

DALLAS AREA RAPID TRANSIT



**Quarterly Disclosure Update
for the six-month period ended March 31, 2016**

This Quarterly Disclosure Update supplements the information contained in our Annual Disclosure Statement for the period ended September 30, 2015, and dated March 22, 2016; and our Quarterly Disclosure Update for the three-month period ending December 31, 2015, dated March 22, 2016, which have been filed as a public record with the Municipal Securities Rulemaking Board's website at www.emma.msrb.org, and posted on the Internet at our website, www.dart.org. You may also obtain a free copy of this Quarterly Disclosure Update by contacting us at the following address or telephone number: Executive Vice President/Chief Financial Officer, DART, 1401 Pacific Avenue, Dallas, Texas 75202, (214) 749-3148.

GENERAL

We are posting and filing this Quarterly Disclosure Update to supplement our Annual Disclosure Statement dated March 22, 2016 and our Quarterly Disclosure Update for the three-month period ending December 31, 2015, dated March 22, 2016. We continue to reserve the right to suspend or stop the postings on the Internet and the quarterly updates at any time. However, we will always provide the annual and periodic information called for under any undertaking made in compliance with Rule 15c2-12 under the Securities Exchange Act of 1934.

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

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

The information in this Quarterly Disclosure Update is as of the date stated below, except for the unaudited financial information included herein as Exhibit A, which is for the six-month period ended March 31, 2016.

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

FORWARD-LOOKING STATEMENTS

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

Dated: May 24, 2016

QUARTERLY DISCLOSURE UPDATE

The Annual Disclosure Statement dated March 22, 2016 and Quarterly Disclosure Update dated March 22, 2016 are updated by the following supplemental information:

Unaudited Financial Information

Audited financial statements for our fiscal year ended September 30, 2015, are attached as Appendix A to the Annual Disclosure Statement. An unaudited Statements of Net Position as of March 31, 2016 compared to September 30, 2015 and Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows for the six-month period ended March 31, 2016 and March 31, 2015 are included as Exhibit A to this Quarterly Disclosure Update. Such quarterly financial statements should be read in conjunction with our annual financial statements. This information is taken from our internal books and records that are maintained and administered by DART in accordance with generally accepted accounting principles. The use of reasonable estimates is a normal part of the preparation of financial statements. Sales tax revenues included in the unaudited quarterly financial statements were accrued using estimates. Actual sales tax receipts could, therefore, differ from those reported in the quarterly financial statements.

We believe that the unaudited financial information for the six-month period ended March 31, 2016, fairly represents the financial position and operating results of DART and is complete as of, but no later than, such date. However, you are cautioned that such financial information has not been audited or reviewed by any independent accountants. We do not warrant or guarantee that subsequent audited information for these accounts for this six-month period will not differ from the unaudited financial information presented herein and in Exhibit A.

Management's Comment Regarding Second Quarter Financial Information

DART operations resulted in a net loss of \$99.2 million during the first six months of Fiscal Year 2016 as compared to \$68.7 million as of March 31, 2015. The loss for the six months ending March 31, 2016 is higher than March 31, 2015 due to a 6% decrease in revenues and capital contributions and a 1% increase in expenses.

DART's unaudited financial statements for the six-month period ended March 31, 2016, and March 31, 2015, show sales tax revenues as \$271.2 million and \$259.2 million, respectively, which indicates an increase of 4.6%. Total revenues for the six months ended March 31, 2016 were \$361.6 million, which was a decrease of 6.2% or \$23.8 million as compared to March 31, 2015. This decrease is due to decreases in grant revenue, investment income, and other non-operating revenues. As of March 31, 2016, total assets and deferred outflows of resources were \$5.9 billion compared to \$6.1 billion as of September 30, 2015.

DART maintains various cash reserves including a Financial Reserve Account that is funded with sales tax collections that exceed budget during a given year, if any. In addition, the Board of Directors authorized the establishment of a Capital Reserve Account. Should the Financial Reserve exceed \$50 million, excess funds are placed in the Capital Reserve Account. An affirmative vote of two-thirds of the Board is required to draw upon the Financial and Capital Reserves, and the funds may be used for any purpose approved by the Board. The balance in the Financial Reserve Account as of March 31, 2016 was \$50 million, and the balance in the Capital Reserve Account was \$19.9 million. As of March 31, 2016, the Operating Fund balance was \$627 million. We maintain a working cash balance in the Operating Fund equal to at least one month of projected payments. Total outstanding long-term debt as of March 31, 2016, excluding the capital lease/leaseback obligation, was \$3.3 billion. In March, DART paid down \$10 million in Commercial Paper Debt. In accordance with the FY 2016 Twenty-Year Financial Plan, an additional \$20 million will be paid down by September 30, 2016.

Litigation

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

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

Exhibit A

**Unaudited Statement of Principal Accounts
for the six-month period ended March 31, 2016**

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

MARCH 31, 2016 AND SEPTEMBER 30, 2015 (Dollars in Thousands)

	3/31/2016 Unaudited	9/30/2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$21,429	\$66,985
Investments	677,519	714,640
Sales and use tax receivable	90,477	87,687
Transit revenue receivable, net	3,827	4,540
Due from federal and other governments	19,948	21,965
Materials and supplies inventory, net	37,096	35,674
Prepaid transit expense and other	4,877	2,975
Restricted investments held by trustee for debt service	85,128	108,952
Restricted investments held for advance funding agreements	68,405	67,576
Restricted investments held to pay capital lease/leaseback liabilities	6,377	12,210
TOTAL CURRENT ASSETS	1,015,083	1,123,204
NONCURRENT ASSETS		
Restricted investments held as security for capital lease/leaseback liabilities	8,915	9,334
Investment in joint venture	18,766	19,458
Investment in managed HOV lane agreements	13,600	13,600
Capital assets		
Land and rights-of-way	615,568	616,728
Projects in progress	138,622	101,124
Depreciable capital assets, net of depreciation	3,851,168	3,964,068
Restricted investments held to pay capital lease/leaseback liabilities	99,311	188,888
Unamortized bond insurance premium and other	887	1,069
TOTAL NONCURRENT ASSETS	4,746,837	4,914,269
TOTAL ASSETS	5,761,920	6,037,473
DEFERRED OUTFLOWS OF RESOURCES	103,170	45,682
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	5,865,090	6,083,155
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	52,292	69,793
Commercial paper notes payable	190,000	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	1,236	1,336
Retainage payable	23,613	22,241
Unearned revenue and other liabilities	120,115	114,067
Accrued interest payable from restricted assets	56,692	59,195
Current portion of senior lien revenue bonds payable	50,490	48,115
TOTAL CURRENT LIABILITIES	501,636	527,781
NONCURRENT LIABILITIES		
Accrued liabilities	35,208	34,636
Net pension liability	63,697	62,190
Repayment due to State Comptroller	8,163	8,575
Senior lien revenue bonds payable	3,387,740	3,394,568
Transportation Infrastructure Finance and Innovation Act (TIFIA) bonds payable	105,000	105,000
Capital lease/leaseback liabilities	99,311	188,888
TOTAL NONCURRENT LIABILITIES	3,699,119	3,793,857
TOTAL LIABILITIES	4,200,755	4,321,638
DEFERRED INFLOWS OF RESOURCES	4,049	2,011
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	4,204,804	4,323,649
NET POSITION		
Net investment in capital assets	931,432	938,644
Restricted for debt service	28,436	49,757
Restricted as security for capital lease/leaseback liabilities	8,915	9,334
Unrestricted	691,503	761,771
TOTAL NET POSITION	\$1,660,286	\$1,759,506

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

FOR THE SIX MONTHS ENDED MARCH 31, 2016 and 2015 (Dollars in Thousands)

	2016 <u>Unaudited</u>	2015 <u>Unaudited</u>
OPERATING REVENUES		
Passenger revenues	\$35,086	\$35,660
Advertising, rent, and other	7,286	7,321
TOTAL OPERATING REVENUES	<u>42,372</u>	<u>42,981</u>
OPERATING EXPENSES		
Labor	118,687	109,168
Benefits	51,546	53,603
Services	18,378	15,359
Materials and supplies	20,692	18,614
Purchased transportation	24,870	22,777
Depreciation and amortization	118,240	119,780
Utilities	8,768	8,682
Taxes, leases, and other	2,095	1,968
Casualty and liability	2,387	2,390
TOTAL OPERATING EXPENSES	<u>365,663</u>	<u>352,341</u>
NET OPERATING LOSS	<u>(323,291)</u>	<u>(309,360)</u>
NON-OPERATING REVENUES (EXPENSES)		
Sales and use tax revenue	271,206	259,186
Investment income	2,623	5,778
Interest income from investments held to pay capital lease/leaseback	5,296	7,765
Interest expense on capital lease/leaseback	(5,296)	(7,765)
Street improvements	(1)	(228)
Interest and financing expenses	(85,270)	(87,191)
Build America Bonds tax credit	14,195	14,119
Other federal grants	14,894	31,069
Other non-operating revenues	7,559	11,150
Other non-operating expenses	(4,624)	(6,574)
NET NON-OPERATING REVENUES	<u>220,582</u>	<u>227,309</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<u>(102,709)</u>	<u>(82,051)</u>
CAPITAL CONTRIBUTIONS AND GRANTS		
Federal capital contributions	2,295	12,417
State capital contributions	1,127	327
Local capital contributions	67	618
TOTAL CAPITAL CONTRIBUTIONS AND GRANTS	<u>3,489</u>	<u>13,362</u>
CHANGE IN NET POSITION	(99,220)	(68,689)
TOTAL NET POSITION – BEGINNING OF YEAR	<u>1,759,506</u>	<u>1,966,051</u>
TOTAL NET POSITION – END OF THE PERIOD	<u>\$1,660,286</u>	<u>\$1,897,362</u>

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

FOR THE SIX MONTHS ENDED MARCH 31, 2016 and 2015 (Dollars in Thousands)

	2016 Unaudited	2015 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$42,455	\$41,237
Cash flows from other sources	4,853	28,366
Payments to suppliers of goods and services	(63,618)	(51,553)
Payments to purchased transportation service providers	(24,323)	(23,956)
Payments to employees	(120,184)	(111,363)
Benefit payments on behalf of employees	(56,045)	(54,699)
NET CASH USED BY OPERATING ACTIVITIES	(216,862)	(171,968)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Sales and use tax receipts	268,004	258,913
Other federal grants	14,195	14,119
Other non-capital financing receipts	1	26
Build America Bonds tax credit	14,845	31,254
Local Assistance Program and street improvements	(101)	(228)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	296,943	304,084
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	4,604	2,363
Proceeds from sales and maturity of investments	387,158	450,744
Purchase of investments	(351,629)	(448,983)
Decrease (increase) in restricted assets	22,995	46,286
Investment in managed HOV lane agreements		(5,356)
NET CASH USED BY INVESTING ACTIVITIES	63,128	45,054
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(41,265)	(82,503)
Proceeds from the issuance of commercial paper notes	435,000	272,500
Payment on commercial paper notes	(445,000)	(252,500)
Proceeds from the issuance of sales tax revenue bonds	692,426	497,876
Payment for advance refunding of sales tax revenue bonds	(695,699)	(496,226)
Payment of debt issuance costs	(2,569)	(2,270)
Principal payment on revenue bonds	(48,115)	(38,215)
Interest and financing expenses	(89,924)	(89,418)
Federal capital contributions	2,478	21,179
State capital contributions	3,836	
Local capital contributions	67	618
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(188,765)	(168,959)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(45,556)	8,211
CASH AND CASH EQUIVALENTS, BEGINNING OF THE FISCAL YEAR	66,985	27,217
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	\$21,429	\$35,428

(Continued)

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

FOR THE SIX MONTHS ENDED MARCH 31, 2016 and 2015 (Dollars in Thousands)

	2016 <u>Unaudited</u>	2015 <u>Unaudited</u>
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating loss	\$(323,291)	\$(309,360)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation and amortization	118,239	119,780
Miscellaneous non-operating income	7,538	5,436
Miscellaneous non-operating expenses	(4,603)	(885)
Changes in assets and liabilities		
Decrease in transit receivable	397	(877)
Increase in materials and supplies inventory	(1,422)	(4,148)
Decrease in prepaid expenses and other current assets	(1,449)	(1,426)
Decrease in net pension liability	1,507	(3,790)
Increase in deferred inflows of resources	2,038	
Increase in deferred outflows of resources	(8,796)	
Increase in accounts payable and accrued liabilities	(10,814)	(5,518)
Increase (Decrease) in unearned revenue and other liabilities	3,794	28,820
NET CASH USED BY OPERATING ACTIVITIES	<u>\$(216,862)</u>	<u>\$(171,968)</u>
NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Interest income from investments held to pay capital lease/leaseback	\$5,296	\$7,765
Interest expense on capital lease/leaseback	(5,296)	(7,765)
(Decrease) in capital lease/leaseback obligations	(95,413)	(6,331)
Decrease in investments held to pay capital lease/leaseback	95,413	6,331
Increase (Decrease) in fair value of investments	(532)	2,896
Amortization of premium, discount, bond insurance premium costs, and loss on debt refunding	(3,559)	(1,006)
Purchases of capital assets in accounts payable at period-end	3,329	5,433
Toll Credits	21	5,821
Toll Credits	(21)	(5,821)
Proceeds from the issuance of revenue bonds paid into escrow	692,426	497,876
Payment for advance refunding of revenue bonds	(695,699)	(496,226)

(Concluded)