

## DALLAS AREA RAPID TRANSIT



### Quarterly Disclosure Update For the three-month period ended December 31, 2017

---

*This Quarterly Disclosure Update supplements the information contained in our Annual Disclosure Statement for the period ending September 30, 2017, and dated March 13, 2018. The Annual Disclosure Statement will be filed as a public record with the Municipal Securities Rulemaking Board's website at [www.emma.msrb.org](http://www.emma.msrb.org), and is posted on the Internet at our website, [www.dart.org](http://www.dart.org). You may also obtain a free copy of this Quarterly Disclosure Update by contacting us at the following address or telephone number: Senior Vice President, Finance/Interim 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 for the period ending September 30, 2017, and dated March 13, 2018. We continue to reserve the right to suspend or stop the postings on the Internet and the quarterly updates at any time. However, we will always provide the annual and periodic information called for under any undertaking made in compliance with Rule 15c2-12 under the Securities Exchange Act of 1934.

Whenever we use capitalized words in this Quarterly Disclosure Update, they refer to the defined terms that are found in or incorporated by reference in the Annual Disclosure Statement for the period ending September 30, 2017 and dated March 13, 2018. 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 three-month period ended December 31, 2017.

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

#### FORWARD-LOOKING STATEMENTS

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

---

**Dated: March 27, 2018**

## QUARTERLY DISCLOSURE UPDATE

The Annual Disclosure Statement for the period ending September 30, 2017 and dated March 13, 2018, is updated by the following supplemental information:

### **Unaudited Financial Information**

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

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

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

DART's unaudited financial statements for the three-month period ended December 31, 2017, and December 31, 2016, show sales tax revenues as \$153.8 million and \$146.4 million, respectively, which indicates an increase of 5.0% due to the continuing expansion in the local economy resulting in better retail sales in the DART Service Area. Our operating results for the three-month period ended December 31, 2017 reflect an operating loss of \$169.2 million, compared to an operating loss of \$158.9 million for the three-month period ended December 31, 2016. This was primarily due to decreased costs in labor, services, benefits and depreciation.

DART maintains various cash reserves including a Financial Reserve Account that is funded with sales tax collections that exceed budget during a given year, if any. In addition, the Board of Directors authorized the establishment of a Capital Reserve Account. Should the Financial Reserve exceed \$50 million, excess sales tax receipts are placed in the Capital Reserve Account. An affirmative vote of two-thirds of the Board is required to draw upon the Financial or Capital Reserves, and the funds may be used for any purpose approved by the Board. In Fiscal Year 2017, our sales tax receipts exceeded our sales tax budget by \$3.0 million. In December 2017, excess sales tax receipts for FY 2017 were transferred to the Capital Reserve because the Financial Reserve was already at the policy-capped balance of \$50 million. According to DART policy, future excess sales tax receipts are being deposited into the Capital Reserve. The December 31, 2017 balances in the Financial Reserve and Capital Reserve were \$50.1 million and \$26.8 million, respectively. The Operating Fund balance was \$448.6 million. We maintain a working cash balance in the Operating Fund equal to at least one month of projected payments.

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

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

### **Litigation**

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

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

---

This Quarterly Disclosure Update, in substantially the form and content presented above and in its Exhibit, was reviewed with the Board of Directors of DART on March 27, 2018.

ATTEST:

/s/ Sue S. Bauman

Chair, Board of Directors

/s/ Michele Wong Krause

Secretary, Board of Directors

/s/ Gary C. Thomas

DART, President/Executive Director

**Exhibit A**

**Unaudited Statement of Principal Accounts  
for the three-month period ended December 31, 2017**

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

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

	12/31/2017 Unaudited	9/30/2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$33,925	\$39,938
Investments	494,538	498,204
Sales and use tax receivable	106,851	95,344
Transit revenue receivable, net	3,804	8,528
Due from federal and other governments	21,288	19,959
Materials and supplies inventory, net	35,247	34,856
Prepaid transit expense and other	6,101	4,176
Restricted investments held by trustee for debt service	29,090	111,734
Restricted investments held for advance funding agreements	64,504	67,868
Restricted investments held to pay capital lease/leaseback liabilities	6,374	6,374
TOTAL CURRENT ASSETS	<u>801,722</u>	<u>886,981</u>
<b>NONCURRENT ASSETS</b>		
Restricted investments held as security for capital lease/leaseback liabilities	7,530	7,751
Investment in joint venture	11,753	12,030
Investment in managed HOV lane agreements	11,100	11,100
Capital assets		
Land and rights-of-way	619,026	619,026
Projects in progress	79,586	66,867
Depreciable capital assets, net of depreciation	3,647,000	3,705,322
Restricted investments held to pay capital lease/leaseback liabilities	107,473	105,342
Unamortized bond insurance premium and other	623	633
TOTAL NONCURRENT ASSETS	<u>4,484,091</u>	<u>4,528,071</u>
<b>TOTAL ASSETS</b>	<u>5,285,813</u>	<u>5,415,052</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>84,231</u>	<u>86,293</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>5,370,044</u>	<u>5,506,615</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	43,367	60,806
Commercial paper notes payable	140,000	140,000
Current portion of capital lease/leaseback liabilities	6,374	6,374
Current portion of repayment due to State Comptroller	824	824
Local Assistance Program payable	685	685
Retainage payable	6,200	6,968
Unearned revenue and other liabilities	113,464	112,840
Accrued interest payable from restricted assets	13,825	55,329
Current portion of senior lien revenue bonds payable	58,291	55,936
TOTAL CURRENT LIABILITIES	<u>383,030</u>	<u>439,762</u>
<b>NONCURRENT LIABILITIES</b>		
Accrued liabilities	37,800	37,113
Net pension liability	55,854	52,127
Repayment due to State Comptroller	6,721	6,927
Senior lien revenue bonds payable	3,251,398	3,311,980
Transportation Infrastructure Finance and Innovation Act (TIFIA) bonds payable	98,426	100,878
Capital lease/leaseback liabilities	107,473	105,342
TOTAL NONCURRENT LIABILITIES	<u>3,557,672</u>	<u>3,614,367</u>
<b>TOTAL LIABILITIES</b>	<u>3,940,702</u>	<u>4,054,129</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>2,178</u>	<u>2,178</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u>3,942,880</u>	<u>4,056,307</u>
<b>NET POSITION</b>		
Net investment in capital assets	858,040	837,067
Restricted for debt service	15,265	56,405
Restricted as security for capital lease/leaseback liabilities	7,530	7,751
Unrestricted	546,329	543,815
<b>TOTAL NET POSITION</b>	<u>\$1,427,164</u>	<u>\$1,445,038</u>

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

**FOR THE THREE MONTHS ENDED DECEMBER 31, 2017 and 2016 (Dollars in Thousands)**

	2017 <u>Unaudited</u>	2016 <u>Unaudited</u>
<b>OPERATING REVENUES</b>		
Passenger revenues	\$16,307	\$18,029
Advertising, rent, and other	3,421	3,376
<b>TOTAL OPERATING REVENUES</b>	<u>19,728</u>	<u>21,405</u>
<b>OPERATING EXPENSES</b>		
Labor	56,364	53,772
Benefits	30,658	29,819
Services	9,014	7,619
Materials and supplies	11,551	10,777
Purchased transportation	13,475	12,626
Depreciation and amortization	60,545	58,848
Utilities	4,824	4,619
Taxes, leases, and other	1,307	902
Casualty and liability	1,164	1,301
<b>TOTAL OPERATING EXPENSES</b>	<u>188,902</u>	<u>180,283</u>
<b>NET OPERATING LOSS</b>	<u>(169,174)</u>	<u>(158,878)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Sales and use tax revenue	153,774	146,424
Investment income (loss)	56	(524)
Interest income from investments held to pay capital lease/leaseback	2,131	2,020
Interest expense on capital lease/leaseback	(2,131)	(2,020)
Interest and financing expenses	(38,374)	(39,283)
Build America Bonds tax credit	7,108	7,098
Other federal grants	20,754	34,514
Other non-operating revenues	4,232	4,596
Other non-operating expenses	(162)	(177)
<b>NET NON-OPERATING REVENUES</b>	<u>147,388</u>	<u>152,648</u>
<b>LOSS BEFORE CAPITAL CONTRIBUTIONS AND GRANTS</b>	<u>(21,786)</u>	<u>(6,230)</u>
<b>CAPITAL CONTRIBUTIONS AND GRANTS</b>		
Federal capital contributions	3,859	144
State capital contributions	53	505
Local capital contributions		
<b>TOTAL CAPITAL CONTRIBUTIONS AND GRANTS</b>	<u>3,912</u>	<u>649</u>
<b>CHANGE IN NET POSITION</b>	<u>(17,874)</u>	<u>(5,581)</u>
<b>TOTAL NET POSITION – BEGINNING OF YEAR</b>	<u>1,445,038</u>	<u>1,570,583</u>
<b>TOTAL NET POSITION – END OF THE REPORTING PERIOD</b>	<u>\$1,427,164</u>	<u>\$1,565,002</u>

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

**FOR THE THREE MONTHS ENDED DECEMBER 31, 2017 and 2016 (Dollars in Thousands)**

	2017 Unaudited	2016 Unaudited
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$25,415	\$23,942
Payments to suppliers of goods and services	(30,217)	(28,914)
Payments to purchased transportation service providers	(15,860)	(12,611)
Payments to employees	(59,247)	(55,581)
Benefit payments on behalf of employees	(27,115)	(26,169)
NET CASH USED BY OPERATING ACTIVITIES	<u>(107,024)</u>	<u>(99,333)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Sales and use tax receipts	142,061	137,622
Other federal grants	14,226	14,180
Build America Bonds tax credit	15,949	22,702
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>172,236</u>	<u>174,504</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	2,460	952
Proceeds from sales and maturity of investments	100,653	180,709
Purchase of investments	(99,396)	(169,904)
Decrease (increase) in restricted assets	86,007	81,177
NET CASH USED BY INVESTING ACTIVITIES	<u>89,724</u>	<u>92,934</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	3,925	(27,526)
Proceeds from the issuance of commercial paper notes	150,000	195,000
Payment on commercial paper notes	(150,000)	(225,000)
Principal payment on revenue bonds	(55,936)	(53,962)
Interest and financing expenses	(82,565)	(80,130)
Federal capital contributions	3,902	3,232
State capital contributions	785	145
Local capital contributions	52	505
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(160,949)</u>	<u>(187,736)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,013)	(19,631)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE FISCAL YEAR	<u>39,938</u>	<u>53,651</u>
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	<u>\$33,925</u>	<u>\$34,020</u>

(Continued)

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

**FOR THE THREE MONTHS ENDED DECEMBER 31, 2017 and 2016 (Dollars in Thousands)**

	2017 Unaudited	2016 Unaudited
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating loss	\$(169,197)	\$(158,869)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation and amortization	60,545	58,848
Miscellaneous non-operating income	4,180	4,596
Miscellaneous non-operating expenses	(162)	(177)
Changes in assets and liabilities		
(Increase) Decrease in transit receivable	4,736	(1,078)
(Increase) Decrease in due from federal & other governments	(3,208)	
Increase in materials and supplies inventory	(392)	(2,604)
Decrease in prepaid expenses and other current assets	(1,691)	(829)
Increase in net pension liability	3,727	3,727
Increase in accounts payable and accrued liabilities	(9,550)	(7,967)
Increase (Decrease) in unearned revenue and other liabilities	3,988	5,020
NET CASH USED BY OPERATING ACTIVITIES	<u>\$(107,024)</u>	<u>\$(99,333)</u>
NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Interest income from investments held to pay capital lease/leaseback	\$2,130	\$2,020
Interest expense on capital lease/leaseback	(2,130)	(2,020)
Increase (Decrease) in capital lease/leaseback obligations	2,130	2,020
(Increase) Decrease in investments held to pay capital lease/leaseback	(2,130)	((2,020)
Increase (Decrease) in fair value of investments	(2,771)	(2,526)
Amortization of premium, discount, bond insurance premium costs, and loss on debt refunding	(2,288)	(2,378)
Purchases of capital assets in accounts payable at period-end	6,511	14,410

(Concluded)