prepaid expenses and other current assets	(1,192)	333
Increase (Decrease) in net pension liability	1,507	(6,230)
Increase (decrease) in accounts payable and accrued liabilities	(23,666)	7,489
Increase (Decrease) in unearned revenue and other liabilities	(7,648)	25,386
NET CASH USED BY OPERATING ACTIVITIES	$(434,116)	$(350,818)

	2016	2015
NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Interest income from investments held to pay capital lease/leaseback	$9,336	$15,189
Interest expense on capital lease/leaseback	(9,336)	(15,189)
Increase (Decrease) in capital lease/leaseback obligations	91,373	1,093
(Increase) Decrease in investments held to pay capital lease/leaseback	(91,373)	(1,093)
Increase (Decrease) in fair value of investments	(680)	2,581
Amortization of premium, discount, bond insurance premium costs, and loss on debt refunding	(4,479)	(5,400)
Purchases of capital assets in accounts payable at year-end	10,503	9,392
Transfer of assets to the City of Dallas		(19,041)
Loss on HOV lane investments	(3,100)	(66,465)
Toll Credits	22	10,546
(Increase) Decrease in deferred outflows of resources – derivative instrument	1,423	(937)
Proceeds from the issuance of revenue bonds paid into escrow	961,340	497,876
Payment for advance refunding of revenue bonds	(967,191)	(496,226)

(Concluded)

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Dallas Area Rapid Transit (DART) is a regional transportation authority of the State of Texas, created and confirmed by passage of a referendum on August 13, 1983, pursuant to Article 1118y of the Vernon's Annotated Texas Civil Statutes, as amended, and recodified into Section 452 of the Texas Transportation Code (the Code) effective September 1, 1995. DART is organized to provide public and general transportation services to 13 member jurisdictions in five counties: Dallas, Collin, Ellis, Denton, and Rockwall. The member jurisdictions in which the voters elected to be included in DART consist of the cities of Carrollton, Cockrell Hill, Dallas, Farmers Branch, Garland, Glenn Heights, Irving, Plano, Richardson, Rowlett, and University Park, and the towns of Addison and Highland Park. Fifteen Board members represent the 13 member jurisdictions. Board members are appointed according to the ratio of the population of a member jurisdiction to the total population of the service area. One Board member may represent multiple jurisdictions.

Amendments to DART's enabling legislation require approval of the Texas State Legislature, which holds its regular session every two years. Past legislative changes allowed the issuance of lease/leaseback transactions (see Note 11), changed the collection period of sales taxes from quarterly to monthly, and allowed a joint pledge of sales and use tax and farebox revenues as security for long-term debt. Future changes to DART's enabling legislation could have a material impact on DART's financial position. The next session of the State Legislature is scheduled to begin in January 2017.

On August 12, 2000, the voters of the DART Service Area passed a referendum that allows DART to issue up to $2.9 billion of bonds or notes that are solely payable from and secured by the DART sales and use tax revenue, have maturities beyond five years, and are issued pursuant to the authority granted at the election. On August 9, 2001, DART issued $400 million of the authorized $2.9 billion bonds. On September 10, 2002, $98.7 million of the authorized bonds were issued. On March 8, 2007, an additional $770.3 million of the authorized bonds were issued. From the $770.3 million, $317.7 million was issued to refund part of the 2001 and 2002 bonds. The remaining $452.6 million was issued to payoff commercial paper notes. In April 2008, the Board approved the fourth issuance of Bonds (Series 2008), for $731.4 million as authorized by the Master Debt Resolution. This issuance included $341 million to refund commercial paper notes. In May 2009, the Board approved the fifth issuance of Bonds (Series 2009A and Series 2009B), for $1 billion as authorized by the Master Debt Resolution (see Note 13). In September 2010, the Board approved the sixth issuance of Bonds (Series 2010A and Series 2010B), for $824.6 million as authorized by the Master Debt Resolution (see Note 13). On November 15, 2012, DART issued and sold $127,775 in Senior Lien Sales Tax Revenue Bonds (Series 2012 Bonds). Series 2012 Bonds were issued to refund $150,000 Commercial Paper Notes. The Commercial Paper Notes were issued to finance capital expenditures for DART's system expansion and acquisition. On December 13, 2012 DART entered into a Transportation Infrastructure Finance and Innovation Act (TIFIA) financing agreement with the U.S. Department of Transportation (see note 14). Under this agreement, DART borrowed $105,000 from the U.S. Department of Transportation. The proceeds from the bond were used to pay for the cost of the third phase of DART's light rail Orange Line extension project, which extended DART's light rail service from Irving to the Dallas Fort Worth International Airport. These bonds are Senior Lien Revenue Bonds that are secured by, and payable from, a senior lien on Pledged Revenues. On December 11, 2014, DART issued and sold $426,035 in Senior Lien Sales Tax Revenue Bonds ($379,480 in Series 2014A Bonds and $46,555 in Series 2014B Bonds). The Series 2014A and 2014B bonds were issued to refund part of the 2007 and 2008 bonds. On December 15, 2015, DART issued and sold $117,470 in Series 2015 Senior Lien Sales Tax Revenue Bonds to refund part of the 2007 bonds. On February 18, 2016, DART issued and sold $482,530 Series 2016A Senior Lien Sales Tax Revenue Bonds to refund part of the 2008 bonds; and on September 21, 2016 DART issued and sold $228,900 Series 2016B Senior Lien Sales Tax Revenue Bonds to refund part of the 2007, 2008, and 2009A bonds.

DART received approximately $545,907 in 2016 from a 1% sales and use tax imposed on certain items within its member jurisdictions compared to $519,448 in 2015. These revenues constituted approximately 74% of DART's total revenues during fiscal year 2016 compared to 67% during 2015. Approximately 50%, 14%, and 11% of these sales and use tax revenues were collected from sales in the cities of Dallas, Plano, and Irving during fiscal year 2016 compared to 50%, 14%, and 12% for fiscal year 2015.

Basis of Accounting – The activities of DART are accounted for as proprietary funds and therefore are reported as an enterprise fund in accordance with governmental accounting and financial reporting principles issued by the Governmental Accounting Standards Board (GASB). Accordingly, DART uses the accrual basis of accounting.

Reporting Entity – DART has two blended component units, Regional Rail Right-Of-Way Corporation (RRRC) and Dallas Area Rapid Transit Bus Service, LGC (LGC). RRRC is a legally separate corporation, which was formed to facilitate the acquisition of certain properties and right-of-way for DART. The RRRC Board consists of three board members that are appointed by the DART Board. LGC is a Corporation created under the LGC Act to provide public transportation service (solely by bus) outside the DART Service Area on behalf of DART. DART management has operational responsibility for the LGC. Currently the LGC provides bus service to the cities of Arlington and Mesquite and demand response service to the cities of Allen, and Wylie, and the Town of Fairview in Collin County. The LGC Board consists of five Board members who are appointed by the DART Board of Directors.

Since DART appoints the governing boards of the RRRC and LGC and has operational responsibility for them; and since the RRRC and LGC activities directly benefit DART, the financial information of the RRRC and LGC are included in the accompanying financial statements of DART as blended component units in accordance with GASB Statement No. 61.

Internally prepared financial statements for either RRRC or LGC may be obtained by contacting the Chief Financial Officer at Dallas Area Rapid Transit, 1401 Pacific Avenue, P.O. Box 660163, Dallas, TX 75266-7220.

New Accounting Pronouncements – In February 2015, GASB issued Statement No. 72**,** *Fair Value Measurement and Application.* This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions in Statement 72 became effective for DART during fiscal year 2016.

In June 2015, GASB issued Statement No. 73**,** *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. Statement No. 73 also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The provisions in Statement 73 became effective for DART during fiscal year 2016.

In June 2015, GASB issued Statement No. 76**,** *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement became effective for DART during fiscal year 2016.

In December 2015 GASB issued Statement No. 79 *Certain External Investment Pools and Pool Participants.* This statement addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for provisions on portfolio quality, custodial credit risk, and shadow pricing which are effective for reporting periods beginning after December 15, 2015.

Cash and Cash Equivalents – DART considers investments in unrestricted funds with original maturities of less than 90 days at the date of purchase to be cash equivalents. Cash and cash equivalents were $53,651 and $66,985 as of September 30, 2016, and 2015, respectively.

Investments – The investment balances, other than investments held to pay lease/leaseback obligations (see Note 3), on September 30, 2016, and 2015 are stated at fair value with the exception of money market funds which are valued at amortized cost. Fair value is the amount at which an investment may be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. DART utilizes quoted market prices or other measurements on September 30, 2016, and 2015, as the equivalent of the fair value of investments. When both restricted and unrestricted funds are available, it is DART's policy to spend restricted funds first on eligible expenditures.

Material and Supplies Inventory – An inventory of supplies and parts is maintained at different DART warehouses for use in the operation and is recorded as an expense when consumed or placed in service. Inventory is stated at average cost.

Capital Assets – Capital assets are assets with an initial individual cost of more than five thousand dollars ($5,000) and an estimated useful life in excess of one year. Such assets are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets as indicated in Note 7. Major improvements to buildings and equipment are capitalized. Maintenance and repairs are charged to expense as incurred. Improvements and betterments that extend the useful lives of capital assets or add new functionality are capitalized. Transit system development costs for services such as project-related design, construction, construction management, and project management costs are capitalized when incurred. Interest expense incurred during the construction phase of a capital asset is capitalized. In 2016, total interest and financing expense of $168,267 was incurred, and $5,263 of this total was capitalized. In 2015, total interest and financing expense of $173,442 was incurred, and $2,698 of this total was capitalized. Donated assets are capitalized at estimated acquisition value on the date of donation.

FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015 (Dollars in Thousands)

Federal, State and Local Capital Contributions, and Grants – Grant funds used for the acquisition of property and equipment are recorded as capital contribution revenues when the related grant eligibility requirements are met and qualified expenditures are incurred. DART received $5,026 in federal, state and local capital contributions during 2016 compared to $18,400 during 2015. None of the total capital contributions received during 2016 were based on capital expenditures made during the previous years. In addition to capital contributions, DART also received $43,731 in 2016 compared to $82,112 in 2015 in the form of other federal grants. Included in these amounts are grants that are substantially related to capital maintenance grants from the federal government.

Paid Time Off, Vacation and Sick Leave – Salaried exempt and non-exempt employees are eligible for a "Paid Time Off" (PTO) benefits program. Accumulated PTO hours have no cash value unless the employee has five or more years of service. Upon termination of employment, a percentage of unused PTO hours will be paid in a lump sum based on number of years of continued service with DART. Hourly employees earn vacation and sick leave, which may be taken or accumulated up to certain levels, until paid upon retirement or termination. The liability for PTO, vacation, and sick leave has been calculated in accordance with GASB Statement No. 16, *Accounting for Compensated Absences,* and is included in the accounts payable and accrued liabilities line item in the accompanying Statements of Net Position.

Operating Revenues and Expenses – Operating revenues are generated from activities related to providing public transportation services such as bus, light rail, commuter rail, paratransit, and vanpool to DART customers. DART’s operating revenues include passenger fare revenues, advertising revenues, and certain rental income. Non-operating revenues are revenues not directly related to the operations of DART's transit service. Sales and use tax revenues, Build America Bond tax credit, and investment income are classified as non-operating revenues.

Operating expenses are incurred for activities directly related to providing public transportation services to DART customers. Such activities include transportation, maintenance, transit police, and general and administrative functions. Non-operating expenses include interest and financing costs, general planning and consulting work not related to current service, and the local assistance provided to eligible member jurisdictions.

Revenue Recognition – Operating revenues are recognized when transit service is provided. Monthly tickets and annual passes are sold for revenue service, including bus and rail operations. An estimate of unused tickets and passes is recorded as unearned transit revenue and is included in the unearned revenue and other liabilities line item in the accompanying Statements of Net Position.

Sales and Use Tax Revenues – Sales and use tax revenues are recognized when the underlying transactions occur. Sales and use tax revenues are subject to audits by the State Comptroller, which sometimes results in refunds to the State.

Self-Insurance Liabilities – DART administers and maintains self-insured reserves for employee medical, operational workers’ compensation, auto, and general liability (including bus/rail accidents), directors’ and officers’ liability, and light rail construction workers’ compensation and general liability claims. These programs are administered by DART, or in some instances, a third party. DART accrues the estimated cost of self-insurance liabilities based on actuarial review and the estimate is included in the accounts payable and accrued liabilities line item in the accompanying Statements of Net Position.

The estimate includes incurred but not reported (IBNR) claims. Changes in the liabilities in 2016 and 2015 for DART's self-insured programs are as follows:

Description	2016	2015
Beginning balance	$16,017	$16,864
Current year claims and changes in estimates	6,719	4,153
Payments	(5,291)	(5,000)
Ending balance	$17,445	$16,017
Amounts due in one year	$4,909	$4,621

DART purchases liability insurance coverage for all-risk property, commuter rail, leased premises, crime, directors and officers and light rail project-specific professional liability and light rail build-out workers’ compensation and general liability. Coverage is evaluated annually and adjusted as necessary based upon exposure and claim payments. There was no significant reduction in insurance coverage from the previous year, and the settlement amounts did not exceed insurance coverage for each of the past three fiscal years.

Premium and Discounts on Revenue Bonds - Premiums and discounts on Senior Lien Revenue Bonds are amortized using the effective interest method. Bond insurance premiums and gains/losses on refunding are also amortized using the effective interest method over the life of the bonds.

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Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the DART Employees Defined Benefit Retirement Plan and Trust (the DB Plan) and additions to/deductions from the DB Plan's fiduciary net position have been determined on the same basis as they are reported by the DB Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net position – *Net Investment in Capital Assets*, includes capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is DART's policy to use restricted resources first, and then unrestricted resources when they are needed. Unrestricted resources consist of net position that does not meet the definition of "restricted" or "net investment in capital assets."

2. SERVICE AGREEMENTS

DART has entered into several long-term agreements with contractors to provide paratransit, commuter rail, DART on-call and shuttle services. Payments to service providers are recorded as purchased transportation in the accompanying Statements of Revenues, Expenses, and Changes in Net Position.

Summary of major services rendered in 2016 and 2015 and the current contract terms, including option periods is shown as follows:

		Annual Payments		Contract Terms	
Contractor's Name	Service Type	2016	2015	Began	Expires
Herzog Transit Services, Inc.	Commuter Rail	$20,087	$17,907	10/1/2015	9/30/2025
MV Contract Transportation, Inc	Paratransit, and DART On-call Services	25,541	24,182	10/1/2012	9/30/2019
Others	Various	4,688	3,519	Various	Various
Total		$50,316	$45,608		

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and investments, excluding investments held for lease/leaseback liabilities, as of September 30 are classified in the Statements of Net Position as follows:

	9/30/2016	9/30/2015
Cash and cash equivalents	$53,651	$66,985
Investments	562,223	714,640
Restricted investments held by trustee for debt service	112,301	108,952
Restricted investments held for advance funding agreements	67,055	67,576
Restricted investments held as security for capital lease/leaseback liabilities	8,560	9,334
Total cash and investments	$803,790	$967,487

Cash and investments as of September 30 consist of the following:

	9/30/2016	9/30/2015
Cash on hand	$1,605	$7,802
Cash equivalents	52,046	59,183
Investments	750,139	900,502
Total cash and investments	$803,790	$967,487

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Deposits

State statutes authorize DART's cash to be deposited in demand deposits, time deposits, or certificates of deposit and require that all deposits be fully collateralized or insured.

On September 30, 2016, the carrying amount of DART's deposits was $1,605 compared to $7,802 at September 30, 2015. Bank balances at September 30, 2016 were entirely covered either by Federal Depository Insurance or by collateral held by DART's agent in DART's name. Bank balances at September 30, 2015 were covered either by Federal Depository Insurance or by collateral held by DART's agent in DART's name except for an $8.8 million, that was not covered due to a failed trade on September 30, 2015. This was cured by the next business day (October 1, 2015), and DART did not incur any loss as a result of this incident.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, DART will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party**.** DART's policy requires that all deposits with financial institutions must be collateralized to the extent not protected by F.D.I.C. insurance. Securities that can be accepted as collateral are limited to U.S. Government Securities, Federal Agency Securities, and Municipal Securities.

Investments

In accordance with the Texas Public Funds Investment Act and DART's investment policy, DART invests in, among others, obligations of the United States or its agencies and instrumentalities, and obligations of states, agencies, counties, cities, and other state political subdivisions with ratings from a nationally recognized investment rating firm of not less than "A" or its equivalent and commercial paper with ratings of not less than "A1" or "P1." In addition, State statutes authorize DART to invest funds in other cash equivalents such as money market mutual funds among other things. All DART investments are subject to the Texas Public Funds Investment Act. The following table identifies the investment types that are authorized by DART's Investment Policy. The table also identifies certain provisions of DART Investment Policy that address interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer at the time of purchase
U.S. Government Securities	None	None	None
Federal Agency Securities	None	None	25%
Municipal Securities	None	None	10%
Repurchase Agreements and Reverse Repurchase Agreements	90 days	50%	5%
Money Market Mutual Funds	10 years	None	None
Commercial Paper	270 days	None	5%
Banker's Acceptance	270 days	None	5%
Certificate of Deposit	10 years	None	None

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that DART manages exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of it matures evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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Information about the sensitivity of the fair values of DART investments to market interest rate fluctuations as of September 30 is provided in the following tables, which show the distribution of DART investments by maturity.

		Remaining Maturity (in months) as of September 30, 2016		
Investment Type	Total Amount	12 Months or Less	12 to 24 Months	24 to 60 Months
Federal Home Loan Bank	$149,786	$97,679	$48,087	$4,020
Federal Farm Credit Banks	131,505	53,634	67,859	10,012
Federal Home Loan Mortgage Corporation	157,058	70,261	54,851	31,946
Federal National Mortgage Association	103,971	4,650	25,929	73,392
Commercial Paper	179,812	179,812	-	-
Money Market Funds	61,344	61,344	-	-
US Treasury Note	18,709	18,709	-	-
Total	$802,185	$486,089	$196,726	$119,370

		Remaining Maturity (in months) as of September 30, 2015		
Investment Type	Total Amount	12 months or Less	12 to 24 Months	24 to 60 Months
Federal Home Loan Bank	$225,947	$104,919	$51,032	$69,996
Federal Farm Credit Banks	179,781	45,493	92,554	41,734
Federal Home Loan Mortgage Corporation	147,918	17,619	44,575	85,724
Federal National Mortgage Association	64,472	11,458	27,032	25,982
Commercial Paper	206,567	206,567	-	-
Money Market Funds	126,992	126,992	-	-
US Treasury Note	8,008	8,008	-	-
Total	$959,685	$521,056	$215,193	$223,436

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized rating agency. The following tables show actual ratings as of September 30 for each investment type. Money market funds listed are SEC regulated 2a.7 funds.

Rating as of September 30, 2016				
Investment Type	Total Amount	AA+/ Aaa	A1/P1	AAA/ Aaa
Federal Home Loan Bank	$149,786	$139,722	$ 10,064	$ -
Federal Farm Credit Banks	131,505	108,881	22,624	-
Federal Home Loan Mortgage Corporation	157,058	116,509	40,549	-
Federal National Mortgage Association	103,971	103,971	-	-
Commercial Paper	179,812	-	179,812	-
Money Market Funds	61,344	54,831	-	6,513
US Treasury Note	18,709	-	18,709	-
Total	$802,185	$523,914	$271,758	$ 6,513

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Rating as of September 30, 2015

Investment Type	Total Amount	AA+/ Aaa	A1/P1
Federal Home Loan Bank	$225,947	$225,947	$ -
Federal Farm Credit Banks	179,781	179,781	-
Federal Home Loan Mortgage Corporation	147,918	147,918	-
Federal National Mortgage Association	64,472	64,472	-
Commercial Paper	206,567	-	206,567
Money Market Funds	126,992	126,992	-
US Treasury Note	8,008	8,008	-
Total	$959,685	$753,118	$206,567

On August 5, 2011, Standard and Poor's, one of three nationally recognized raters of US debt and securities, downgraded the rating of long-term United States sovereign debt from AAA to AA+ for the first time since 1941 with a negative outlook. The two other national raters, Moody's and Fitch, continue to have the highest ratings, but also have the debt on their watch lists. Included in DART's investment portfolio as of September 30, 2016 is $561,029 compared to $626,126 as of September 30, 2015 are securities with credit ratings of AAA to AA+ by Standard and Poor's.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of DART's investment in a single issuer. DART's Investment Policy contains limitations on the amount that can be invested in any one issuer as shown in the table on page 22. Investments in any one issuer that represent 5% or more of total investment portfolio of DART as of September 30 are as shown below:

September 30, 2016

Investment type/Issuer	Reported Amount	Percentage of Total Portfolio
Federal Home Loan Mortgage Corporation	$157,058	20%
Federal Home Loan Bank	149,786	19%
Federal Farm Credit Banks	131,505	16%
Federal National Mortgage Association	103,971	13%

September 30, 2015

Investment type/Issuer	Reported Amount	Percentage of Total Portfolio
Federal Home Loan Bank	$225,947	24%
Federal Farm Credit Banks	179,781	19%
Federal Home Loan Mortgage Corporation	147,918	15%
Wells Fargo	67,748	7%
Federal National Mortgage Association	64,472	7%

Custodial Credit Risk - The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, DART will not be able to recover the value of its investment or collateral securities that are in the possession of another party. All of DART's investments with the exception of money market mutual funds, which by design provide ownership of shares within the fund, are registered in DART's name as of September 30, 2016 and 2015 and are not exposed to custodial credit risk.

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Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. None of DART's investment are in foreign currency-denominated investments.

DART categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs and are valued using a matrix pricing model. Level 3 inputs are significant unobservable inputs. DART has the following fair value measurements as of September 30, 2016 and 2015.

Fair Value Measurements as of September 30, 2016

Investment Type	Total Amount	Level 1	Level 2	Level 3
Federal Home Loan Bank	$149,786	$ -	$149,786	$ -
Federal Farm Credit Banks	131,505	-	131,505	-
Federal Home Loan Mortgage Corporation	157,058	-	157,058	-
Federal National Mortgage Association	103,971	-	103,971	-
Commercial Paper	179,812	-	179,812	-
US Treasury Note	18,709	-	18,709	-
Total	$740,841	$ -	$740,841	$ -

Rating as of September 30, 2015

Investment Type	Total Amount	Level 1	Level 2	Level 3
Federal Home Loan Bank	$225,947	$ -	$225,947	$ -
Federal Farm Credit Banks	179,781	-	179,781	-
Federal Home Loan Mortgage Corporation	147,918	-	147,918	-
Federal National Mortgage Association	64,472	-	64,472	-
Commercial Paper	206,567	-	206,567	-
US Treasury Note	8,008	-	8,008	-
Total	$832,693	$ -	$832,693	$ -

Restricted investments held to pay capital lease/leaseback liabilities – As of September 30, 2016, DART had one outstanding lease/leaseback obligation. When DART entered into the capital lease/leaseback transactions it received advance rental payments. A portion of the advance rental payment received by DART was used to purchase contractual undertakings from certain financial institutions. These institutions assumed and agreed to pay the sublease rental payments due through the purchase option date, together with the purchase option price owed if DART were to exercise the purchase option rights. For other leases, DART deposited a portion of the advance rental payment with a trustee, who was to purchase direct obligations of the US government and other securities that would mature on the dates in the amounts required to pay sublease rental payments and the respective purchase option price. These investments are held by the trustee in the name of DART and are invested in U.S. Treasury strips, U.S. government sponsored enterprise obligations, and guaranteed investment contracts. They include a combination of investments with short-term and long-term maturities which minimizes the exposure to interest rate risk. Because these investments are insured by a third party and are held in U.S. Treasuries and government investment contracts they are not recorded at fair value but are recorded at amortized cost in the Statements of Net Position.

Assigned assets – The DART Board has assigned certain cash and investment balances to be maintained for self-insurance and financial reserve. These amounts are shown as unrestricted investments in the accompanying financial statements. The assets for self-insurance include amounts assigned by the Board to fund future claims and workers' compensation liabilities. The Board established the financial reserve to accumulate sales and use taxes in years when sales and use tax revenues exceed the budgeted amount. Sales and use tax revenues, net of annual repayments to the State Comptroller, were $2,705 more than budget for fiscal year 2016 compared to $15,638 for fiscal year 2015. In addition, the Board of Directors authorized the establishment of a Capital Project Reserve Account. Should the Financial Reserve exceed $50 million, excess funds are placed in the Capital Project Reserve Account.

An affirmative vote of two-thirds of the Board is required to draw upon the Financial and Capital Project Reserves, and the funds may be used for any purpose approved by the Board. During 2011, the DART Board approved a request to set aside a portion of the financial reserve investments for potential collateral as required by an amendment to one of the lease/leaseback agreements. The amount set aside for this purpose is $8,560 as of September 30, 2016 compared to $9,334 as of September 30, 2015. These amounts are shown as restricted investments held as security for capital lease/leaseback liabilities in the Statements of Net Position and are excluded from the financial reserve amount of

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Assigned for	2016	2015
Self-Insurance	$ 10,111	$ 11,292
Financial Reserve*	41,473	40,729
Capital Reserve	20,292	3,964
Total	$ 71,876	$ 55,985

*The financial reserve amounts shown here are net of $8,560 as of September 30, 2016 and $9,334 as of September 30, 2015. These amounts are set aside security for a certain lease/leaseback obligation.

4. RESTRICTED ASSETS

As security for the Senior Lien Obligations (Bonds) and Senior Subordinate Lien Obligations (Commercial Paper Notes), DART is required to maintain a certain amount of money in trust accounts created for this purpose. The money maintained in the trust accounts is reported as *Investments held by trustee for debt service* in the Statements of Net Position. The trustee uses all the monies and investments in the account for payment of principal, interest for bonds and commercial paper notes, and administrative expenses.

Restricted assets shown in the Statements of Net Position also include bond proceeds which will be used to fund capital expenditures.

DART entered into three advance funding agreements with the Texas Department of Transportation and received money for construction of three parking lots. DART also entered into an inter-local agreement with the City of Dallas to plan and design a modern streetcar system for the City of Dallas and received money for this purpose. The remaining balances of these monies are shown as restricted investments held for advance funding agreements in the Statements of Net Position as of September 30, 2016 and 2015.

DART also entered into an additional Equity Security Agreement that requires it to set aside certain investments as security for a certain lease/leaseback obligation. As of September 30, 2016, DART has set aside $8,560 compared to $9,334 as of September 30, 2015 for this purpose. These amounts are shown as investments restricted as security for lease/leaseback liabilities in the Statements of Net Position.

5. INVESTMENT IN JOINT VENTURE

DART and the Fort Worth Transportation Authority (“The T”) jointly provide commuter rail service between downtown Dallas and downtown Fort Worth. The authorities have adopted the name *Trinity Railway Express* (“TRE”) to provide this service. The operation and maintenance of commuter rail service is contracted to Herzog Transit Services, Inc. The cost of operating TRE, net of operating revenues, is shared between DART and The T based on revenue seat miles operated in Dallas County and Tarrant County, respectively. The transit authorities separately contributed the capital for the passenger stations and track storage areas in their respective counties, including fixtures and fare collection equipment at those stations. DART has separately contributed the capital for thirteen rail diesel cars (RDCs) purchased for the initial TRE commuter rail service. DART and The T have jointly contributed the capital for seven rehabilitated locomotives, two new locomotives, ten rehabilitated bi-level coaches, five new bi-level coaches, two rehabilitated bi-level cab cars, and five new bi-level cab cars. The book value of DART’s share of these capital assets jointly owned with The T is recorded as Investment in Joint Venture in the Statements of Net Position in accordance with GASB Statement No. 61. There are no separate financial statements for the TRE. Each authority includes its share of revenues, operating costs and capital assets in its own financial statements.

6. INVESTMENT IN MANAGED HOV LANE AGREEMENTS

In October 2010, DART entered into agreements with TxDOT to invest in managed HOV lane projects that fall under the Regional Transportation Council’s (RTC) policy for Excess Toll Revenue Sharing. RTC’s policy allows local governments and transportation authorities to invest in Comprehensive Development Agreement (CDA) projects. Any excess revenue will be returned to the funding partners in proportion to their shares and be used to fund future transportation projects. As of September 30, 2016 and 2015, a financial analysis of the value of DART investment managed HOV lane projects is determined to be $10.5 million and $13.6 million, respectively. As a result, a decline in value of $3.1 million is recorded as a loss on HOV lane investment in the Statements of Changes in Net Position as of September 30, 2016 compared to $66.5 million as of September 30, 2015. These investments are shown on the Statements of Net Position at fair value as of September 30, 2016 and 2015 and will be reviewed annually for a decline in value. As of September 30, 2016, the Statements of Net Position reflects these Investments in Managed HOV Lane Agreements totaling $10,500 compared to $13,600 as of September 30, 2015. The fair value of these Investments in Managed HOV Lane Agreements is measured using Level 3 inputs within the fair value hierarchy established by GAAP. The Investments in Managed HOV Lane Agreements in Level 3 is valued using future projected cash flows.

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7. CAPITAL ASSETS

Changes in capital assets for the years ended September 30, 2016 and 2015 are shown as follows:

	Beginning Oct. 1, 2015	Additions	Disposals	Net Transfers/ Adjustments	Ending Sept. 30, 2016
Non-Depreciable Assets					
Land and right-of-way	$616,728	$ -	$(1,023)	$4	$615,709
Capital projects in progress	101,124	103,183	-	(13,315)	190,992
Total non-depreciable assets	717,852	103,183	(1,023)	(13,311)	806,701
Depreciable Assets					
Transitways	3,860,836	-	-	1,040	3,861,876
Buildings and improvements	748,445	-	(42)	757	749,160
Revenue and non-revenue vehicles and equipment	1,287,039	-	(13,197)	8,428	1,282,270
Furniture, fixtures, and Leasehold improvements	64,523	-	(943)	2,329	65,909
Total depreciable assets	5,960,843	-	(14,182)	12,554	5,959,215
Less accumulated depreciation					
Transitways	1,060,638	129,406	-	-	1,190,044
Buildings and improvements	341,810	24,831	(42)	-	366,599
Revenue and non-revenue vehicles and equipment	536,743	82,507	(13,026)	(757)	605,467
Furniture, fixtures, and Leasehold improvements	57,584	3,463	(897)	-	60,150
Total accumulated depreciation	1,996,775	240,207	(13,965)	(757)	2,222,260
Depreciable assets, net	3,964,068	(240,207)	(217)	13,311	3,736,955
Total capital assets	$4,681,920	$(137,024)	$(1,240)	$ -	$4,543,656

	Beginning Oct. 1, 2014	Additions	Disposals	Net Transfers/ Adjustments	Ending Sept. 30, 2015
Non-Depreciable Assets					
Land and right-of-way	$609,498	$ -	$(139)	$7,369	$616,728
Capital projects in progress	70,845	110,251	-	(79,972)	101,124
Total non-depreciable assets	680,343	110,251	(139)	(72,603)	717,852
Depreciable Assets					
Transitways	3,845,836	-	-	15,000	3,860,836
Buildings and improvements	746,585	-	-	1,860	748,445
Revenue and non-revenue vehicles and equipment	1,303,485	-	(67,530)	51,084	1,287,039
Furniture, fixtures, and Leasehold improvements	59,872	-	(8)	4,659	64,523
Total depreciable assets	5,955,778	-	(67,538)	72,603	5,960,843
Less accumulated depreciation					
Transitways	931,205	129,433	-	-	1,060,638
Buildings and improvements	316,802	25,008	-	-	341,810
Revenue and non-revenue vehicles and equipment	527,137	76,992	(68,386)	-	536,743
Furniture, fixtures, and leasehold improvements	50,973	6,619	(8)	-	57,584
Total accumulated depreciation	1,826,117	238,052	(68,394)	-	1,996,775
Depreciable assets, net	4,129,661	(238,052)	856	72,603	3,964,068
Total capital assets	$4,810,004	$(127,801)	$717	$ -	$4,681,920

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Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Description	Years
Buildings and improvements	20-30
Buses and equipment	4-12
Furniture, fixtures, and leasehold improvements	3-10
Facilities and transitways (LRT System and HOV lanes)	20-30
Light rail transit vehicles and commuter rail vehicles	25
Rebuilt/Remanufactured rail cars	10

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES AND REPAYMENT DUE TO STATE COMPTROLLER

Accounts payable and accrued liabilities at September 30 are as follows:

Description	2016	2015
Accounts payable and accrued liabilities		
Payroll	$9,624	$16,808
Accrued paid time off, vacation and sick leave	24,938	24,313
Self insurance liabilities	17,445	16,017
Other operating liabilities	29,814	37,846
Total operating expense related	81,821	94,984
Non-operating expense and capital related	10,503	9,445
Total accounts payable and accrued liabilities	92,324	104,429
Non-current	36,313	34,636
Current	$56,011	$69,793

The Texas State Comptroller collects the 1% sales and use tax from taxpayers for DART. Sales and use tax revenues are subject to audits by the State Comptroller, which sometimes results in repayments to the State. Outstanding repayments and changes in the repayments due to the State Comptroller at September 30 are as follows:

Description	2016	2015
Beginning balance	$9,399	$10,223
Payments	(824)	(824)
Ending balance	8,575	9,399
Non-current	7,751	8,575
Current	$824	$824

9. ACCRUED PAID TIME OFF (PTO) VACATION AND SICK LEAVE

Changes in accrued PTO, vacation, and sick leave for the years ended September 30 are shown in the following table.

Description	2016	2015
Beginning balance	$24,313	$23,211
Additions	1,777	2,361
Payments	(1,152)	(1,259)
Ending balance	$24,938	$24,313
Amounts due in one year	$1,161	$1,072

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10. LOCAL ASSISTANCE PROGRAM

In 1989, DART created a Local Assistance Program (LAP) to provide technical and financial assistance to cities for the implementation of projects to reduce traffic congestion and complement bus and public transit operations. Eligible member jurisdictions are responsible for developing and submitting projects to DART for approval in order to receive distribution of these funds. According to the terms of inter-local agreements, DART allocated a percentage of its annual sales and use tax collections for the LAP program. Eligible member jurisdictions received 15% of the estimated sales and use taxes collected within that jurisdiction, except Irving, which received 7.5%. Dallas, University Park, and Highland Park were not eligible. The LAP program ended in 2004. Accrued but unpaid funds were carried over to succeeding years and were recorded as a liability on the accompanying Statements of Net Position.

Changes in Local Assistance Program Payable for the years ended September 30 are as follows:

Description	2016	2015
Beginning balance	$1,336	$1,497
Payments	(651)	(161)
Ending balance	$685	$1,336

11. FINANCE OBLIGATIONS UNDER CAPITAL LEASE/LEASEBACK

DART has entered into lease transactions in which certain capital assets are leased to investors (headlease) and simultaneously leased back (sublease). Under these transactions, DART maintains the right to continued use and control of the assets through the end of the lease term and is required to insure and maintain the assets. The headleases and subleases have been recorded as capital lease/leaseback for accounting purposes. The following table summarizes DART capital lease/leaseback transactions as of the respective transaction date.

Lease Date	Property	Fair Value at Closing Date	Prepayment Received On Head Lease	Amount Invested to Satisfy Sublease Obligation	Cash Benefit	Repurchase Option Date	Sublease Termination Date
9/28/00	28 Light rail cars	$91,000	$91,000	$84,000	$7,000	01/02/23	12/15/23
10/26/00*	25 Light rail cars	81,000	81,000	74,700	6,300	-	11/23/15

The subleases provide DART with an opportunity, at its sole discretion, to repurchase equipment on specified dates. As these dates approach, DART will complete a financial analysis on each specific lease to determine if it is financially beneficial to repurchase the equipment. At this point in time, DART anticipates that it will exercise the repurchase option on all of its remaining leases at the specified dates and has reflected this option in the amortization.

The following table shows the book value of the light rail cars under the lease/lease back agreements as of September 30, 2016 and 2015.

Lease Date	Property	Book value as of 9/30/2016	Book value as of 9/30/2015
9/28/00	28 Light rail cars	$25,059	$28,117
10/26/00*	25 Light rail cars	25,847	28,737

*On November 23, 2015, DART entered into a lease termination agreement and terminated the October 26, 2000 lease/leaseback transaction.

The net present value of the future sublease payments has been recorded as both a short-term and long-term liability in the accompanying Statements of Net Position. Prepayments received from the head lease were invested to satisfy the sublease obligations. Since the investments have been structured to meet all future obligations under the subleases at all times when due, the investment balances have been recorded to equal the sublease liabilities on the accompanying Statements of Net Position. The benefits from these transactions, net of transaction costs, were recorded as non-operating revenues in the Statements of Revenues, Expenses, and Changes in Net Position in the fiscal year each transaction occurred.

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The capital lease/leaseback liabilities are reported as follows on the Statements of Net Position:

	2016	2015
Amounts due within one year	$6,374	$12,210
Amounts due in more than one year	103,351	188,888
Total	$109,725	$201,098

Each of the lease/leaseback transactions has specific performance requirements for DART when the financial rating of the Payment Undertaker insurer falls below a specified level. During fiscal year 2010, credit ratings of two of three financial institutions insuring DART's lease/leaseback transactions were downgraded below certain levels specified in the lease/leaseback agreements. As a result, DART has entered into an amended agreement to reset the acceptable credit rating to be maintained at or above BBB for one of these two transactions. For the other lease/leaseback obligation, DART also entered into an additional Equity Security Agreement that requires it to set aside certain investments as security. As of September 30, 2016, DART has set aside $8,560 compared to $9,334 as of September 30, 2015 for this purpose. These amounts are shown as investments restricted as security for lease/lease back liabilities in the Statements of Net Position.

On November 23, 2015, DART entered into a lease termination agreement and terminated the October 26, 2000 lease/lease back transaction. As a result of this lease termination agreement, DART has only one outstanding lease/lease back obligation as of September 30, 2016. The following amounts and those shown in the Statements of Net Position as September 30, 2016 reflect the effect of the termination agreement.

Changes in the capital lease/lease back obligations for the years ended September 30 are shown below:

Description	2016	2015
Beginning balance	$201,098	$200,005
Accrued interest	9,336	15,189
Retirements	(100,709)	(14,096)
Ending Balance	$109,725	$201,098

The following schedule shows future minimum sublease payments as of September 30, 2016 for the outstanding lease capital lease/leaseback transactions.

Year Ending September 30	Minimum Sublease Payments
2017	$6,374
2018	6,374
2019	6,374
2020	6,374
2021	6,374
2022 – 2024	135,292
Total minimum sublease payments due under capital lease/leaseback	167,180
Less: amount representing interest	(57,455)
Present value of minimum sublease payments	$109,725

12. SENIOR SUBORDINATE LIEN SALES TAX REVENUE COMMERCIAL PAPER NOTES PAYABLE

In January 2001, the DART Board approved the issuance of up to $650 million of Senior Subordinate Lien Sales Tax Revenue Commercial Paper Notes under the provisions of the Master Debt Resolution.

Commercial Paper Self-liquidity Program- after the Revolving Credit Agreement was terminated, the DART Board approved a new Commercial Paper Self-liquidity Program that allows DART to issue up to $200 million in commercial paper notes backed by self-liquidity. Under this program, DART provides self-liquidity in an aggregate principal amount of $200 million and 90 days interest calculated at an interest rate 12% of the outstanding commercial paper debt. DART also maintains at least 2.0 times the debt service coverage amount for the self-liquidity commercial paper notes and ensures that no more than $35 million of the commercial paper notes mature within five days. During fiscal year 2016 and 2015, DART has complied with these requirements of the self-liquidity program. As of September 30, 2016, DART has $170 million in outstanding commercial paper notes issued under the self-liquidity program.

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Commercial paper notes are issued in blocks for terms from 1 to 270 days and recorded as current liabilities on the Statements of Net Position. The average interest rate on outstanding commercial paper was 0.58% at September 30, 2016 and 0.08% at September 30, 2015.

Changes in the Commercial Paper Notes for the years ended September 30 are shown below:

Description	2016	2015
Beginning balance	$ 200,000	$ 180,000
Additions	880,000	530,000
Retirement	(910,000)	(510,000)
Ending Balance	$ 170,000	$ 200,000

The maximum principal of outstanding Commercial Paper Notes did not exceed the $200 million limit during either year.

13. SENIOR LIEN REVENUE BONDS

The DART Board has approved several issuances in accordance with the Master Debt Resolution. These bonds are Senior Lien Revenue Bonds that are secured by, and payable from pledged revenues. Pertinent information related to each bond outstanding is shown below:

				Interest rates (Yields) range		Maturity date range		Optional Redemption	
Bond Series	Board Approval Date	Original Issue Amount	Date issued	From	To	From	To	Bonds maturing after	Earliest call date
2007*	Jan. 2007	$770,270	3/08/07	4.0%	5.3%	12/1/07	12/1/36	12/1/17	12/1/16
2008	Apr. 2008	731,415	6/23/08	4.5%	5.3%	12/1/09	12/1/48	12/1/18**	12/1/17
2009A	May 2009	170,385	6/25/09	2.8%	4.3%	12/1/14	12/1/22	12/1/19	6/1/19
2009B	May 2009	829,615	6/25/09	6.0%	6.3%	12/1/23	12/1/44	12/1/34	5/31/19
2010A	Sep. 2010	95,235	10/7/10	2.0%	5.0%	12/1/13	12/1/23	12/1/21	12/1/20
2010B	Sep. 2010	729,390	10/7/10	4.9%	5.0%	12/1/37	12/1/48	Not applicable	
2012	April 2012	127,775	11/15/12	1.0%	5.0%	12/1/13	12/1/42	12/1/22	12/1/22
2014A***	Oct. 2014	379,480	12/11/14	2.0%	5.0%	12/1/14	12/1/36	12/1/25	12/1/24
2014B***	Nov. 2014	46,555	12/11/14	5.0%	5.3%	12/1/33	12/1/43	12/1/36 & 12/1/43	12/1/33 & 12/1/39
2015****	Nov. 2015	117,470	12/15/15	2.3%	2.3%	12/1/16	12/1/27	Not applicable	
2016A*****	Nov. 2015	482,530	02/18/16	5.0%	5.0%	12/1/26	12/1/48	12/1/25	12/1/25
2016B******	Mar. 2016	228,900	09/21/16	3.0%	5.0%	12/1/19	12/1/38	12/1/27	12/1/26

* The series 2007 bond issuance included $328,235 to partially refund Series 2001 and 2002 bonds.
** The Series 2008 bonds maturing after December 1, 2018 are subject to optional redemption with the exception of those maturing on December 1, 2029 and 2030.
***The series 2014A and 2014B were issued to refund series 2007 and 2008 bonds totaling $453,125.
****The series 2015 were issued to refund a portion of series 2007 bonds totaling $112,720.
*****The series 2016A were issued to refund a portion of series 2008 bonds totaling $512,370.
******The series 2016B were issued to refund a portion of series 2007, 2008, and 2009A bonds totaling $252,440.

In June 2009, DART issued and sold $170,385 in tax exempt Senior Lien Sales Tax Revenue Bonds (Series 2009A Bonds), and $829,615 in taxable Senior Lien Sales Tax Revenue Bonds (Series 2009B Bonds) to finance capital expenditures for DART's system expansion and acquisition. The Series 2009B bonds are taxable bonds issued under the Build America Bond program of the American Recovery and Reinvestment Act of 2009 (ARRA). In accordance with ARRA, DART receives a tax credit from the United States Treasury in amounts equal to 35% of the interest payable amount on the Series 2009B Bonds. However, during fiscal years 2016 and 2015, this tax credit was reduced by 6.8% and 7.3% due to budget cuts or "sequestration" by the federal government.

In October 2010, DART issued and sold $95,235 in tax exempt Senior Lien Sales Tax Revenue Bonds (Series 2010A Bonds), and $729,390 in taxable Senior Lien Sales Tax Revenue Bonds (Series 2010B Bonds) to finance capital expenditures for DART's system expansion and acquisition. The Series 2010B bonds are taxable bonds issued under the Build America Bond program of the American Recovery and Reinvestment Act of 2009 (ARRA). In accordance with ARRA, DART receives a tax credit from the United States Treasury in amounts equal to 35% of the interest payable amount on the Series 2010B Bonds. However, during fiscal years 2016 and 2015, this tax credit was reduced by 6.8% and 7.3% respectively, due to budget cuts or "sequestration" by the federal government. During 2016, DART recorded tax credits of $28,391 compared to $28,289 for 2015 as Build America Bonds tax credit in the Statements of Revenues, Expenses and Changes in Net Position.

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Additional bonds may not be issued unless gross sales and use tax revenues exceed maximum debt service by at least 200% for 12 of the last 18 months. Changes in revenue bonds (shown at par) for the years ended September 30, 2016 and 2015 are as shown below:

Bond Series	Balance, 9/30/2014	Additions	Retirement	Balance, 9/30/2015	Additions	Retirement	Balance, 9/30/2016	Amounts due in one year
2007	$734,805	$ -	$(348,015)	$386,790	$ -	$(248,145)	$138,645	$20,250
2008	707,205	-	(110,755)	596,450	-	(569,605)	26,845	8,505
2009A	170,385	-	(15,465)	154,920	-	(101,265)	53,655	17,025
2009B	829,615	-	-	829,615	-	-	829,615	-
2010A	80,870	-	(14,935)	65,935	-	(4,435)	61,500	2,375
2010B	729,390	-	-	729,390	-	-	729,390	-
2012	125,650	-	(2,170)	123,480	-	(2,245)	121,235	2,335
2014A	-	379,480	-	379,480	-	-	379,480	-
2014B	-	46,555	-	46,555	-	-	46,555	-
2015	-	-	-	-	117,470	-	117,470	1,440
2016A	-	-	-	-	482,530	-	482,530	-
2016B	-	-	-	-	228,900	-	228,900	-
Total	$3,377,920	$426,035	$(491,340)	$3,312,615	$828,900	$(925,695)	$3,215,820	$51,930

The revenue bonds shown above are at face value. The amounts shown in the Statements of Net Position include the original issuance premium of $221,664 and $130,068 as of September 30, 2016 and 2015, respectively. Below is a summary of debt service requirements of the Senior Lien Revenue Bonds outstanding as of September 30, 2016:

Year Ended September 30	Principal	Interest	Total Debt Service	Build America Bonds tax credit	Net Debt Service
2017	$51,930	$161,417	$213,347	$(28,391)	$184,956
2018	53,845	158,192	212,037	(28,391)	183,646
2019	56,140	155,267	211,407	(28,391)	183,016
2020	57,760	153,340	211,100	(28,391)	182,709
2021	60,410	151,383	211,793	(28,391)	183,402
2022 – 2026	344,510	715,199	1,059,709	(145,213)	914,496
2027 – 2031	418,670	621,756	1,040,426	(135,289)	905,137
2032 – 2036	527,585	491,542	1,019,127	(117,267)	901,860
2037 – 2041	633,720	338,356	972,076	(87,487)	884,589
2042 – 2046	686,890	155,489	842,379	(37,994)	804,385
2047 – 2049	324,360	19,642	344,002	(4,380)	339,622
TOTAL	$3,215,820	$3,121,583	$6,337,403	$(669,585)	$5,667,818

14. TRANSPORTATION INFRASTRUCTURE FINANCE AND INNOVATION ACT (TIFIA) BONDS

On December 13, 2012 DART entered into a Transportation Infrastructure Finance and Innovation Act (TIFIA) financing agreement with the U.S Department of Transportation. Under this agreement, DART issued a Senior Lien Obligation bond to borrow up to $119,972 from the U.S Department of Transportation at an interest rate of 2.91%. The proceeds from the bond were used to pay for the cost of the third phase of DART's light rail Orange Line extension project, which extended DART's light rail service from Irving to the Dallas Fort Worth International Airport. According to the TIFIA financing agreement, the U.S. Department of Transportation (DOT) reimburses DART for eligible capital project costs. DART received $45,000 during fiscal year 2013, $55,000 during fiscal year 2014 and $5,000 during fiscal year 2015. Since the project cost is lower than budget, DART borrowed only $105,000 instead of the maximum amount of $119,972 allowed in the agreement. The TIFIA bond is a Senior Lien Obligation and is secured by and payable from Pledged Revenues on parity with other Senior Lien Obligations.

The table on the next page summarizes estimated debt service requirements of the TIFIA financing agreement executed on December 13, 2012.

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Summary of estimated debt service requirements of TIFIA bonds as of September 30, 2016 is as follows:

Year Ended September 30	Principal	Interest	Total TIFIA Bond Debt Service
2017	$ 2,032	$3,018	$5,050
2018	2,091	2,961	5,052
2019	2,151	2,899	5,050
2020	2,214	2,839	5,053
2021	2,279	2,767	5,046
2022 – 2026	12,426	12,798	25,224
2027 – 2031	14,343	10,850	25,193
2032 – 2036	16,555	8,602	25,157
2037 – 2041	19,108	6,002	25,110
2042 – 2046	22,055	3,008	25,063
2047 – 2048	9,746	263	10,009
TOTAL	$105,000	$56,007	$161,007

The annual debt service requirements for the TIFIA bond range from $5,003 in fiscal year 2048 to $5,053 in fiscal year 2020.

15. PLEDGED REVENUES

DART has pledged sales and use tax and farebox revenues as security for revenue bonds, TIFIA Bonds and commercial paper debts. The amount of the pledge is equal to the remaining debt service requirements for these obligations. These obligations were issued to pay for DART's system expansion and acquisition costs. The pledge continues for the remaining life of these obligations, which is currently through fiscal year 2049. Total principal and interest remaining on the revenue bonds as of September 30, 2016 is $6.3 billion before Build America Bonds tax credits of $670 million (see the second table on page 32). The annual debt service requirements for these bonds, before Build America Bonds tax credits, range from $213,347 in fiscal year 2017 to $113,269 in fiscal year 2049. For the current fiscal year, debt service on the bonds (including principal and interest) is $223,649. Bonds have a senior lien on pledged revenues.

Total estimated principal and interest remaining on the revenue bonds (TIFIA bonds) as of September 30, 2016 is $161 million. The annual debt service requirements for the TIFIA bonds range from $5,003 in fiscal year 2048 to $5,053 in fiscal year 2020. For the current fiscal year, debt service on the TIFIA bonds is $3,046 for payments of interest. TIFIA bonds have a senior lien on pledged revenues.

Total principal and interest remaining on commercial paper as of September 30, 2016 is $170,122 compared to $200,025 as of September 30, 2015. Interest payments on commercial paper notes during the current fiscal year totaled $320. Commercial Paper notes have a subordinate senior lien on pledged revenues.

16. DEBT REFUNDINGS

In December 2014, DART issued the Series 2014A and 2014B bonds to refund a portion of Series 2007 and 2008 bonds. As a result, the Series 2007 and 2008 bonds in the total amount of $453,125 are considered to be defeased and the liability for those bonds, and the corresponding assets in the trust account have been removed from DART's Statements of Net Position. As a result of the 2014 refunding, DART recognized a book loss of $29,477, a reduction in debt service of $51,446 and an economic gain of $35,555.

In December 2015, DART issued the Series 2015 bonds to refund a portion of Series 2007 bonds. As a result, the Series 2007 bonds in the total amount of $112,720 are considered to be defeased and the liability for those bonds, and the corresponding assets in the trust account have been removed from DART's Statements of Net Position. As a result of the 2015 refunding, DART recognized a book loss of $2,537, a reduction in debt service of $17,173 and an economic gain of $15,027.

In February 2016, DART issued the Series 2016A bonds to refund a portion of Series 2008 bonds. As a result, the Series 2008 bonds in the total amount of $512,370 are considered to be defeased and the liability for those bonds, and the corresponding assets in the trust account have been removed from DART's Statements of Net Position. As a result of the 2016A refunding, DART recognized a book loss of $47,493, a reduction in debt service of $90,144 and an economic gain of $49,263.

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In September 2016, DART issued the Series 2016B bonds to refund a portion of Series 2007, 2008 and 2009A bonds. As a result, a total amount of $252,440 are considered to be defeased and the liability for those bonds, and the corresponding assets in the trust account have been removed from DART's Statements of Net Position. As a result of the 2016B refunding, DART recognized a book loss of $8,764, a reduction in debt service of $62,098 and an economic gain of $44,534.

As of September 30, 2016 and 2015, the unamortized portion of the book loss of $83,776 and $36,039 respectively have been included in the Statements of Net Position under the deferred outflows of resources section.

As of September 30, 2016, $1,281,655 of these refunded DART bonds remains outstanding compared to $403,125 as of September 30, 2015.

17. PENSION, RETIREMENT, AND DEFERRED COMPENSATION PLANS

DART operates several employee benefit plans. The plans include DART Employees' Defined Benefit Plan (formerly the Dallas Transit System [DTS] pension plan), DART Retirement Plan, and DART Capital Accumulation Plan and Trust. DART is the administrator of these retirement plans and has the authority to establish and amend the plans.

Defined Benefit Plan

GASB Statements No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and No.71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*

Plan description. The DART Employees Defined Benefit Retirement Plan and Trust (the DB Plan) is a single-employer defined benefit pension plan that was designed to provide retirement, death, and disability benefits to certain employees of DART. On October 1, 1995, the DTS Employees Retirement Plan (Plan A) was amended to become the DB Plan. Participants of the DB Plan are those employees who were members of the former plan on September 30, 1995. Those employees who elected to be covered under Plan A have eligibility, vesting, and benefit provisions different from those who elected the DB Plan.

Contributions. Contributions to the DB Plan, as stipulated by the "Sale, Purchase, and Transfer Contract Between the City of Dallas and Dallas Area Rapid Transit," are based upon Dallas Area Rapid Transit's agreement to contribute an amount at least equal to the minimum funding standard under Section 412 of the Internal Revenue Code of 1986, as if the Plan were subject to Section 412. An actuary determines the contribution amount that DART pays to the plan each year. Participants who were in the Plan on September 30, 1995 are required to contribute 3% of their base monthly salaries to the Plan. Other participants are not required to contribute to the DB Plan. DART's contribution amount is actuarially determined on an annual basis. Actual contributions made to the DB Plan during the years ended September 30, 2016 and 2015 are as follows:

	2016	2015
Employer contributions	$9,221	$8,706
Employee contributions	2	2
	$9,223	$8,708

Benefit terms. Participants under the provisions of Original Plan A may elect normal retirement at age 60 or at the date at which the sum of their credited service and age equals 90. Participants who elected to remain under the provisions of the original plan receive monthly benefits equal to 2% times the years of credited service multiplied by the participant's final average monthly compensation. Participants in Amended Plan A are entitled to monthly benefits equal to: 2% times the number of years of credited service up to October 1, 1983; plus 1.5% times the number of years of credited service after October 1, 1983; times the participant's final average monthly compensation. A participant may elect early retirement at age 55 with 10 years of service (30 years of service for participants under the Original Plan A). Monthly income under this election will equal normal retirement benefits reduced by 5/12 of 1% for each full month by which the participant's early retirement date precedes the normal retirement date.

Cost of living adjustments. Annually each monthly retirement payment made to or on behalf of a retired participant, or a beneficiary, shall be subject to a cost of living adjustment. But such adjustment in any year shall only be made with respect to the benefits of persons whose immediate entitlement to benefits commenced prior to such year. The adjustment, up or down, shall be applied to each benefit so payable, except that in the case of commuted amounts and/or lump sum settlements no account shall be taken of future changes in cost of living adjustment occurring after the date as of which such settlement is made. The adjustment, up or down, shall for any year result in a percentage change in the base benefit.

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Employees covered by the benefit terms. The following participants were covered by the benefit terms as of October 1, 2015 and 2014:

	10/1/2015	10/1/2014
Inactive employees or beneficiaries currently receiving benefits	755	751
Inactive employee entitled to but not yet receiving benefits	163	187
Active employees	298	326
	1,216	1,264

Actuarial Assumptions - The total pension liability in the September 30, 2015 and 2014 actuarial valuation was determined using the following actuarial assumptions, applied to the periods included in the measurement:

Valuation Dates	September 30, 2015 and 2014
Inflation	2.5% per annum
Salary Increases	3.25% per annum
Investment Return	7% compounded annually, net of expenses
Measurement Date	For the September 30, 2015 valuation, census data was collected as of October 1, 2014. Liabilities measured as of the census date were projected to September 30, 2015 assuming no demographic gains or losses. For the September 30, 2014 valuation, census data was collected as of October 1, 2013. Liabilities measured as of the census date were projected to September 30, 2014 assuming no demographic gains or losses.
Mortality	RP-2000 combined mortality table for males and females increased by 8.59% and projected generationally from 2000 by Scale AA.
Disability Mortality	RP-2000 disabled mortality tables for males and females.
Early Retirement Age	55
Normal Retirement Age	60
Actuarial Cost Method	Entry Age Normal (level percent of pay)

Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of October 1, 2015 and 2014 are summarized in the following table (note that the rates shown below include the inflation components):

September 30, 2015 Valuation	Target Allocation	Estimate of expected long-term rate of return
U.S. Market Equities	40%	6.8%
U.S. Market Fixed Income	40%	3.1%
International Equities	10%	8.0%
Opportunity Fund (hedge funds and other alternative investments)	10%	7.0%

September 30, 2014 Valuation	Target Allocation	Estimate of expected long-term rate of return
U.S. Market Equities	44%	12.92%
U.S. Market Fixed Income	40%	10.70%
International Equities	8%	4.84%
Opportunity Fund (hedge funds and other alternative investments)	8%	8.16%

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Discount rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that DART contributions will continue to follow the current funding policy. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Had there been a point where assets were projected to be depleted, a municipal bond rate of 3.67% as of September 30, 2015 and 3.51% as of September 30, 2014 would have been used in the development of the blended GASB discount rate after that point. These rates are based on the S&P Municipal Bond 20 Year High Grade Rate Index.

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Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 9/30/2014	$215,207	$146,787	$68,420
Change for the year:			
Service cost	502	-	502
Interest	14,674	-	14,674
Benefit payments	(11,364)	(11,364)	-
Contributions-employer	-	9,122	(9,122)
Contributions-employee	-	2	(2)
Net investment income, net of expenses	-	12,532	(12,532)
Administrative expenses	-	(250)	250
Net Changes	3,812	10,042	(6,230)
Balance at 9/30/2015	$219,019	$156,829	$62,190
Service cost	954	-	954
Interest	14,644	-	14,644
Differences between expected and actual experience	(5,082)	-	(5,082)
Benefit payments	(11,369)	(11,369)	-
Contributions-employer	-	8,706	(8,706)
Contributions-employee	-	2	(2)
Net investment income, net of expenses	-	520	(520)
Administrative expenses	-	(219)	219
Net Changes	(853)	(2,360)	1,507
Balance at 9/30/2016	$218,166	$154,469	$63,697

*Sensitivity of the net pension liability to changes in discount rate***.** The following presents the net pension liability of DART, calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
DART's net pension liability, 9/30/2016	$92,118	$63,697	$47,840
DART's net pension liability, 9/30/2015	$88,366	$62,190	$40,258

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued DART Employees Defined Benefit Retirement Plan and Trust financial report.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended September 30, 2016, DART recognized pension expense of $3,969 compared to $4,903 for fiscal year 2015. At September 30, 2016, DART reported deferred inflows/outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual earnings on pension plan investments	$8,285	$4,049
Employer contribution made after measurement date	9,217	-
Total	$17,502	$4,049

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$9,217 reported as deferred outflows of resources related to pensions resulting from DART contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in the pension expense as follows:

Year ended September 30:

2017	$(972)
2018	1,568
2019	1,569
2020	2,071
2021	-
Thereafter	-

Additional trend information for the DB Plan can be obtained by writing to the DB Plan, Dallas Area Rapid Transit, P.O. Box 660163, Dallas, Texas 75266-7240.

DART Retirement Plan – DART has adopted a defined contribution retirement plan for all employees not covered by the pension plans described above. DART contributes an amount equal to 7.7% of each participant's annual compensation to the plan. Participants hired before January 1, 2006 are vested in 25% of DART's contributions after two years of service, graduating to 100% vesting after five years. Participants hired after December 31, 2005 become 100% vested in DART's contributions to the Plan only after completing five years of service. Total expense to DART to fully fund this plan was approximately $15,334 and $14,879 for the years ended September 30, 2016 and 2015, respectively.

DART Capital Accumulation Plan – 401(k) – DART has adopted a deferred compensation plan created in accordance with Internal Revenue Code Section 401(k), which allows employees to contribute up to 50% of their annual compensation to the plan subject to the annual contribution limits of the Internal Revenue Service. DART matches 50% of the employee's contribution up to a maximum of 3% of the employee's annual compensation. Participants hired before January 1, 2006 are vested in 25% of DART's contributions after two years of service, graduating to 100% vesting after five years. Participants hired after December 31, 2005 become 100% vested in DART's contributions to the Plan only after completing five years of service. Total expense to DART to fully fund this plan was approximately $5,159 and $4,890 for the years ended September 30, 2016 and 2015, respectively.

Annual financial statements for each of the three retirement plans discussed above may be obtained by contacting the Chief Financial Officer at Dallas Area Rapid Transit, 1401 Pacific Avenue, P.O. Box 660163, Dallas, TX 75266-7220.

18. POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS

Plan Description - DART administers a single-employer defined benefit of other post employment benefits (OPEB) Plan. The plan provides healthcare and life insurance for eligible retirees and their spouses through DART's group health plan and group life plan, which covers both active employees and retired members. Eligibility criteria for the post employment health care and life insurance benefits are as follows: Participants of the defined benefit pension plan will be eligible at age 55 with a minimum of ten years of service to DART. Participants of the defined contribution pension plan will be eligible at age 60 with a minimum of ten years of service to DART. The plan does not issue separate stand-alone financial reports.

Funding Policy - DART's contribution to the retiree healthcare and life insurance is an annual required contribution (ARC) determined actuarially based on the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortization of any unfunded actuarial liabilities (funding excess) over a period not to exceed thirty years. The ARC is 2.4% and 2.3% of annual covered payroll for fiscal years 2016 and 2015. Retirees also make monthly contributions to the healthcare plan. Such contributions are determined annually by the plan administrator based on expected annual cost. For the years ended September 30, 2016 and 2015, DART's annual required contributions to other post employment benefits (OPEB) trust were $4,625 and $4,313. These contribution amounts are the same as annual OPEB costs for both years. The OPEB trust was set up during the fiscal year 2008 for the first time and is not included in those financial statements. DART has 322 retirees and surviving spouses that participate in the medical plan and 266 that participate in the life insurance plan as of September 30, 2016 compared to 299 participants in the medical plan and 286 in the life insurance plan as of September 30, 2015.

Actuarial Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015 (Dollars in Thousands)

Actuarial evaluations were performed for the OPEB Plan as of September 30. The following two tables show the summaries of significant actuarial assumptions:

Valuation Date	September 30, 2016
Investment Return	7.00%
CPI increase	2.5%
Future Participation	For future eligible retirees, 56% are assumed to elect medical coverage, while 100% are assumed to elect life coverage
Health Care Trend rate	Initial (year 2017) 7%, ultimate 5%. Ultimate year 2025.
Inflation	3%
Mortality	For active employees and healthy retirees and dependents, the SOA RP-2014 Blue Collar Headcount-weighted mortality projected with the MP-2015 improvement scale on a fully generational basis. For disabled retirees, the SOA RP-2014 Disabled Headcount-weighted mortality projected with the MP-2015 improvement scale on a fully generational basis.
Aging Factor	3% per annum for Pre-65 and 2% for Post-65
Eligibility for Coverage	For Defined Benefit Pension Plan participants: age 55 and 10 years of service and for Defined Contribution Pension Plan participants: age 60 and 10 years of service
Dependent coverage	For active employees, 40% are assumed to be married at retirement with the spouse electing coverage. Female spouses are assumed to be four (4) years younger than their husbands. Any potential costs for children have not been considered for valuation purposes.
Actuarial Cost Method	Projected Unit Credit
Salary Increases	3.25% per annum
Amortization	30 Years Level Dollar Amortization Method, Open period
Measurement Date	September 30, 2015

Valuation Date	September 30, 2015
Investment Return	7.00%
CPI increase	2.5%
Future Participation	For future eligible retirees, 56% are assumed to elect medical coverage, while 100% are assumed to elect life coverage
Health Care Trend rate (Health care inflation rate)	Initial (year 2015) 8%, ultimate 5%. Ultimate year 2024.
Mortality	For active employees and healthy retirees and dependents, the SOA RP-2014 Blue Collar Headcount-weighted mortality projected with the MP-2014 improvement scale on a fully generational basis. For disabled retirees, the SOA RP-2014 Disabled Headcount-weighted mortality projected with the MP-2014 improvement scale on a fully generational basis.
Aging Factor	3% per annum for Pre-65 and 2% for Post-65
Eligibility for Coverage	For Defined Benefit Pension Plan participants: age 55 and 10 years of service and for Defined Contribution Pension Plan participants: age 60 and 10 years of service
Dependent coverage	For active employees, 40% are assumed to be married at retirement with the spouse electing coverage. Female spouses are assumed to be four (4) years younger than their husbands. Any potential costs for children have not been considered for valuation purposes.
Actuarial Cost Method	Projected Unit Credit
Salary Increases	3.25% per annum
Amortization	30 Years Level Dollar Amortization Method, Open period
Measurement Date	September 30, 2014

FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015 (Dollars in Thousands)

Annual OPEB Cost and Net OPEB Asset - For plan years 2016 and 2015, annual OPEB cost and the net OPEB asset were as follows:

	2016	2015	2014
Annual required contribution	$4,625	$4,313	$5,141
Annual OPEB cost	4,625	4,313	5,141
Total employer contributions	4,625	4,313	5,141
Increase in net OPEB obligation (decrease in net OPEB asset)	-	-	-
Net OPEB asset (obligation), beginning of year	-	-	-
Net OPEB asset (obligation), end of year	$ -	$ -	$ -
Percentage of annual OPEB cost contributed	100%	100%	100%

Funding Progress - The schedule of funding progress for the DART Other Postemployment Benefits (OPEB) is included in the Required Supplementary Information. The data for the two most recent valuations are as follows:

	Fiscal Year Ended	
	9/30/16	9/30/15
Actuarial value of assets	$33,894	$36,235
Actuarial accrued liability (AAL)	$57,520	$52,034
Unfunded AAL (UAAL)	$23,626	$15,799
Funded ratio	58.9%	69.6%
Covered payroll	$196,688	$185,181
UAAL as a % of covered payroll	12.0%	8.5%

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented immediately following the financial statements as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

19. CLAIMS AND LITIGATION

In the ordinary course of business, a number of claims and lawsuits arise from individuals seeking compensation for personal injury, death, and/or property damage resulting from accidents occurring in the operation of the system. In addition, DART has been named as a defendant in a number of lawsuits relating to personnel and contractual matters. Management does not believe that the outcome of these claims will have a material adverse effect on DART's financial statements.

20. COMMITMENTS AND CONTINGENCIES

The Board has approved a Transit System Plan, which includes the design and construction of a 46-mile light rail transit (LRT) extension from Downtown Dallas to Buckner Blvd. (the Southeast Corridor) and from Downtown Dallas to Farmers Branch, Carrollton, and Irving (the Northwest Corridor) and from downtown Garland to Rowlett (Rowlett extension) and the three miles extension of the Blue Line from Ledbetter Station toward the University of North Texas (UNT) Dallas Campus located at the southeast corner of Camp Wisdom Road and University Hills Blvd. The plan also includes the Cotton Belt Corridor and Dallas Central Business District (D2) Alignment. The Cotton Belt Corridor is a 26-mile long, regional rail corridor that extends from DFW International Airport through the northern portion of the DART service area to the existing DART Red Line, passing through the cities of Grapevine, Coppell, Carrollton, Addison, Dallas, Richardson, and Plano, with nine proposed stations along the way. The second CBD alignment (D2) will double the downtown LRT capacity, and connects Victory Station and the Green Line. The timing and completion of the Transit System Plan is based on economic assumptions made in DART’s 20-year financial plan and is subject to change based on changing economic conditions. The FY 2017 Twenty-Year Financial Plan includes $5.3 billion for capital and non-operating projects. The first section of the southeast extension, Bryan Street to Fair Park, opened for service on September 14, 2009. Other northwest and southeast extensions opened for service during 2011 and the first section of Irving line segment opened for service in July 2012. The second section of the Irving line segment and the northeast (Rowlett) extension opened for revenue service in December 2012. The third section of the Irving line (Irving-3) opened for service in August 2014. The Blue Line extension to the University of North Texas (UNT) Dallas Campus (UNT Dallas Station) opened for service on October 24, 2016. DART has entered into contract commitments for the LRT build out and other capital developments in the amount of $3.5 billion and has spent approximately $3.4 billion of the committed amount as of September 30, 2016.

FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015 (Dollars in Thousands)

DART participates in several federal and state grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. In the opinion of management, no significant contingent liabilities exist relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

DART has entered into certain operating lease agreements. Operating lease expenses are approximately $896 and $735 in 2016 and 2015, respectively.

Future minimum lease payments for all non-cancelable operating leases are as follows:

Fiscal Year	2017	2018	2019	2020	2021
Minimum Lease Payments	$523	$482	$455	$443	$390

DART owns and operates a number of facilities. It also acquires new properties for light rail expansion projects. In some of these properties DART has discovered contamination that may require pollution remediation activity. DART is working with relevant state and federal agencies on pollution remediation plans. Management does not believe that the outcome of these remediation activities will have a material adverse effect on DART's financial position. Management has accrued an estimate which is included in the accounts payable and accrued liabilities line item in the accompanying Statements of Net Position.

21. DERIVATIVE INSTRUMENTS

Fuel Hedge

DART has fuel delivery contracts with suppliers for commuter rail vehicles and some DART buses and a gasoline contract for service vehicles. However, the price DART pays for the fuel fluctuates depending on market prices. This exposes DART to significant risk related to fluctuations in the amounts it pays for fuel. It also creates uncertainty in budgeting for fuel costs. In order to minimize the impact of fluctuating fuel market prices on its cash flow, DART has entered into fuel hedge contracts that run from May 1, 2015 to September 30, 2020. The fair values of the derivative instrument associated with this hedge contract were $486 as of September 30, 2016 and $937 as of September 30, 2015.

Objective and terms of the fuel hedge contracts

The objective of each of the derivative instruments (diesel fuel hedge contracts) is to hedge changes in cash flows due to market price fluctuations related to expected purchases of diesel fuel for DART buses, commuter rail cars, and service vehicles. The terms of the agreement include DART paying monthly fixed prices and receiving floating prices based on an average of daily mean of Platts US Gulf Coast ultra low sulfur diesel (ULSD) and Gasoline-UNIL 87 Gulf Cost (Pipeline) – Platts U. S. for each month.

Risks

Credit risk – The derivative instrument for fiscal year 2015 to 2017 for diesel fuel is held by the same counterparty. The derivative instrument for diesel fuel for fiscal year 2018 to 2020 and for gasoline from 2017 to 2019 is held by a different counterparty. As of the end of fiscal year 2016, DART's position in the derivative instrument was a potential inflow of resources. DART could have been exposed to credit risk if the counterparty to the transaction becomes insolvent but that did not happen. The S&P credit rating for both counterparties is A- during 2016.

Termination risk – DART or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The effect of termination risk on DART is that it will pay market prices for diesel fuel purchased for its operations. No termination event has occurred during fiscal year 2016 and the last contract for diesel fuel hedge will expire on 9/30/2020 and for gasoline will expire on 9/30/2019.

Contingencies

The fuel hedge contracts include provisions that require DART to post collateral in the event its credit rating falls below A- or A3 as issued by Standard & Poors or Moody's and if the exposure exceeds threshold amounts specified in the derivative instruments (contracts). DART's credit rating as of September 30, 2016 is AA+ as issued by Standards & Poor's or Aa2 as issued by Moody's.

Compressed Natural Gas (CNG) Delivery Contract

Starting from October 1, 2012, DART is replacing its existing diesel and liquefied natural gas operated fleet of buses with new buses that are operated with compressed natural gas (CNG). DART also buys CNG for contractor-owned and operated paratransit vehicles.

During fiscal year 2010, DART entered into a fixed price and indexed price CNG delivery contract for the CNG needed to operate these vehicles. The contract specifies monthly volumes of CNG to be used by DART from October 1, 2012 to September 30, 2020 with 85% of the monthly volumes at a fixed price and 15% at an indexed price. When DART uses lower than the volumes specified in the contract, the excess CNG has to be sold back to market at market price. The market price could be lower or higher than the fixed price and indexed price specified in the contract. The difference between the contract and market price can result in an exposure for DART. The amount of this exposure for DART is not expected to be material and no liability is included in the Statements of Net Position as of September 30, 2016 and 2015.

<u>Objective and terms of the CNG delivery contract</u> - The objectives of the CNG delivery contract are: to ensure that DART has delivery of natural gas for its transit buses and contractor owned and operated paratransit vehicles during the contract period; to fix the price for 85% of monthly volumes; and to minimize the fluctuations in cash flows caused by changes in market prices of CNG.

Risks

<u>Early Termination</u> – subject to payment of early termination damages, either party to the delivery contract may terminate the CNG delivery contract by giving at least thirty (30) days written notice to the other party. The effect of termination risk on DART is that it will pay market prices for CNG purchased for its operations. No termination event occurred during fiscal years 2016 and 2015.

22. NEW ACCOUNTING PRONOUNCEMENTS

In June 2015, GASB issued statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017.

In August 2015, GASB issued Statement No. 77**,** *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

In December 2015 GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.* This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015 but are not applicable to DART.

In January 2016 GASB issued Statement No. 80 *Blending Requirements for Certain Component Units – An amendment of GAST Statement No. 14.* This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

In March 2016 GASB issued Statement No. 81 *Irrevocable Split-Interest Agreements.* This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

In March 2016 GASB issued Statement No. 82 *Pension Issues-an amendment of GASB Statements No. 67, No.68 and No. 73. Investment Pools and Pool Participants.* This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016 or after June 15, 2017 for selection of assumptions.

In November 2016 GASB issued Statement No. 83 *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Management has not yet determined the impact of these statements on the basic financial statements.

DALLAS AREA RAPID TRANSIT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF NET PENSION LIABILITY

September 30, 2016 and 2015 (Dollars in Thousands)

The schedule of changes in the DART's Net Pension Liability and Related Ratios (Dollar amounts in thousands)

	2016	2015
Total pension liability		
Service cost	$954	$502
Interest	14,644	14,674
Changes of benefit terms	-	-
Difference between expected and actual experience	(5,082)	-
Changes in assumptions	-	-
Benefit payments	(11,369)	(11,364)
Net change in total pension liability	(853)	3,812
Total pension liability – beginning	219,019	215,207
Total pension liability – ending (a)	218,166	219,019
Plan fiduciary net position		
Contributions – employer	8,706	$9,122
Contributions – employee	2	2
Net investment income, net of expenses	520	12,532
Benefit payments	(11,369)	(11,364)
Administrative expenses	(219)	(250)
Net change in plan fiduciary net position	(2,360)	10,042
Plan fiduciary net position – beginning	156,829	146,787
Plan fiduciary net position - ending (b)	154,469	156,829
DART's net pension liability (a) – (b)	$63,697	$62,190
Plan fiduciary net position as a percentage of total pension liability	70.80%	71.61%
Covered employer payroll	$19,129	$19,438
DART's net pension liability as a percentage of covered employer payroll	332.99%	319.94%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available. The amounts presented for each fiscal year were determined as of the year end that occurred one year prior.

DALLAS AREA RAPID TRANSIT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS

September 30, 2016 and 2015 (Dollars in Thousands)

The schedule of DART Contribution to DB Pension Plan (Dollar amounts in thousands)

	9/30/2016	9/30/2015
Actuarially determined contribution	$9,221	8,706
Contribution in relation to the actuarially determined contribution	9,221	8,706
Contribution deficiency (excess)	$ -	$ -
Covered employee payroll	$19,129	$19,438
Contribution as a percentage of covered employer payroll	45.51%	44.79%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of October 1, in the fiscal year in which contributions are reported. That is, the contribution calculated as of October 1, 2015 was made during the fiscal year ended September 30, 2016 and as of October 1, 2014 was made during the fiscal year ended September 30, 2015.

Actuarial Cost Method	Projected Unit Credit
Amortization method	Level dollar
Amortization period	Gains and losses are amortized over 15 years, assumption changes are amortized over 30 years, and plan changes are amortized over 30 years.
Asset valuation method	Based on 5-year phase-in of investment gains and losses.
Inflation	2.5%
Investment Return	7.00%, net of pension plan investment expenses. This is based on an average inflation rate of 2.50% and a real rate of return of 4.50%.
Salary Increases	3.25%
Mortality	Healthy mortality rates were based on the RP-2000 combined mortality table for males and females increased by 8.59% and projected generationally from 2000 by Scale AA. Disabled mortality rates were based on the RP-2000 disabled mortality tables for males and females.

DALLAS AREA RAPID TRANSIT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
OTHER POST EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS

September 30, 2016 (Dollars in Thousands)

The schedule of funding progress for the DART Other Postemployment Benefits (OPEB) calculated by the actuaries is as follows: The data for the two most recent valuations is based on payroll information as of September 30, 2015.

	Actuarial Valuation Date			
	9/30/2016	9/30/2015	9/30/2014	9/30/2013
Actuarial Value of Assets	$33,894	$36,235	$30,243	$24,162
Actuarial Accrued Liability (AAL)	$57,520	$52,034	$58,315	$52,676
Unfunded AAL (UAAL)	$23,626	$15,799	$28,072	$28,514
Funded Ratio	58.9%	69.6%	51.9%	45.9%
Covered Payroll	$196,688	$185,181	$174,557	$174,557
UAAL as a % of Covered Payroll	12.0%	8.5%	16.1%	16.3%

* * * * * * * *