DENTON COUNTY TRANSPORTATION AUTHORITY

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED SEPTEMBER 30, 2017

2017

AS PREPARED BY DCTA FINANCE DEPARTMENT

LEWISVILLE, TEXAS

DCTA

Denton County Transportation Authority

Comprehensive Annual Financial Report
For the Fiscal Year Ended September 30, 2017

As Prepared By:
DCTA Finance Department
Lewisville, Texas

Denton County Transportation Authority

Comprehensive Annual Financial Report
For The Fiscal Year Ended September 30, 2017
Table of Contents

INTRODUCTORY SECTION

Letter of Transmittal

February 13, 2018

The Honorable Chairman and Members of the Board
Denton County Transportation Authority
Lewisville, Texas

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of Denton County Transportation Authority (DCTA) for the fiscal year ended September 30, 2017.

This report provides the DCTA Board of Directors, citizens of DCTA's service area, our bondholders and other interested parties with detailed information concerning the financial condition and activities of DCTA. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the DCTA. Management is responsible for establishing and maintaining effective internal control over financial reporting. Because the cost of internal controls should not outweigh their benefits, DCTA's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

To the best of our knowledge and belief, the enclosed data is accurate in all material respects, and is organized in a manner designed to fairly present the financial position and results of operations of the DCTA as measured by the financial activity of the fund. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the DCTA's financial affairs have been included.

Weaver and Tidwell, LLP, Certified Public Accountants, have issued an unmodified ("clean") opinion on the DCTA's financial statements for the year ended September 30, 2017. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and the two should be read in conjunction with each other.

DCTA PROFILE

DCTA is a Coordinated County Transportation Authority as defined in Chapter 460 of the Texas Transportation Code. It is granted power under this Texas law to plan, develop, acquire, construct, own, operate, and maintain a public transportation system in Denton County. DCTA provides fixed route, demand response bus service, university shuttle, vanpools and commuter rail service in Denton County and Collin County.

Location

Denton County is located in the northern part of the Dallas-Fort Worth Metroplex adjacent to both Dallas and Tarrant counties. The county is 953 square miles and is approximately 35 miles south of the border between Texas and Oklahoma. The county, founded in 1846, is one of the fastest growing counties in the U.S. with an estimated population of 814,560 in 2017.

Governance

DCTA is governed by a 14-member Board representing the county of Denton and are appointed by respective City Councils or the County Commissioners Court as follows: one member from each municipality with a population of 17,000 or more (8 total); three members appointed by the Denton County Commissioners Court; and three members designated by the remaining municipalities with a population of greater than 500 and less than 17,000. Each member serves a term of two years and may be reappointed. There are no term limits for service on the Board. Board officers are elected from the Board membership and serve a one-year term with no term limits.

Agency Background

In 2001, legislation authorizing DCTA was passed. On November 5, 2002, the voters of Denton County created DCTA. The primary revenue source for DCTA is a ½ cent local sales tax from its three member cities - Denton, Highland Village, and Lewisville. Collection of the sales and use tax dedicated to DCTA from these three cities began January 1, 2004. This revenue helps fund DCTA's Long Range Service Plan, which includes a commuter rail component, a bus service component with local fixed route bus service, university shuttle service, commuter express, demand response and vanpool service as well as a network of Park-and-Rides and Rail and Bus facilities to serve Denton County residents. These elements provide services to help mitigate congestion, improve mobility, provide regional connectivity and help improve air quality. DCTA's A-train rail service connects Denton County with Dallas Area Rapid Transit (DART) light rail transit facilities via a convenient cross platform transfer at Trinity Mills Station in Carrollton and provides access to the greater Dallas-Fort Worth area.

Construction of DCTA's A-train rail corridor was accomplished with funding from a Regional Toll Road Funding Initiative (RTRFI) grant received in March 2009. DCTA began construction, completed the rail corridor project, and began rail revenue service in just under 2.5 years after receipt of the RTRFI funding. A contract for construction of the 21-mile rail corridor was awarded in May 2009. Construction of the rail corridor and rail stations linking riders from Denton County to the DART light rail was completed, and passenger service began in June 2011. This rail corridor provides access to regional rail service to over half of the Denton County population. A major milestone of DCTA's initial Long Range Service Plan was achieved with the start of A-train commuter rail service in 2011.

In December 2011, the Board of Directors updated its Long Range Service Plan. This update provides the framework for DCTA service planning for the next 25 years. DCTA's Long Range Service Plan also provides input for North Central Texas Council of Government's (NCTCOG) Mobility 2040 Plan goals. NCTCOG serves as regional Metropolitan Planning Organization (MPO) and is the organization charged with coordinating regional transportation planning efforts for a 12-county region which includes Denton County. The Mobility 2040 Plan, which was updated and adopted in March 2016 by NCTCOG's governing body, serves as a blueprint for the region's transportation system planning. DCTA provided input regarding key service components of its Long Range Service Plan for incorporation into the Mobility 2040 Plan. The goals defined in the Mobility 2040 Plan guide efforts to accommodate the region's multimodal mobility needs and improve the air quality. DCTA and other regional transit agencies, as well as local governments, use NCTCOG's Mobility 2040 Plan as a reference for their own planning efforts.

Revenue from the ½ cent sales and use tax from the cities of Denton, Highland Village, and Lewisville, federal and state grants, service contracts, operating fares, and investment income fund the operations and implementation of DCTA's Long Range Service Plan.

Accounting System and Budgetary Control

DCTA is accounted for as a single entity enterprise fund and reports financial results in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) guidance. The accrual basis of accounting is used for the audited financial statements, external reporting, and internally for budgeting, with revenues recorded in the period that they are earned and expenses recorded in the period in which the liability or benefit is expected.

On an annual basis, DCTA develops and adopts an operating and capital budget as well as the long range financial plan. As part of the budget process, a long range financial forecast and cash flow model is presented to the Board. This document forecasts the operating component, debt service costs and Capital Improvement Plan requirements and serves as the foundation for the development of the annual operating and capital budget. The cash flow model helps provide a long-term look at the impact of annual budgetary decisions. As part of the annual budget process, the Board also adopts a Budget Contingency Plan which positions DCTA to be able to respond quickly to economic or market fluctuations or downturns.

The Finance Committee, comprised of members of the Board, reviews the budget and makes recommendations to the Board. The Board conducts a public hearing in August to receive citizen input and provides final review with formal adoption in September of each year. The fiscal year for DCTA is October 1 – September 30. The President is authorized to transfer budgeted amounts between line items and departments; however, any revisions that alter the total expenditures of the fund or increase a capital project budget must be approved by the Board. As a matter of practice, budget transfers are reported monthly to the Board at its regularly scheduled meeting.

Budget control has been established at the department level. Financial reports showing budget to actual expenditures by line item are distributed monthly for review by management. Financial reports are presented to the Board monthly for their review and acceptance. Quarterly budget reviews of both the operating budgets and capital project budgets are conducted by Finance staff with the DCTA Executive Team comprised of the President and Vice-Presidents. Individual line items are reviewed and analyzed for budgetary compliance. Revenue budgets are reviewed monthly.

The Board has also adopted a series of financial standards and policies for the operating and debt management of the Agency. In addition, operating procedures have been established in accordance with state and federal requirements to ensure that DCTA is a fiscally sound authority operating an efficient and effective transportation system.

SERVICES PROVIDED

DCTA is the primary public transportation operator in Denton County. It operates a range of services including regional commuter rail (A-train); fixed route bus services; vanpools; community-on-demand service; commuter express; paratransit and general demand response services in the cities of Denton, Highland Village, and Lewisville; student shuttle transportation operated under contract with the University of North Texas (UNT) and North Central Texas College (NCTC); and contract demand response service in Frisco and Collin County. New services in 2017 included implementation of a pilot program to provide "last-mile" connection within a specific geo-coded area for Highland Village and portions of Lewisville and partnering with the City of McKinney and the McKinney Urban Transit District (MUTD) to launch demand-response service in five cities.

Regional Commuter Rail (A-train)

The A-train is a 21-mile regional rail system connecting Denton and Dallas counties. The 21-mile rail corridor follows the east side of I-35 E and connects Denton to Carrollton. DCTA has five A-train stations: two in Denton and three in the greater Highland Village-Lewisville area, with a transfer station at the Trinity Mills Station in Carrollton. The Trinity Mills transfer station connects riders with the DART Green Line and DART bus service. DCTA's five rail stations are served by fixed route bus service, the UNT & NCTC student shuttle, and the Highland Village Community On-Demand service.

DCTA operates 11 low-floor diesel-electric articulated GTW passenger rail vehicles designed to comfortably accommodate wheelchairs and bikes with room for 104 seated and 96 standing passengers in each vehicle. In FY17, rail ridership totaled roughly 505,000 passengers, a decrease of 7% from 545,000 in 2016.

Connect

Connect offers local fixed-route bus service in the cities of Denton, Highland Village, and Lewisville. In fiscal year 2017, these routes totaled roughly 488,000 boardings. In 2016, DCTA completed a comprehensive operations analysis (COA) for bus services. The City of Denton COA was implemented in FY17 and reduced average headways from 40 minutes to 30 minutes during peak periods for 7 of 8 routes. Key trip generators in Denton include UNT and Texas Women's University (TWU), major medical centers, retail centers, and social service providers.

In Lewisville, the COA was implemented in 2016 and improved headways from the previous 35 minutes during peak and 70 minutes during midday to 30 minutes and 60 minutes respectively. A re-configuration of the Lewisville routes also helped reduce the need for transfers and extended service to areas not previously served.

Community On-Demand/Connect Shuttle

In April 2016, the Connect RSVP service which provided peak-hour service on demand in Highland Village and north Lewisville was replaced with the Community On-Demand service and Connect shuttle service. The new Connect shuttle service provides peak-period service with connections to other DCTA services including the A-train, Lewisville Connect, and NCTC shuttle service.

The Community On-Demand on-call service operates in Highland Village and provides service for passengers traveling within a designated zone. The service is offered Monday through Friday from 5:30 a.m. to 7 p.m. Ridership for this service totaled 2,448 in 2017 compared to ridership of 1,807 in 2016.

University Shuttle Service

UNT services are operated by DCTA in Denton, which include an eight-route weekday shuttle service and one weekend-only route for UNT through a contractual agreement. The UNT Shuttle service provides transportation from off campus housing to the campus as well as circulation throughout the campus. The UNT service has the highest ridership of any bus operation in the DCTA system. Total passengers for FY17 were 1.9 million, compared to almost 1.8 million in FY17.

The NCTC Shuttle provides direct shuttle service to the Corinth and Flower Mound campuses as well as connectivity between Denton and Lewisville. Ridership for the NCTC service decreased from 20,250 in FY16 to 18,147 in FY17.

Demand Response Service

Access, DCTA's demand response service, offers curb-to-curb ADA paratransit service in Denton and Lewisville. It also provides service for senior and disabled (non-ADA) residents of Denton, Highland Village, and Lewisville. Any person who wishes to use Access must complete an application, and non-seniors or non-Medicare-eligible individuals must submit a physician's affidavit of eligibility. DCTA carried almost 30,000 Access passengers in its member city service area in FY17.

In December 2015 the City of Frisco entered into a contract for Demand Response Service with DCTA. The service carried just over 5,600 passengers in FY17. On June 1, 2017, DCTA launched a demand-response service in coordination with the City of McKinney and the McKinney Urban Transit District. In these last four months of FY17, the service provided transportation to 846 passengers.

Vanpools

The Vanpool service provides a low cost commuting alternative for residents to get to work. Vanpools are ideal for groups of six (6) to fifteen (15) people. Individuals who live or work in Denton County can start a vanpool through their employer or create one with others who have similar commute origins and destinations. As of September 2017, there were 39 vanpools in operation.

DCTA PROGRESS

The focus in 2017 continued to be on safety, improved service delivery, and strategic expansion while maintaining the agency's investments in equipment and infrastructure. Capital projects included the achievement of 100% installation of Positive Train Control and full implementation of single car operations across the A-train. Significant progress was made working with FEMA on repairs to the A-train system resulting from major flood damage in FY15.

Major service changes to improve service frequency were implemented in FY17 in the city of Denton affecting all Connect routes. Service enhancements were made in Highland Village to enable riders of the Community On-Demand service to flag stop buses at designated areas along the route. The next major milestone for the agency is the implementation of federally mandated Positive Train Control (PTC). DCTA is under contract for the implementation of this project and is on track for completion in early 2018. DCTA continues to communicate with the Federal Railroad Administration (FRA) on the progress towards meeting the legislatively mandated deadline of December 2018 for the final implementation of PTC.

In FY17, DCTA carried almost 3.0 million passengers system-wide. This included almost 505,000 rail passengers and roughly 2.5 million on the bus system. This was a slight increase compared to the total 2.9 million passengers in FY16.

The bus system as a whole has experienced ridership growth since DCTA assumed existing bus service in 2005. The number of total annual UNT passengers has increased from 1.3 million in 2005 to just under 1.9 million in 2017. DCTA continues to work with UNT and NCTC to evaluate options and review route schedules to grow ridership and improve the customer experience.

FUTURE ECONOMIC OUTLOOK

DCTA's major revenue source, sales tax, continues to trend upward. Sales tax revenues were $26.8 million in FY17 compared to $24.7 million in FY16. Total revenues were $43.8 million in FY17 compared to $40.6 million in FY16. Despite strong sales tax growth, DCTA faces challenges with rising healthcare costs, low interest rates impacting investment earnings, and funding for the increased demand of service expansion and growing ridership.

Population and job growth drive the demand for a transit system that can provide access to jobs, medical care, education and recreation activities, and DCTA must be positioned to address this demand.

<u>Regional Economy</u>

The Dallas–Fort Worth economy continues to expand. Dallas and Fort Worth growth remained positive and ended the year on a strong note. The Federal Reserve Bank of Dallas reported in their January 2018 Economic Indicators Update:

> *DFW employment growth was broad based but moderated in 2017, with payrolls in most sectors, except for manufacturing, information services, and education and health services, expanding at a slower rate compared with 2016. Manufacturing payrolls posted the fastest growth among the major sectors last year, followed by education and health services and construction and mining. Employment growth in 2017 may have been limited by the metro's tight labor market—the unemployment rate in Dallas fell to a 17-year low in October 2017.*
>
> *The Texas economy continues to expand at a steady pace as payroll employment rebounds strongly in the wake of Hurricane Harvey. The Texas Business Outlook Surveys suggest continued growth in the state's manufacturing and service sectors. Early benchmark data for job growth in the first half of the year was revised down slightly from an annualized pace of 3.0 percent to 2.6 percent. When incorporating this data and adjusting for the hurricane effects, the Texas Employment Forecast projects 2.4 percent growth this year, slightly below the previous estimate of 2.6 percent. Job growth in 2018 is expected to stay on a similar pace and above the state's long-term trend of 2.1 percent.*

Population Forecast

The North Central Texas region has experienced rapid growth in recent decades, resulting in a metropolitan area with a current population of approximately seven million people. The Dallas-Fort Worth Metroplex is currently the fourth-largest metropolitan area in the country. According to the NCTCOG's Mobility 2040 Plan, in 2016 the 12-county Dallas-Fort Worth Metropolitan Area had a population of approximately 7 million and population projections show that by 2040 the region will be home to 10.7 million people. This expected growth represents a significant increase in population for North Texas. The counties of Collin, Dallas, Denton and Tarrant accounted for 88% of the 12-county population in 2010. While the overall population was remained stable, the individual population share for Collin and Denton County have increased while Dallas and Tarrant counties have decreased. With the addition of almost four million new residents, there will be a greater demand to move people and goods.

Population growth in Denton County is projected to be significant as well. According to the NCTCOG's Mobility 2040 Plan adopted in March 2016, the population within Denton County is projected to increase from 804,396 people in 2017 to 1,241,681 people in 2040, a 54% growth.

The NCTCOG Travel Demand Model estimates that most individuals who live in Denton County work outside of the county, with only 37% of Denton County residents working in the county. This highlights the importance of providing transportation links from Denton County to major employment destinations in neighboring counties. Based on the travel demand data, the highest growth in trip generation is expected to come from the area in southeast Denton County. Areas in and around the Alliance development (southwest Denton County) are also expected to see large increases in travel demand.

Long Range Plan

For the past several years, DCTA focused on implementing the first phase of regional rail service as well as improving local bus routes in Denton, Highland Village, and Lewisville. Having attained the milestone of delivering the first phase of regional commuter rail service, DCTA is now looking beyond the A-train implementation and preparing for the future needs of a growing Denton County and North Central Texas region. The Long Range Service Plan updated by the Board in February 2012 provides a roadmap for decision making about transit investments in Denton County over the next 25 years. In February 2018, the DCTA Board will convene a strategic planning session to frame the top agency priorities for the next five-year planning window.

The FY18 budget focuses on enhancing bus services and improving schedule reliability and connectivity to the A-train as well as addressing essential capital maintenance and bus vehicle replacement via a comprehensive fleet replacement plan and infrastructure maintenance plan.

The Long Range Service Plan reaffirms DCTA's goals and performance standards that will be used to help officials make decisions about future investments and the implementation of new services. It will help ensure that transit services mature and develop to better meet the needs of Denton County.

OTHER INFORMATION

Independent Audit

Chapter 460, Section 460.402 of the Texas Transportation Code requires an annual audit of the books of account, financial records and transactions of the DCTA by independent certified accountants selected by the Board of Directors. This requirement has been complied with and the independent auditor's report has been included.

DCTA is also required to undergo an audit of federally and state funded programs administered by DCTA. The standards governing the Single Audit engagement require the independent auditor to report on the audited government's internal controls and compliance with laws, regulations, contracts and grants applicable to each major federal and state program. The reports related specifically to the Single Audit are issued under separate cover.

In addition, the DCTA has a Finance Committee as a sub-committee of the Board of Directors which functions as an audit committee which hears and reviews recommendations made by the independent auditors. The Finance Committee also guides the annual budget process to develop final recommendations to the Board of Directors.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the DCTA for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2016. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This was the seventh consecutive year for the DCTA to receive the Certificate of Achievement.

To be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Acknowledgements

The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire DCTA Finance Department staff. We also express our appreciation to all the DCTA staff members who assisted and contributed to the successful completion of this report.

We would like to thank the members of the DCTA Board of Directors and the Finance Committee for their interest and support in planning and conducting the financial operations of the Denton County Transportation Authority in a responsible and progressive manner.

Sincerely,

James C. Cline, Jr.
President

Marisa Perry
Chief Financial Officer

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Denton County Transportation Authority

Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2016

Christopher P. Morrill

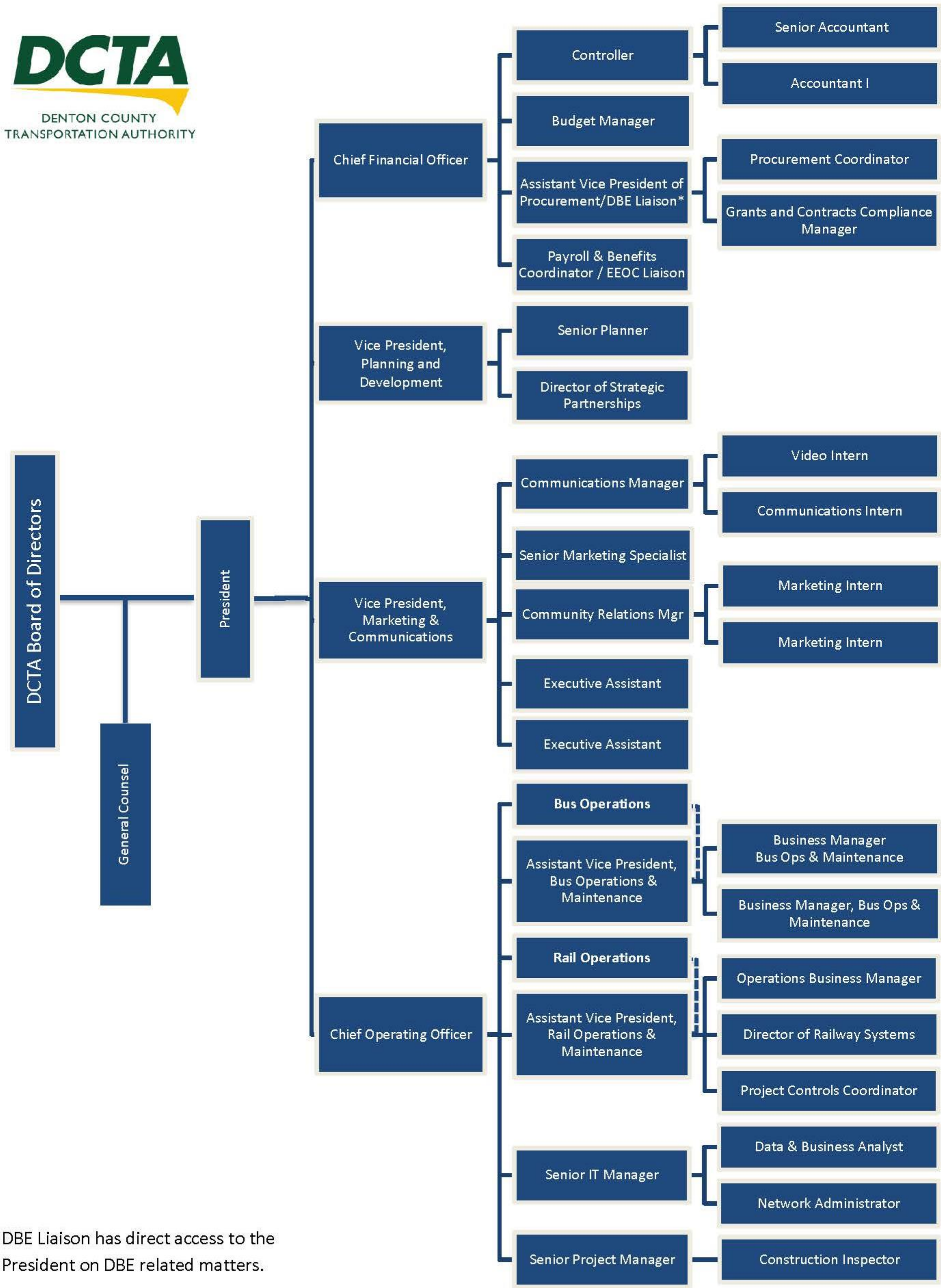
Executive Director/CEO

Denton County Transportation Authority

Organizational Chart

September 30, 2017

DCTA
DENTON COUNTY TRANSPORTATION AUTHORITY



- DBE Liaison has direct access to the President on DBE related matters.

Denton County Transportation Authority
List of Principal Officials
September 30, 2017

A Board of Directors composed of 14 members representing the county of Denton governs DCTA:

- one member from each municipality with a population of 17,000 or more (8 total);
- three members appointed by the Denton County Commissioner's Court;
- three members designated by the remaining municipalities with a population of more than 500 and less than 17,000 (Small Cities).

Each Board member serves a term of two years and may be re-appointed. There are no term limits. The Board is responsible for the general policy governance of the DCTA with the President and DCTA staff responsible for day-to-day management, operations, and implementation of the agency's goals and objectives.

Board Member	Position	Appointed by
Charles Emery	Chairman	City of Lewisville
Richard Huckaby	Secretary	City of Denton
Dave Kovatch	Treasurer	Denton County At-Large
George Campbell	Member	Denton County Unincorporated
Dianne Costa	Member	City of Highland Village
Allen Harris	Member	City of The Colony
Don Hartman	Member	Denton County Unincorporated
Vacant	Member	Small Cities
Skip Kalb	Member	Small Cities
Vacant	Member	City of Little Elm
Mark Miller	Member	City of Flower Mound
Connie White	Member	Small Cities
Carter Wilson	Member	City of Frisco
Tom Winterburn	Member	City of Corinth

FINANCIAL SECTION

Independent Auditor's Report

To the Board of Directors of the
Denton County Transportation Authority

Report on the Financial Statements

We have audited the accompanying statement of net position of Denton County Transportation Authority (the Authority) as of and for the year ended September 30, 2017 and 2016, the related statement of revenues, expenses, and changes in net position and the cash flows for the year then ended, and the related notes to the financial statements.

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 audit. We conducted our audit 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 the entity'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 the entity'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 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.

AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL
WEAVER AND TIDWELL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS
12221 MERIT DRIVE, SUITE 1400, DALLAS, TX 75251
P: 972.490.1970 F: 972.702.8321

The Board of Directors of the
Denton County Transportation Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of September 30, 2017 and 2016, and the results of its operations and its cash flows 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 (on pages 4-11) and Texas County District Retirement System pension schedules (on pages 36-37) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section, the schedule of revenue and expenses – budget and actual, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of revenues and expenses - budget and actual is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

The Board of Directors of the
Denton County Transportation Authority

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2018, on our consideration of the Authority'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 the Authority's internal control over financial reporting and compliance.

Weaver and Tidwell LLP

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 12, 2018

Denton County Transportation Authority
Management's Discussion And Analysis
For the Year Ended September 30, 2017
(Unaudited)

The management of the Denton County Transportation Authority (DCTA) offers readers of the DCTA's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2017. This discussion and analysis is designed to provide an objective and easily readable analysis of DCTA's financial activities based on currently known facts, decisions, or conditions.

We encourage the readers to consider the information presented here in conjunction with accompanying financial statements, notes thereto and additional information that is furnished in our letter of transmittal and the statistical section of this report. In addition, readers are encouraged to review information on the annual budget and other agency information found on the DCTA website at www.dcta.net. It should be noted that the Independent Auditor's Report describes the auditor's association with the various sections of the report and that all of the additional information from the website and other DCTA sources is unaudited and has not been updated for events that may have occurred subsequent to the issuance of the respective report.

In Brief

- As of September 30, 2017 and 2016, total assets and deferred outflows of resources of DCTA exceeded total liabilities and deferred inflows of resources by $329,696,728 and $325,428,122 respectively. The amount of unrestricted net position as of September 30, 2017 was $24,329,503 compared to $19,741,632 in 2016. Unrestricted net position is the amount which may be used to meet DCTA's ongoing obligations in accordance with the fiscal policies.

- Net position increased $4.3 million during the current fiscal year compared to an increase of $3.5 million in the prior year. The change compared to the prior year is attributable to an increase in capital improvement grants and sales tax revenue. Reimbursements for the federally mandated Positive Train Control project were $1.4 million more in FY17 compared to FY16.

- Net capital assets were $334.4 million as of September 30, 2017 compared to $334.6 million as of September 30, 2016. The decrease of $214,126 is caused by $9.7 million of asset additions offset by $10 million of depreciation expense.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to DCTA's accompanying financial statements and notes. The basic financial statements consist of four components: 1) statements of net position, 2) statements of revenues, expenses, and changes in net position, 3) statements of cash flows, and 4) notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves as well as a statistical section (unaudited) to provide the reader additional information relative to DCTA.

DCTA activities are accounted for in a single entity enterprise fund; therefore, government-wide financial statements are not presented. Enterprise funds are generally used to report business-type activities of governmental entities. The financial statements are prepared on the accrual basis of accounting meaning that all expenses are recorded when incurred and all revenues are recognized when earned in accordance with accounting principles generally accepted in the United States of America. Certain statements in the report are, or will be, forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements.

Statement of Net Position – The statement of net position reports all of the financial and capital resources of DCTA. The statement is presented in the format where total assets plus deferred outflows of resources equal total liabilities, deferred inflows of resources, and net position. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and noncurrent. The focus of the statement of net position is to show a picture of the liquidity and health of the organization as of the end of the reporting period. Changes in net position may serve as an indication of whether the financial position of DCTA is improving or deteriorating.

Statement of Revenues, Expenses, and Changes in Net Position – The statement of revenues, expenses, and changes in net position is similar to an income statement. This statement includes operating revenues, such as passenger fares and contracts to provide transit related service to third parties; operating expenses, such as costs of operating the transit system, administrative expenses, and depreciation on capital assets; and non-operating revenue and expenses, such as sales tax revenue, grant revenue, and interest income. The focus of the statement of revenues, expenses, and changes in net position is to present the change in net position during the two most recent fiscal years. The increase or decrease in net position will show the effect of DCTA's current year operations on its financial position.

Statement of Cash Flows – The statement of cash flows discloses net cash provided by or used for operating activities, non-capital financing activities, capital and related financing activities, and from investing activities. The statement of cash flows, related notes, and other financial statements can be used to assess DCTA's ability to provide adequate cash flow to support current operations and plans for future expansion.

The activities of DCTA are supported by a one-half percent sales and use tax collected in its three member cities: Denton, Highland Village and Lewisville; passenger fares, contract services, and state/federal grants.

Notes to Financial Statements – The notes to the financial statements are an integral part of the basic financial statements that describe the significant accounting policies and provide additional information that is essential to understanding the data provided in the financial statements.

Financial Analysis

Statement of Net Position – As noted earlier, net position, and especially net position by category, may serve over time as a useful indicator of DCTA's financial position. Total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $329,696,728 and $325,428,122 as of September 30, 2017 and 2016 respectively. The largest portion, 93% and 94% in 2017 and 2016, respectively, is net investment in capital assets primarily as a result of the rail line construction and acquisition of rail vehicles. The remaining 7% is in unrestricted net position which represents assets with no external restriction as to the use or purpose. The unrestricted net position can be employed for any lawful purpose designated by the governing board.

Net position of DCTA increased 1.3% or $4.3 million during the current fiscal year compared to an increase of 1.1% or $3.5 million in the prior year. The increase in net position in the current fiscal year is related to a $1.6 million decrease in accounts payable, a $1.7 million decrease in bonds payable, and $1.5 million increase in receivables, offset by a $0.2 million decrease in capital assets and a $0.3 million increase in retainage payable.

Condensed Statements of Net Position

	2017	2016	2015
Assets			
Current and other assets	$ 27,901,621	$ 26,490,083	$ 27,569,833
Capital assets	334,376,234	334,590,360	334,186,030
Total Assets	362,277,855	361,080,443	361,755,863
Deferred Outflows of Resources			
Related to TCDRS pension	233,653	245,475	166,628
Liabilities			
Current liabilities	4,604,634	5,825,926	8,193,959
Non-current liabilities	28,138,622	29,988,425	31,809,748
Total Liabilities	32,743,256	35,814,351	40,003,707
Deferred Inflows of Resources			
Related to TCDRS pension	71,524	83,445	-
Net Position			
Net investment in capital assets	305,367,225	305,686,490	301,021,096
Unrestricted	24,329,503	19,741,632	20,897,688
Total Net Position	$ 329,696,728	$ 325,428,122	$ 321,918,784

Assets – During fiscal year 2017, DCTA's total assets increased 0.3% or $1.2 million from fiscal year 2016. The net increase is attributable to the $1.5 million increase in receivables, offset by a $214,126 decrease in capital assets and a $86,578 decrease in cash and investments.

Capital Assets, net of depreciation, decreased $214,126 due to $9.8 million of additions to construction work in progress for the Positive Train Control project as well as improvements to the rail system and rail vehicles and the purchase of additional vehicles, offset by $10 million of depreciation and amortization. The capital assets activity for the year is captured in Note 6 (page 24).

Liabilities – Current liabilities decreased $1.2 million primarily due to payments made for construction contracts and rail purchased transportation invoices that were outstanding at the prior year-end.

DCTA's current ratio, current assets of $27,901,621 and current liabilities of $4,604,634, was 6:1 as of September 30, 2017 compared to 4.5:1 as of September 30, 2016.

There was a $1.8 million decrease in non-current liabilities in 2017 due primarily to payments made for DCTA's outstanding bonds and the rail operating easement agreement with DART. The bond payable activity for the year and rail operating easement obligation are captured in Note 8 and Note 9 (pages 29-31).

Statement of Revenues, Expenses, and Changes in Net Position – During the 2017 fiscal year DCTA's activities resulted in an increase in net position of $4.3 million compared to a increase of $3.5 million in 2016. The increase in the current fiscal year net position is mainly attributable to a $0.8 million increase in grants for capital improvements, $0.3 million in contract services, and a $2.1 million increase in sales tax revenue, which offset a $2.5 million increase in operating expenses. The changes in net position for the fiscal years ended September 30, 2017 and 2016 are shown in the following table.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2017	2016	2015
OPERATING REVENUES			
Passenger revenue	$ 1,292,725	$ 1,406,471	$ 1,478,840
Contract services	3,716,481	3,383,656	2,935,371
Other	396,450	170,742	199,176
Total operating revenues	5,405,656	4,960,869	4,613,387
OPERATING EXPENSES			
Salaries, wages and fringe benefits	10,425,981	9,144,246	8,346,152
Services	2,600,493	2,598,749	2,722,176
Materials and supplies	2,317,170	2,036,382	2,528,741
Purchased transportation services	10,587,125	10,666,292	10,080,919
Utilities	427,013	404,896	472,391
Casualty and liability insurance	1,600,932	849,981	780,112
Facility and equipment rents	248,128	158,251	124,645
Other - miscellaneous	203,467	184,509	186,598
Depreciation	9,986,476	9,854,907	9,337,505
Total operating expenses	38,396,785	35,898,213	34,579,239
Operating loss	(32,991,129)	(30,937,344)	(29,965,852)
NON-OPERATING REVENUES (EXPENSES)			
Sales tax revenue	26,790,098	24,658,546	23,261,748
Transit system operating assistance grants	4,900,401	5,130,046	4,985,908
Investment income	122,250	59,364	24,772
Interest expense	(1,098,107)	(1,156,229)	(1,211,899)
Gain (loss) on disposal of assets	12,208	(14,675)	(51,815)
Total non-operating revenue (expenses)	30,726,850	28,677,052	27,008,714
INCOME (LOSS) BEFORE CAPITAL GRANTS	(2,264,279)	(2,260,292)	(2,957,138)
GRANTS FOR CAPITAL IMPROVEMENTS	6,532,885	5,769,630	2,636,956
Change in net position	4,268,606	3,509,338	(320,182)
NET POSITION, beginning of year	325,428,122	321,918,784	322,189,945
Cumulative Effect of Change in Accounting Principle	-	-	49,021
NET POSITION, end of year	$ 329,696,728	$ 325,428,122	$ 321,918,784

Operating Revenues

Passenger Revenue – The 2017 passenger revenues decreased 8% or $113,746 from the prior year. The decrease is related to a 7% decrease in rail ridership. Rail ridership in FY2017 was 504,958 compared to prior year ridership of 545,250. Total bus and rail ridership in fiscal year 2017 was 2,963,581 compared to prior year ridership of 2,941,470.

Contract Service – The 2017 contract service revenues increased 10% or $332,825 over the prior year. DCTA provides bus service for students and faculty of University of North Texas (UNT) and North Central Texas College (NCTC). Revenue hours for UNT and NCTC increased 3% over the prior year. Fuel prices are a pass-through on the contract; fuel prices for this service increased from $1.75/gallon in FY16 to $1.87/gallon in FY17. In addition, DCTA began operating demand-response service in December 2015 through a contract with the City of Frisco. The new service in Frisco generated contract service revenue of $236,164 in FY17.

In June 2017, DCTA partnered with the City of McKinney and the McKinney Urban Transit District to launch paratransit bus service and a subsidized taxi voucher program. This service generated revenue of $22,544 in FY17.

Operating Expenses

Operating Expense – The 2017 operating expenses increased 7% or $2.5 million over the prior year. Salaries and benefits increased $1.2 million primarily related to a 14% increase in bus personnel hours from 304,923 hours to 347,072 hours. In addition, insurance expenses increased $750,951 due to additional rail liability insurance purchased.

The 2017 depreciation expense increased 1% or $131,569 over the prior year. This increase is mainly associated with additional vehicles acquired in late 2016 and 2017 as well as improvements made to rail vehicles in fiscal year 2017.

Non-operating Revenues and Expenses

Sales Tax Revenue – The 2017 sales tax revenue increased 9% or $2.1 million over 2016. DCTA collects one-half percent sales and use tax in the member cities of Denton, Highland Village, and Lewisville. 2017 is the eighth consecutive year of growth in sales tax revenue for DCTA.

Capital Grants – Capital grants revenue increased $0.8 million over the 2016 revenue amount of $5.8 million. This increase is primarily as a result of increased reimbursable expenses related to the Positive Train Control project.

Transit System Operating Assistance Grants – The 2017 federal and state grant revenue decreased 4% or $229,645 from 2016, mainly due to one-time funding from FEMA in FY16.

Investment Income – The 2017 investment income more the doubled with an increase of $62,886 over the 2016 revenue amount of $59,364 due to an increase in cash available for investments as DCTA continues to build up reserve funds in accordance with the Board's reserve policy. Additionally, DCTA began diversifying its investment portfolio in FY17 to improve yield on investments.

Debt Administration

In June 2008, DCTA completed its first debt issuance by issuing $20,000,000 in tax-exempt Sales Tax Revenue Bonds. The bonds were issued through a private placement with a maximum 5 year term to fund the DCTA A-train regional passenger rail project, which provides passenger rail service connecting Denton and Dallas counties. The principal payment was due in one lump sum in June 2013 with interest due semi-annually.

The Series 2008 Sales Tax Revenue bonds were refunded through a private placement to long-term debt on December 17, 2009. These bonds will be repaid over 20 years at an interest rate of 3.99%. The first principal payment of $885,000 was paid in September 2013 and annual installments continue through September 2029.

In September 2011, DCTA issued $14,390,000 in Contractual Obligations for a portion of its share of the cost for new rail vehicles and for the first phase of a new Federal requirement – Positive Train Control – a system scheduled to be complete in 2018. These Obligations were issued through a private placement to be repaid over 20 years at an interest rate of 3.13%. The first principal payment of $140,000 was paid in September 2015 and annual installments continue through September 2031.

DCTA Fiscal Year 2017 Budget

The 2016-2017 budget was adopted September 22, 2016. Amendments to the original budget included a net decrease in capital projects due to a budget reduction for the Lewisville Hike & Bike Trail and a delay in the Eagle Point Trail project, increase in the Infrastructure Acquisition project and the addition of the Valley Ridge Crossing project. The operating expense budget also increased in FY2017 due to the implementation of new contract service with the McKinney Urban Transit District as well as an increase in rail liability insurance for the agency.

Statement of Revenues, Expenses, and Changes in Net Position, Budget Year Ending September 30, 2018 and Financial Year Ending 2017 and 2016

	2018 Budget	2017 Actual	2016 Actual	Increase (Decrease) from 2017	Percent Increase (Decrease) from 2017
Operating revenues	$ 5,567,888	$ 5,405,656	$ 4,960,869	$ 162,232	3%
Operating expenses	42,574,928	38,396,785	35,898,213	4,178,143	11%
Operating loss	(37,007,040)	(32,991,129)	(30,937,344)	(4,015,911)	12%
Non-operating revenues	31,130,238	30,726,850	28,677,052	403,388	1%
Income before capital grants	(5,876,802)	(2,264,279)	(2,260,292)	(3,612,523)	160%
Grants for capital improvements	9,781,224	6,532,885	5,769,630	3,248,339	50%
Change in net position	3,904,422	4,268,606	3,509,338	(364,184)	-9%
Net position, beginning of year	329,696,728	325,428,122	321,918,784	4,268,606	1%
Net position, end of year	$ 333,601,150	$ 329,696,728	$ 325,428,122	$ 3,904,422	1%

DCTA Fiscal Year 2018 Budget

Operating revenues in 2018 show an increase of 3% or $162,232 over 2017 actual results. Operating revenue includes passenger fare revenue and contract service revenue. Passenger farebox revenue is projected to increase 13% from 2017 results. Contract service revenue is also expected to increase based on current contract rates as well as a full year of contract service for the McKinney Urban Transit District and increased service for the City of Frisco.

The fiscal year 2018 operating expenses are projected to increase $4.2 million over 2017 actual results. Major changes include an increase of $1.9 million for merit plan adjustments, 4 additional FTE's, additional funds budgeted to address core position needs of the agency, increased health care benefits and bus operator wage increases based on the negotiated union contract. The fiscal year 2018 budget also anticipates a $1.1 million increase for fuel expense. Bus fuel is budgeted at $3.00 per gallon in fiscal year 2018, compared to an average $1.97 per gallon paid in fiscal year 2017. Rail fuel is budgeted at $2.75 per gallon in fiscal year 2018, compared to an average of $1.88 per gallon paid in fiscal year 2017. Also included in the fiscal year 2018 budget is $200,000 for strategic planning initiatives as well as $216,000 in IT related software/equipment and implementation of Phase 1 of a Cybersecurity initiative.

Non-operating revenues, net of expenses, is projected to hold steady from 2017 to 2018. Non-operating revenues include sales tax revenue, grant reimbursements, and investment income.

Requests for Information

The financial report is designed to provide the citizens of our member cities, customers and other interested parties with a general overview of DCTA finances. If you have any questions regarding this report or need any additional information, contact DCTA at 1955 Lakeway Drive, Suite 260, Lewisville, Texas 75057, by phone at (972) 221-4600, or by electronic mail at info@dcta.net.

Basic Financial Statements

Denton County Transportation Authority
Statements of Net Position
September 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,888,928	$ 16,471,108
Restricted cash and cash equivalents	1,603,412	3,100,323
Investments	1,992,513	-
Receivables	7,977,549	6,513,915
Prepaid expenses	400,533	394,348
Inventories	38,686	10,389
Total current assets	27,901,621	26,490,083
Noncurrent assets:		
Land and construction in progress	39,127,489	30,013,393
Other capital assets, net of accumulated depreciation/amortization	295,248,745	304,576,967
Total noncurrent assets	334,376,234	334,590,360
TOTAL ASSETS	362,277,855	361,080,443
DEFERRED OUTFLOWS OF RESOURCES		
Related to TCDRS pension	233,653	245,475
Total deferred outflows of resources	233,653	245,475
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	2,050,406	3,682,870
Retainage payable	666,841	319,171
Unearned revenue	67,387	78,885
Easement obligation- current portion	100,000	100,000
Bonds payable-current portion	1,720,000	1,645,000
Total current liabilities	4,604,634	5,825,926
Noncurrent liabilities:		
Easement obligation	1,100,000	1,200,000
Net pension liability	18,622	48,425
Bonds payable	27,020,000	28,740,000
Total noncurrent liabilities	28,138,622	29,988,425
Total liabilities	32,743,256	35,814,351
DEFERRED INFLOWS OF RESOURCES		
Related to TCDRS pension	71,524	83,445
Total deferred inflows of resources	71,524	83,445
NET POSITION		
Net investment in capital assets	305,367,225	305,686,490
Unrestricted	24,329,503	19,741,632
Total net position	$ 329,696,728	$ 325,428,122

The Notes to Basic Financial Statements are an integral part of these statements.

Denton County Transportation Authority

Statements of Revenues, Expenses and Changes in Net Position

Years Ended September 30, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Passenger revenue	$ 1,292,725	$ 1,406,471
Contract services	3,716,481	3,383,656
Other	396,450	170,742
Total operating revenues	5,405,656	4,960,869
OPERATING EXPENSES		
Salaries, wages and fringe benefits	10,425,981	9,144,246
Services	2,600,493	2,598,749
Materials and supplies	2,317,170	2,036,382
Purchased transportation services	10,587,125	10,666,292
Utilities	427,013	404,896
Insurance	1,600,932	849,981
Facility and equipment rents	248,128	158,251
Other - miscellaneous	203,467	184,509
	28,410,309	26,043,306
Depreciation and amortization	9,986,476	9,854,907
Total operating expenses	38,396,785	35,898,213
NET OPERATING LOSS	(32,991,129)	(30,937,344)
NON-OPERATING REVENUES (EXPENSES)		
Sales tax revenue	26,790,098	24,658,546
Transit system operating assistance grants	4,900,401	5,130,046
Investment income	122,250	59,364
Interest expense	(1,098,107)	(1,156,229)
Gain (Loss) on disposal of assets	12,208	(14,675)
Total non-operating revenue (expenses)	30,726,850	28,677,052
INCOME (LOSS) BEFORE CAPITAL GRANTS	(2,264,279)	(2,260,292)
GRANTS FOR CAPITAL IMPROVEMENTS	6,532,885	5,769,630
Change in net position	4,268,606	3,509,338
NET POSITION, beginning of year, as restated	325,428,122	321,918,784
NET POSITION, end of year	$ 329,696,728	$ 325,428,122

The Notes to Basic Financial Statements are an integral part of these statements.

Denton County Transportation Authority
Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	$ 5,167,143	$ 5,004,500
Payments to suppliers	(19,672,561)	(16,034,338)
Payments to employees	(10,434,596)	(9,374,019)
Net cash used by operating activities	(24,940,014)	(20,403,857)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Sales tax received	26,457,478	24,489,979
Operating grant reimbursements	3,022,069	5,309,772
Net cash provided by non-capital financing activities	29,479,547	29,799,751
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributions and grants for capital improvements	7,507,218	5,578,244
Principal paid on bonds	(1,645,000)	(1,580,000)
Acquisition and construction of capital assets	(9,525,382)	(13,531,766)
Proceeds from sale of capital improvements	12,910	28,190
Interest paid on bonds	(1,098,107)	(1,156,229)
Net cash used by capital and related financing activities	(4,748,361)	(10,661,561)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(1,992,513)	-
Interest received on investments	122,250	59,364
Net cash provided by investing activities	(1,870,263)	59,364
Net decrease in cash and cash equivalents	(2,079,091)	(1,206,303)
CASH AND CASH EQUIVALENTS, beginning of year	19,571,431	20,777,734
CASH AND CASH EQUIVALENTS, end of year	$ 17,492,340	$ 19,571,431

The Notes to Basic Financial Statements are an integral part of these statements.

Denton County Transportation Authority
Statements of Cash Flows
Years Ended September 30, 2017 and 2016
(Continued)

	2017	2016
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (32,991,129)	$ (30,937,344)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization expense	9,986,476	9,854,907
Change in operating assets and liabilities		
Operating accounts receivable	(227,015)	53,729
Prepaid expenses	(6,185)	4,397
Fuel inventory	(28,297)	(4,452)
Deferred outflows of resources related to TCDRS pension	11,822	(78,847)
Operating accounts payable	(1,653,751)	864,777
Accrued payroll and payroll related taxes	21,287	(158,048)
Unearned revenue	(11,498)	(10,098)
Deferred inflows of resources related to TCDRS pension	(11,921)	83,445
Net pension liability	(29,803)	(76,323)
Net cash used by operating activities	$ (24,940,014)	$ (20,403,857)
NONCASH CAPITAL AND RELATED FINANCING		
Gain (loss) on sale of non-capital assets	$ 12,208	$ (14,675)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS		
Cash and cash equivalents	$ 15,888,928	$ 16,471,108
Restricted cash	1,603,412	3,100,323
	$ 17,492,340	$ 19,571,431

The Notes to Basic Financial Statements are an integral part of these statements.

Note 1. Organization and Summary of Significant Accounting Policies

The accounting policies of Denton County Transportation Authority (the Authority), as reflected in the accompanying financial statements for the fiscal year ended September 30, 2017, conform to accounting principles generally accepted in the United States of America (GAAP) for local governmental units, as prescribed by the Governmental Accounting Standards Board, and include applicable standards of the Financial Accounting Standards Board.

Financial Reporting Entity

The financial statements of the Authority include all governmental activities, organizations, and functions as required by accounting principles generally accepted in the United States of America. The Authority does not have any component units and does not meet the requirements to be included as a component unit in other governmental entities. Accordingly, the Authority does not have any related parties or related party transactions in the accompanying financial statements.

The Authority is a coordinated county transportation authority of the State of Texas, created pursuant to Chapter 460 of the Texas Transportation Code. This legislation requires that a Service Plan, an outline of the services that could be provided by an authority confirmed by the voters, be developed by the transit authority. A Service Plan was developed and the Authority was confirmed by a public referendum held November 5, 2002. A second election was held in eight municipalities on September 13, 2003 for consideration and approval of a one-half percent sales and use tax. The sales and use tax and associated Service Plan passed in three cities: Denton, Highland Village, and Lewisville. Collection of the sales tax began on January 1, 2004.

The Board of Directors, which governs the Authority, currently consists of 14 authorized positions. The Board is composed of:

1. One member appointed by the governing body of each municipality with a population of 17,000 or more located in Denton County;
2. Three members appointed by the Commissioner's Court, two of whom must reside in the unincorporated area of Denton County;
3. Three members to be designated by the remaining municipalities with a population of more than 500 but less than 17,000 located in Denton County.

Basis of Accounting

The activities of the Authority are similar to those of proprietary funds of local jurisdictions and are therefore reported as an enterprise fund. The activities are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting.

Revenues are recognized in the accounting period in which they are earned, and expenses are recorded at the time liabilities are incurred. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The Authority’s principal operating revenues are derived from charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

All dollar amounts, unless otherwise noted, are in whole dollars. References to years 2017 and 2016 are for the fiscal years ended September 30, 2017 and 2016.

When both restricted and unrestricted resources are available and permissible for use, it is the Authority's policy to use restricted resources first. The unrestricted resources are used as they are needed.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with maturities of three months or less when purchased. Cash and cash equivalents are valued at cost which is substantially equal to the fair value.

Receivables

Receivables consist primarily of amounts due to the Authority from sales tax collections, federal grants, and customer billings. Management does not believe any credit risk exists related to these receivables. Management evaluates the receivables to determine if an allowance for doubtful accounts should be established and considers the collection history, the aging of the accounts, and other specific information known to management that may affect collectability. Based upon this assessment, management has determined that an allowance is not necessary.

Prepaid Expenses

Prepaid expenses consist primarily of insurance payments, which are amortized over the policy period, and prepaid rents.

Inventory

The Authority purchases and maintains its own fuel inventory, which is valued by volume on a monthly basis using a first-in, first-out inventory costing method.

Restricted Assets

Restricted assets consist of unspent proceeds from capital grants and bonds and are held as cash and cash equivalents.

Investments

The investment policies of the Authority are governed by the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Authority's funds are managed and invested based on safety, liquidity, diversification, and yield. Investments are stated at fair value. Realized and unrealized gains and losses are reflected in the statement of revenues, expenses, and changes in net position.

Capital Assets

All capital assets are stated at historical cost. Capital assets are defined as assets which:

1. Have a useful life of more than one year and a unit cost greater than $5,000;

2. Have a unit cost of $5,000 or less, but are part of a network or combined unit of property; or

3. Were purchased with grant money.

Maintenance and repair expenditures which substantially improve or extend the useful life of property are capitalized. The cost of routine maintenance and repairs is expensed as incurred. Interest incurred as a result of construction in progress and contracts with durations over one year is capitalized.

The provision for depreciation of transportation property and equipment is calculated under the straight-line method using the respective estimated useful lives of major asset classifications, as follows:

Rail system	20-50 years
Land improvements	25 years
Transportation vehicles:	
Bus	5-12 years
Paratransit	4-5 years
Rail	50 years
Transportation equipment	3-7 years
Office equipment	3 years

Except for sales of assets in which the unit fair value is less than $5,000, proceeds from the sale of property, facilities, and equipment purchased with funds provided by federal grants for capital expenditures are remitted to the Federal Transit Administration (FTA) on the same percentage basis that such funds were provided by grant contracts with the FTA.

The transit system operated by the Authority includes certain facilities owned by others. The Authority has contractual rights to operate these facilities under the terms of the authorizing legislation and other agreements.

Intangible assets are stated at historical cost net of accumulated amortization. The intangible asset consists of a rail operating easement for the purpose of constructing, installing, maintaining, and operating a modern rail passenger system.

Current Liabilities

The Authority has not formally restricted cash funds to pay current operating liabilities, but has adequate cash and investments to satisfy these obligations. Construction contracts payable will be satisfied with unrestricted cash.

Compensated Absences

Employees receive compensation for vacations, holidays, illness, personal days, and certain other qualifying absences. The number of days compensated for the various categories of absence is based on length of service. Sick days and vacation days that have been earned, but not paid, have been accrued in the accompanying financial statements. Compensation for holidays and other qualifying absences are not accrued in the accompanying financial statements as rights to such compensation do not accumulate or vest.

Unearned Revenue

The University of North Texas (UNT) and North Central Texas College (NCTC) have contracted with the Authority to provide transportation for faculty, staff, and students in Denton, Texas through the Connect service. The universities have paid for this service in advance and, in addition, the Authority sells semester and annual passes. The Authority recognizes the revenue through straight-line amortization over the respective period. At September 30, 2017 and 2016, the Authority has received $67,387 and $78,885 in advance payments respectively.

Net Position

Equity is displayed in two components as follows:

Net Investment in Capital Assets – This consists of capital assets, net of accumulated depreciation and related debt.

Unrestricted – This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Operating Revenues

Passenger revenue consists of farebox collections, the sale of passes, and amortization of unearned revenue. Farebox revenue is recorded at the time service is performed. Revenue from the sale of passes is recorded at the time of the sale. Unearned revenue from advance payments on contracts is amortized straight-line over the respective period.

Contract service revenue is related to providing transit services to third parties on a contractual basis. Contract service revenue is recorded in the period earned. The Authority provides contract services for UNT, NCTC, the City of Frisco and the McKinney Urban Transit District.

Classification of Revenues and Expenses

The Authority classifies its revenues as either operating or non-operating. Operating revenues include activities from the sale of transit services. Non-operating revenue is revenue not associated with the operations of the Authority transit service and includes grant income, investment income, and income from sales and use tax collections.

Operating expenses will be incurred for activities related to providing public transportation services. Such activities include transportation, maintenance, depreciation on capital assets, and general and administrative functions. Non-operating expenses include bad debt expense and interest expense.

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, Authority specific information about its Fiduciary Net Position in the Texas County and District Retirement System (TCDRS) and additions to/deductions from the Authority's Fiduciary Net Position have been determined on the same basis as they are reported by TCDRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the Authority's Total Pension Liability is obtained from TCDRS through a report prepared for the Authority by TCDRS consulting actuary, Milliman, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Financial Instruments and Credit Risk

In accordance with the Texas Public Funds Investment Act and the Authority's investment policy, the Authority invests in obligations of the United States or its agencies and instrumentalities. These financial instruments subject the Authority to limited credit risk.

Credit risk with respect to trade and other receivables is limited as they are primarily due from the State of Texas for sales tax collections and other city and state governmental units in the State of Texas.

Note 2. Budgetary Data

Section 460 of the Texas Transportation Code requires the Authority to create an annual budget. The Authority maintains control over operating expenditures by the establishment of the annual operating budget. Budgets are prepared on the accrual basis consistent with accounting principles generally accepted in the United States of America. Annual proposed operating and capital budgets are prepared by management, presented to Denton County residents at public meetings, reviewed by the Finance Committee, and reviewed by the Board of Directors prior to adoption of the final budget in September. The operating and capital budgets follow the same preparation and review cycle.

Operating budget appropriations terminate at the end of the fiscal year. Capital budget amounts are not included in the accompanying financial statements. Capital budget amounts are budgeted over the life of the respective project, not on an annual basis.

During the course of the annual budget cycle, it may be necessary to modify the budget by a process of amendment or transfer. For example, modifications may be required because of changes in the purpose, description, terms and conditions, or changes in the cost of an approved service or item. All budget amendments require approval by the Board of Directors. Budget transfers within a department may be authorized by the Authority President and reported to the Board. The Board of Directors monitors, reviews, and accepts the monthly and year to date financial statements with budget comparisons and explanations of material variances.

Note 3. Service Agreements

On October 1, 2014, the Authority entered into a management contract with First Transit, Inc. as an independent contractor to manage the operation of the Authority's public transit system in the Denton County urban area. Under the direction of the Authority's staff and guidance of its policy, First Transit, Inc. provides a qualified and experienced General Manager and Assistant General Manager and home office support personnel to perform all services and functions necessary to ensure effective and efficient management and administration of the transit system including new and expanded services.

On October 1, 2016, DCTA entered into a contract with First Transit Inc. for rail operations and maintenance. This contract includes management fees, maintenance of way, vehicle maintenance, train hours and car miles. The contract is accounted for under Purchased Transportation. Additionally, DCTA and DART entered into an interlocal operating agreement for ticket vending machine services and train platform maintenance.

Note 4. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

The Authority's cash and cash equivalents are deposited in various accounts as allowed by the Texas Public Funds Investment Act and the Authority's investment policy. The custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority deposits may not be recovered. Balances for these accounts are insured by the Federal Depository Insurance Corporation, and the deposits in excess of the insured amount are collateralized by pledged book entry securities held in a securities account at a Federal Reserve Bank in the Authority's name by a third party or were invested in U.S. Government Securities as allowed by the Texas Public Funds Investment Act.

The Board adopted a policy to designate three months' operating expenses as a reserve to address unanticipated emergencies, a sales tax stabilization fund, fuel stabilization, and a capital/infrastructure reserve. These reserves may be allocated by the approval of the Board. At September 30, 2017, the reserves are as follows:

- Operating reserve: $7,148,040
- Sales tax stabilization: $738,738
- Fuel stabilization: $450,000
- Capital/infrastructure: $2,000,000

At year-end, cash, cash equivalents and investments consist of the following:

	September 30, 2017	September 30, 2016
Cash and cash equivalents		
Demand deposits	$ 46,204	$ 37,969
Sweep repurchase agreements	98,310	2,307,040
Money market account	1,597,832	14,338,566
TexSTAR	15,749,994	2,887,856
Investments		
Certificates of deposit	495,475	-
FFCB Bonds	998,287	-
FNMA Bonds	498,751	-
	$ 19,484,853	$ 19,571,431
Reconciliation		
Cash and cash equivalents	$ 15,888,928	$ 16,471,108
Restricted cash and cash equivalents	1,603,412	3,100,323
Investments	1,992,513	-
	$ 19,484,853	$ 19,571,431

Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Authority's investment policy limits investment maturities to two years as a means of managing its exposure to fair value losses arising from increasing interest rates. In addition, the policy limits weighted average maturity of the overall portfolio to eighteen months.

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 statistical rating organization. The Authority does not contain in its investment policy a formal policy regarding credit risk.

As authorized by the Authority's investment policy and in accordance with the Texas Public Funds Investment Act, cash equivalents and investments were invested in U.S. Government Agency Securities, certificate of deposits and TexSTAR. TexSTAR is administered by First Southwest Asset Management, Inc. and JP Morgan Fleming Asset Management. TexSTAR is a local government investment pool created under the Interlocal Cooperation Act specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity, and competitive yield. The fund is rated AAAm by Standard and Poor's and maintains a weighted average maturity of 60 days or less, with a maximum maturity of 13 months for any individual security. The fund seeks to maintain a constant dollar objective and fulfills all of the requirements of the Texas Public Funds Investment Act for local government investment pools.

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application*, provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted for identical assets or liabilities in active markets that a government can access at the measurement date)
- Level 2 inputs are inputs, other than quoted prices included within Level1 that are observable for an asset or liability, either directly or indirectly
- Level 3 inputs are unobservable inputs for an asset or liability

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The Authority has recurring fair value measurements as presented in the table below. The Authority's investment balances and weighted average maturity of such investments are as follows:

	September 30, 2017	Quoted Prices of Investments in Active Markets Level 1	Quoted Prices of Similar Investments in Active Markets/Quoted Prices of Identical Investments in Unactive Markets Level 2	Unobservable Inputs Level 3	Weighted Average Maturity Days	Standard & Poor's Credit Rating
Cash and Cash Equivalents:						
Bank Deposits	$ 1,742,346	$ -	$ -	$ -	N/A	N/A
Investments not subject to Fair Value						
Investment Pools:						
TexStar	15,749,994	-	-	-	1 day	AAAm
Certificates of Deposit:						
BBVA Compass	247,741	-	-	-	166 days	N/A
Bank United CD	247,734	-	-	-	363 days	N/A
Investments by Fair Value Level:						
U.S. Government Agency Securities:						
FFCB	998,287	-	998,287	-	185 days	Not Rated/AA+
FNMA	498,751	-	498,751	-	233 days	AA+
Total	$ 19,484,853	$ -	$ 1,497,038	$ -		

The TexSTAR investment pool is an external investment pool measured at NAV. TexSTAR's strategy is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The Authority has no unfunded commitments related to the investment pools. TexSTAR has a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national or state emergency that affects the pool's liquidity.

U.S. Government Agency Securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Investment Pools and Certificates of Deposit are measured at amortized cost or net asset value and are exempt from fair value reporting.

Note 5. Receivables

Receivables at September 30, 2017 and 2016 consisted of the following:

	2017	2016
Operating		
Ticket, token and other receivables	$ 817,998	$ 590,983
Sales tax	4,743,310	4,410,690
Grants receivable	2,416,241	1,512,242
Total	$ 7,977,549	$ 6,513,915

Note 6. Capital Assets

Changes in capital assets for the fiscal years ended September 30, 2017 and 2016 are:

	Balance September 30, 2016	Increases	Decreases	Transfers	Balance September 30, 2017
Capital assets, not being depreciated:					
Land	$ 16,228,337	$ -	$ -	$ 1,165,810	$ 17,394,147
Construction in progress	13,785,056	9,505,420	-	(1,557,134)	21,733,342
Total capital assets not being depreciated	30,013,393	9,505,420	-	(391,324)	39,127,489
Capital assets, being depreciated/amortized					
Rail system	282,218,725	-	-	-	282,218,725
Land improvements	6,458,821	-	-	-	6,458,821
Vehicles and operating equipment	9,997,320	267,635	(35,956)	-	10,228,999
Leasehold improvements	55,506	-	(55,506)	-	-
Office furniture and equipment	3,935,542	-	(136,780)	1,474,123	5,272,885
Facilities	32,843,448	-	-	(1,082,799)	31,760,649
Easement	16,997,155	-	-	-	16,997,155
Total capital assets being depreciated/amortized	352,506,517	267,635	(228,242)	391,324	352,937,234
Less accumulated depreciation/amortization for					
Rail system	30,883,870	6,276,864	-	-	37,160,734
Land improvements	1,377,500	288,520	-	-	1,666,020
Vehicles and operating equipment	5,775,080	1,017,127	(35,956)	-	6,756,251
Leasehold improvements	55,506	-	(55,506)	-	-
Office furniture and equipment	1,604,281	920,804	(136,075)	-	2,389,010
Facilities	2,850,881	633,303	-	-	3,484,184
Easement	5,382,432	849,858	-	-	6,232,290
Total accumulated depreciation	47,929,550	9,986,476	(227,537)	-	57,688,489
Total capital assets, being deprecated, net	304,576,967	(9,718,841)	(705)	391,324	295,248,745
Total capital assets, net	$ 334,590,360	$ (213,421)	$ (705)	$ -	$ 334,376,234

	Balance September 30, 2015	Increases	Decreases	Transfers	Balance September 30, 2016
Capital assets, not being depreciated:					
Land	$ 16,228,337	$ -	$ -	$ -	$ 16,228,337
Construction in progress	9,866,224	12,119,482	(388,711)	(7,811,939)	13,785,056
Total capital assets not being depreciated	26,094,561	12,119,482	(388,711)	(7,811,939)	30,013,393
Capital assets, being depreciated/amortized					
Rail system	278,300,390	-	(1,466,744)	5,385,079	282,218,725
Land improvements	6,458,821	-	-	-	6,458,821
Vehicles and operating equipment	8,370,679	38,073	(113,784)	1,702,352	9,997,320
Leasehold improvements	55,506	-	-	-	55,506
Office furniture and equipment	3,211,034	-	-	724,508	3,935,542
Facilities	32,843,448	-	-	-	32,843,448
Easement	16,997,155	-	-	-	16,997,155
Total capital assets being depreciated/amortized	346,237,033	38,073	(1,580,528)	7,811,939	352,506,517
Less accumulated depreciation/amortization for					
Rail system	24,381,744	6,502,126	-	-	30,883,870
Land improvements	1,088,981	288,519	-	-	1,377,500
Vehicles and operating equipment	4,964,966	881,035	(70,921)	-	5,775,080
Leasehold improvements	55,506	-	-	-	55,506
Office furniture and equipment	1,000,296	603,985	-	-	1,604,281
Facilities	2,121,496	729,385	-	-	2,850,881
Easement	4,532,575	849,857	-	-	5,382,432
Total accumulated depreciation	38,145,564	9,854,907	(70,921)	-	47,929,550
Total capital assets, being deprecated, net	308,091,469	(9,816,834)	(1,509,607)	7,811,939	304,576,967
Total capital assets, net	$ 334,186,030	$ 2,302,648	$ (1,898,318)	$ -	$ 334,590,360

Primary capital asset expenditures in 2017 and 2016 relate to the purchase of additional vehicles, replacement of grade crossings, and improvements to the rail line, including implementation of Enhanced Automatic Train Control technology, which will move the agency towards compliance with Positive Train Control. See related commitment disclosure in Note 10.

In June 2010, the Authority acquired a rail operating easement for the purpose of constructing, installing, maintaining, and operating a modern passenger rail system for payments totaling $16,950,000. As of September 30, 2017, $15,750,000 had been paid to the Dallas Area Rapid Transit (DART). The remaining payments of $1,200,000 will be paid in annual payments until the contract expires (See Note 9). The Authority's right under the contract will expire in June 2030, which is 20 years after the execution of the contract. Amortization of this asset is being recognized over the 20 year useful life on a straight-line basis and was $847,500 for each of the years ended September 30, 2017 and 2016.

Note 7. Pension, Retirement, and Deferred Compensation Plans

The Authority has a qualified deferred compensation defined contribution plan under the Internal Revenue Code Section 457 for full-time employees. AIG Valic is the administrator of the plan. Employees can make voluntary contributions in the plan through pretax payroll deductions up to the limits allowed by the Internal Revenue Code Section 457.

As of January 2012, the Authority became a member of Texas County and District Retirement System (TCDRS) and no longer contributes to the qualified deferred compensation defined contribution plan.

Plan Description: The Authority provides retirement, disability and death benefits for all of its fulltime employees through a nontraditional defined benefit pension plan in the TCDRS. The Board of Directors is responsible for the administration of the statewide agent multi-employer public employee defined benefit pension retirement system consisting of 738 public employee defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the board of trustees at P. O. Box 2034, Austin, Texas 78768-2034 or can be viewed at www.tcdrs.org.

Contributions: The deposit rate for employees is 4%, 5%, 6% or 7% of compensation, as adopted by the employer's governing body. Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer's plan. Employer contribution rates are determined annually and approved by the TCDRS Board of Trustees. Pursuant to state law, employers participating in the system must pay 100% of their actuarially determined required contributions on an annual basis. Each employer has the opportunity to make additional contributions in excess of its annual required contribution rate either by adopting an elected rate that is higher than the required rate or by making additional contributions on an ad hoc basis. Employers may make additional contributions to pay down their liabilities faster, pre-fund benefit enhancements and/or buffer against future adverse experience. In addition, employers annually review their plans and may adjust benefits and costs based on their local needs and budgets. Although accrued benefits may not be reduced, employers may reduce future benefit accruals and immediately reduce costs. Monthly contributions by the Authority are based on the covered payroll and the employer contribution rate in effect. For calendar year 2017, the Authority made contributions of 6.09%.

Actuarial Assumptions: The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Real rate of return	5.00%
Inflation	3.00%
Investment Rate of Return	8.10% per year

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee.

The actuarial assumptions that determined the total pension liability as of December 31, 2016 were based on the results of an actuarial experience study for the period January 1, 2009 - December 31, 2012, except where required to be different by GASB 68. Mortality for depositing members is based on the RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both with the projection scale AA; for service retirees, beneficiaries and non-depositing members is based on the RP-2000 Combined Mortality Table with the projection scale AA, with a one-year set-forward for males and no age adjustment for females; and for disabled members is based on the RP-2000 Disabled Mortality Table for males with no age adjustment and RP-2000 Disabled Mortality Table for females with a two-year set-forward, both with the projection scale AA.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information were provided by TCDRS' investment consultant, Cliffwater LLC, and were based on January 2017 information for a 7-10 year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	13.5%	4.70%
Private Equity	16.0%	7.70%
Global Equities	1.5%	5.00%
International Equities-Developed	10.0%	4.70%
International Equities-Emerging	7.0%	5.70%
Investment-Grade Bonds	3.0%	0.60%
High-Yield Bonds	3.0%	3.70%
Opportunistic Credit	2.0%	3.83%
Direct Lending	10.0%	8.15%
Distressed Debt	3.0%	6.70%
REIT Equities	2.0%	3.85%
Master Limited Partnerships	3.0%	5.60%
Private Real Estate Partnerships	6.0%	7.20%
Hedge Funds	20.0%	3.85%
Total	100.0%	

Discount Rate: The discount rate used to measure the Total Pension Liability was 8.10%. The projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years; the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. The discount rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

Changes in Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	$ 782,772	$ 734,347	$ 48,425
Changes for the year:			
Service cost	202,663	-	202,663
Interest on total pension liability	70,330	-	70,330
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	6,193	-	6,193
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(25,855)	(25,855)	-
Benefit payments	(2,411)	(2,411)	-
Administrative expenses	-	(604)	604
Member contributions	-	104,798	(104,798)
Net investment income	-	55,555	(55,555)
Employer contributions	-	126,805	(126,805)
Other	-	22,435	(22,435)
Balance at 12/31/2016	$ 1,033,692	$ 1,015,070	$ 18,622

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the Authority, calculated using the discount rate of 8.10%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.10%) or 1-percentage-point higher (9.10%) than the current rate:

	1% Decrease in Discount Rate (7.10%)	Discount Rate (8.10%)	1% Increase in Discount Rate (9.10%)
Total pension liability	$ 1,232,809	$ 1,033,692	$ 875,104
Fiduciary net pension	1,015,070	1,015,070	1,015,070
Net pension liability	$ 217,739	$ 18,622	$ (139,966)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

For the year ended September 30, 2017, the Authority recognized pension expense of $97,498.

At September 30, 2017, the Authority reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual economic experience	$ 71,524	$ 59,817
Changes in actuarial assumptions	-	9,791
Difference between projected and actual investment earnings	-	54,496
Contributions subsequent to the measurement date	-	109,549
Total	$ 71,524	$ 233,653

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of $109,549 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2016 (i.e. recognized in the Authority's financial statements September 30, 2017). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2017	$ 19,558
2018	19,558
2019	17,299
2020	4,071
2021	1,498
Thereafter	(9,404)
Total	$ 52,580

Note 8. Bonds Payable

In December 2009, the Authority issued Sales Tax Revenue Refunding Bonds for $20,890,000. This bond issuance refunds the $20 million privately held bonds that were issued in 2008 and will allow the Authority to repay the bonds over 20 years versus a five-year repayment under the original issuance. Because of the early repayment, a $727,000 interest penalty was incurred. The penalty was being amortized over the remaining life of the 2008 issuance and was paid in full as of September 30, 2013. This amount was financed through the refunding bonds. The Authority has pledged the sales tax revenues towards the repayment of the bonds. The first principal payment was made in September 2013 and annual installments continue through September 2029.

In September 2011, the Authority issued Sales Tax Contractual Obligations for $14,390,000. This issuance funds the acquisition of rail vehicles and the first phase of the new federal mandate for Positive Train Control. The first principal payment was made in September 2015 and annual installments continue through September 2031.

The annual debt service requirements are:

Fiscal Year Ending September 30,	Principal	Interest	Total
2018	$ 1,720,000	$ 1,038,065	$ 2,758,065
2019	1,790,000	974,984	2,764,984
2020	1,870,000	909,368	2,779,368
2021	1,955,000	840,861	2,795,861
2022-2026	11,120,000	3,068,352	14,188,352
2027-2031	10,285,000	920,379	11,205,379
Total requirements	$ 28,740,000	$ 7,752,009	$ 36,492,009

The following is a summary of changes in bonds payable of the Authority for the year ended September 30, 2017:

Balance at October 1, 2016	$ 30,385,000
Additions	-
Reductions	(1,645,000)
Balance at September 30, 2017	$ 28,740,000

Interest is due semi-annually in March and September with the first payment paid on March 15, 2010. The bonds bear interest of 3.14% and 3.99%.

No interest was capitalized during the years ended September 30, 2017 and 2016.

The bond agreements require the Authority to establish and maintain a pledged revenue account and a bond fund account at a depository institution and segregate these accounts in the general ledger for the purpose of accumulating principal and interest when it becomes due and payable. At September 30, 2017 and 2016, the Authority was in compliance with this requirement.

Note 9. Easement Obligation

In June 2010, the Authority entered into a rail operating easement agreement with DART. The easement obligation represents the remaining principal amounts payable under the agreement. Remaining requirements are as follows:

Fiscal Year Ending September 30,		Principal
2018	$	100,000
2019		100,000
2020		100,000
2021		100,000
2022-2026		500,000
2027-2029		300,000
Total requirements	$	1,200,000

Note 10. Commitments and Contingencies

Risk Management

The Authority is exposed to various types of risk of loss including torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; natural disasters; and environmental occurrences.

The Authority is a participant in the Texas Municipal League Intergovernmental Risk Pool (TML-IRP) to provide insurance for errors and omission, general liability, workers' compensation, automobile liability, and physical damage coverage. TML-IRP was self-sustaining in 2017 based on premiums charged so that total contributions plus earnings on the contributions will be sufficient to satisfy claims and liabilities.

Premiums are assessed based on the rates set by the Texas State Board of Insurance for each participating political subdivision's experience. The Authority has a $10,000 deductible for errors and omissions liability with limits of $3,000,000 per wrongful act and an annual aggregate of $6,000,000. General liability coverage has no deductible with limits of $1,000,000 per occurrence, $1,000,000 per occurrence for sudden events involving pollution, and an annual aggregate of $2,000,000. Worker's compensation coverage has no deductible. Automobile liability has a limit of $5,000,000 per occurrence. The Authority's vehicles are insured for physical damage for collision and comprehensive coverage after a $10,000 deductible. Real and personal property coverage has a $250 deductible. Cyber Liability and Data Breach Response Coverage is also provided by TML-IRP for the following:

- Information Security, Privacy Liability, Website Media Content Liability - $1,000,000 Aggregate limit, $0 deductible
- Privacy Breach Response Services - $25,000 per incident and in the Aggregate, $1,250 deductible per incident
- Regulatory Defense & Penalties/Payment Card Industry Fines and Expenses/Cyber Extortion/First Party Data Protection and Network Business Interruption - $50,000 Aggregate limit; $2,500 deductible per claim, $5,000 Loss of Income Deductible.

The Authority has a government crime policy with TML-IRP insuring against employee theft up to $1,000,000 per loss. For the year ended September 30, 2017, the Authority has not incurred any losses under this plan.

In addition to the coverages provided by TML-IRP, DCTA also carries Pollution Liability Coverage for its 16,000 gallon Underground Fuel Storage Tank (UST) permitted by the Texas Commission on Environmental Quality (TCEQ) and located at the Rail Operations & Maintenance Facility. The UST provides fleet re-fueling for DCTA's passenger rail vehicles. Great American Alliance Insurance Company is the insurance provider with the following coverages: $1,000,000 each Pollution Incident for bodily injury, property damage and claim handling, $2,000,000 Annual Aggregate, $5,000 deductible.

DCTA's Excess Railroad Liability Insurance is provided through a multi-layer program with Steadfast Insurance Company, a member of Zurich Insurance Group, as the primary carrier with a policy limit of $125,000,000 and $2,000,000 self-insured retention and claims handling including defense costs. Prior to securing its own rail liability insurance coverage in October 2016, this coverage was provided via shared policy with DART and the Fort Worth "T" which carried DCTA as an additional insured with DCTA sharing in the cost of the annual premium.

Litigation

The Authority has two pending lawsuits as of September 30, 2017 related to bus operations. In the opinion of management, after consultation with legal counsel, potential losses will not materially affect financial position, operations or cash flows.

State and Federal Grants

The Authority participates in several State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to these grant programs are subject to audit, approval, and adjustment by the grantor agencies, which could result in refunds to the grantor. It is management's opinion that the Authority has complied with substantially all of the requirements under the respective grants, and therefore, no provision has been recorded in the accompanying financial statements for such liabilities.

Commitments

At September 30, 2017, the Authority has the following outstanding commitments:

Rail purchased transportation services	$ 110,582,410
Positive train control system implementation	4,565,613
35 foot transit buses	1,968,915
Management agreement for bus transit operations	1,100,303
Rail FEMA projects	404,696
Demand response and mobility	221,875
Consulting services	167,973
Chief Technical Consultant for PTC implementation	148,006
Landscaping and maintenance	82,579
Engineering and design	41,038
	$ 119,283,408

Operating Lease Agreements

The Authority has entered into certain operating lease agreements. All operating leases to which the Authority is currently a party will expire in fiscal year 2020. The total lease expense was $348,128 for 2017 and $258,251 for 2016. The lease payments by year are as follows:

	2018	2019	2020	Total
Lease commitments				
Administration offices	$ 87,480	$ 89,382	$ 91,284	$ 268,146
Total lease commitments	$ 87,480	$ 89,382	$ 91,284	$ 268,146

Funding

These current expenditures, current contract commitments, and any future commitments will be funded by the Authority out of available cash and investments, future sales tax collections, federal grants, and debt financing.

Note 11. New Accounting Pronouncements

The GASB pronouncements effective in fiscal years 2017 and 2018 are listed as follows:

The 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, which will be effective for periods beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability This Statement applies to all state and governmental entities. This standard became effective for the Authority in fiscal year 2017. The implementation of this statement did not impact the Authority's financial statements.

The GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans other than Pension Plans, which will be effective for periods beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local OPEB plans for making decisions and assessing accountability. This Statement applies to all state and governmental entities. This standard became effective for the Authority in fiscal year 2017. The implementation of this statement did not impact the Authority's financial statements.

The GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions, which will be effective for periods beginning after June 15, 2017. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement applies to all state and governmental entities. This standard will become effective for the Authority in fiscal year 2018. The Authority has not yet determined the impact of this statement.

The GASB issued Statement No. 77, Tax Abatement Disclosures, which will be effective for periods beginning after December 15, 2015. The objective of this Statement is to require governments that enter into tax abatement agreements to provide certain disclosures regarding the commitments. This Statement applies to all state and governmental entities.

This standard became effective for the Authority in fiscal year 2017. The implementation of this statement did not impact the Authority's financial statements.

The GASB issued Statement No. 78, Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans, which will be effective for periods beginning after December 15, 2015. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This Statement applies to all state and governmental entities. This standard became effective for the Authority in fiscal year 2017. The implementation of this statement did not impact the Authority's financial statements.

The GASB issued Statement No. 79, Certain External Investment Pools and Pool Participants, which will be effective for periods beginning after December 15, 2015. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to all state and governmental entities. This Statement applies to all state and governmental entities. This standard became effective for the Authority in fiscal year 2017. The implementation of this statement did not significantly impact the Authority's financial statements.

The GASB issued Statement No. 80, Blending Requirements for Certain Component Units- an amendment of GASB Statement No. 14, which will be effective for periods beginning after June 15, 2016. The objective of this Statement addresses accounting and financial reporting for certain external investment pools and pool participants. This Statement applies to all state and governmental entities. This standard became effective for the Authority in fiscal year 2017. The implementation of this statement did not significantly impact the Authority's financial statements.

The GASB issued Statement No. 81, Irrevocable Split-Interest Agreements, which will be effective for periods beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement applies to all state and governmental entities. This standard will become effective for the Authority in fiscal year 2018. The Authority has not yet determined the impact of this statement.

The GASB issued Statement No. 82, Pension Issues- an amendment of GASB statements No. 67, No. 68, and No. 73, which will be effective for periods beginning after June 15, 2017. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and 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. Specifically, 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. This Statement applies to all state and governmental entities. This standard will become effective for the Authority in fiscal year 2018. The Authority has not yet determined the impact of this statement.

The GASB issued Statement No. 85, Omnibus 2017, which will be effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues relating to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement applies to all state and governmental entities. This standard will become effective for the Authority in fiscal year 2018. The Authority has not yet determined the impact of this statement.

The GASB issued Statement No. 86, Certain Debt Extinguishment Issues, which will be effective for periods beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement applies to all state and governmental entities. This standard will become effective for the Authority in fiscal year 2018. The Authority has not yet determined the impact of this statement.

Note 12. Subsequent Events

The Authority has evaluated all events and transactions that occurred after September 30, 2017 through February 12, 2018, the date the financial statements were issued.

SUPPLEMENTARY INFORMATION

Required Supplementary Information

Denton County Transportation Authority
Required Supplementary Information
Texas County District Retirement System
Schedule of Changes in the Employer's Net Pension Liability and Related Ratios
(Unaudited)

	2014	2015	2016
Total Pension Liability			
Service cost	$ 130,849	$ 159,650	$ 202,663
Interest (on the total pension liability)	37,882	60,290	70,330
Effect of plan changes	40,628	(26,820)	-
Effect of assumption changes or inputs	-	13,055	-
Effect of economic/demographic (gains) or losses	87,214	(95,366)	6,193
Benefit payments/refunds of contributions	(12,905)	(1,640)	(28,266)
Net Change in Total Pension Liability	283,668	109,169	250,920
Total Pension Liability - Beginning	389,935	673,603	782,772
Total Pension Liability - Ending (a)	$ 673,603	$ 782,772	$ 1,033,692
Plan Fiduciary Net Position			
Contributions - Employer	$ 72,565	$ 108,954	$ 126,805
Contributions - Employee	78,874	92,022	104,798
Investment income net of investment expenses	25,740	(13,315)	55,555
Benefit payments/refunds of contributions	(12,905)	(1,640)	(28,266)
Administrative expense	(366)	(472)	(604)
Other	(27)	(57)	22,435
Net Change in Plan Fiduciary Net Position	163,881	185,492	280,723
Plan Fiduciary Net Position - Beginning	384,974	548,855	734,347
Plan Fiduciary Net Position - Ending (b)	$ 548,855	$ 734,347	$ 1,015,070
Net Pension Liability - Ending (a) - (b)	$ 124,748	$ 48,425	$ 18,622
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	81.48%	93.81%	98.20%
Covered Employee Payroll	$ 1,577,470	$ 1,840,437	$ 2,095,950
Net Pension Liability as a Percentage of Covered Employee Payroll	7.91%	2.63%	0.89%

Notes to Schedule:

As of December 31 - Measurement date

Benefit changes. There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Changes of assumptions. There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

Only three years of data is presented in accordance with GASB 68, Paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

Denton County Transportation Authority

Required Supplementary Information
Texas County District Retirement System
Schedule of Employer Contributions
(Unaudited)

	2014	2015	2016	2017
Actuarially determined contribution by calendar year	$ 73,246	$ 72,565	$ 108,954	$ 126,805
Contributions in relation to the actuarially determined contribution by fiscal year	73,356	99,864	120,475	143,780
Contribution deficiency (excess)	$ (110)	$ (27,299)	$ (11,521)	$ (16,975)
Covered-employee payroll by fiscal year	$ 1,540,435	$ 1,776,972	$ 2,001,375	$ 2,364,645
Contributions as a percentage of covered-employee payroll	4.76%	5.62%	6.02%	6.08%

Notes to Schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial Cost method	Entry Age
Amoritization method	Level percentage of payroll, closed
Remaining amortization period	16.1 years
Asset valuation method	5-year smoothed market
Inflation	3.00%
Salary increases	The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee.
Investment rate of return	8.00%
Retirement age	Experience-based table of rates that are specific to the Authority's plan of benefits.
Mortality	Based on the RP-2000 Active Employee Mortality Table for depositing members; RP-2000 Combined Mortality Table for the service retirees, beneficiaries and non-depositing members; and RP-2000 Disabled Mortality Table for disabled retirees.

Only four years of data is presented in accordance with GASB 68, Paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

Supplementary Information

Denton County Transportation Authority

Schedule of Revenues and Expenses – Budget to Actual

Year Ended September 30, 2017 with Comparative Actual for 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)	2016 Actual
OPERATING REVENUES					
Passenger revenue	$ 1,446,008	$ 1,446,008	$ 1,292,725	$ (153,283)	$ 1,406,471
Contract services	3,649,987	3,824,987	3,716,481	(108,506)	3,383,656
Other	1,500	1,001,500	396,450	(605,050)	170,742
	5,097,495	6,272,495	5,405,656	(866,839)	4,960,869
OPERATING EXPENSES					
Salaries, wages and fringe benefits	11,032,926	10,920,329	10,425,981	494,348	9,144,246
Services	2,606,146	3,098,447	2,600,493	497,954	2,598,749
Materials and supplies	3,399,374	3,281,014	2,317,170	963,844	2,036,382
Purchased transportation services	9,563,354	10,934,513	10,587,125	347,388	10,666,292
Utilities	481,264	481,264	427,013	54,251	404,896
Insurance	854,194	1,539,494	1,600,932	(61,438)	849,981
Facility and equipment rents	169,497	306,776	248,128	58,648	158,251
Other - miscellaneous	385,405	381,655	203,467	178,188	184,509
Depreciation and amortization	10,339,740	10,339,740	9,986,476	353,264	9,854,907
Total operating expenses	38,831,900	41,283,232	38,396,785	2,886,447	35,898,213
Operating loss	(33,734,405)	(35,010,737)	(32,991,129)	2,019,608	(30,937,344)
NON-OPERATING REVENUES (EXPENSES)					
Sales tax revenue	24,624,601	25,624,601	26,790,098	1,165,497	24,658,546
Transit system operating assistance grants	6,264,427	6,657,172	4,900,401	(1,756,771)	5,130,046
Investment income	40,000	40,000	122,250	82,250	59,364
Interest expense	(1,098,412)	(1,098,412)	(1,098,107)	305	(1,156,229)
Gain (loss) on disposal of assets	-	-	12,208	12,208	(14,675)
Total non-operating revenue (expenses)	29,830,616	31,223,361	30,726,850	(496,511)	28,677,052
INCOME (LOSS) BEFORE CAPITAL GRANTS	(3,903,789)	(3,787,376)	(2,264,279)	1,523,097	(2,260,292)
GRANTS FOR CAPITAL IMPROVEMENTS	11,940,392	10,637,837	6,532,885	(4,104,952)	5,769,630
Change in net position	$ 8,036,603	$ 6,850,461	$ 4,268,606	$ (2,581,855)	$ 3,509,338

STATISTICAL SECTION

This section of the Authority's comprehensive financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's overall conditions.

Contents **Page**

Denton County Transportation Authority

Net Position by Component
Last Ten Years
(Accrual Basis of Accounting)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net position										
Net investment in capital assets	$ 3,277,402	$ 79,699,179	$ 192,287,389	$ 281,258,854	$ 302,097,014	$ 305,306,546	$ 304,221,470	$ 301,021,096	$ 305,686,490	$ 305,367,225
Unrestricted	40,757,625	37,531,816	39,507,585	34,872,583	18,870,718	17,135,538	17,968,475	20,897,688	19,741,632	24,329,503
Total net position	$ 44,035,027	$ 117,230,995	$ 231,794,974	$ 316,131,437	$ 320,967,732	$ 322,442,084	$ 322,189,945	$ 321,918,784	$ 325,428,122	$ 329,696,728

Denton County Transportation Authority

Change in Net Position
Last Ten Years
(Accrual Basis of Accounting)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating revenues										
Passenger revenue	$ 492,282	$ 514,944	$ 539,938	$ 706,497	$ 1,015,813	$ 1,265,685	$ 1,454,750	$ 1,478,840	$ 1,406,471	$ 1,292,725
Contract services	2,234,145	2,085,401	2,368,908	2,520,036	2,927,341	2,980,804	3,061,389	2,935,371	3,383,656	3,716,481
Other	4,460	112,834	129,311	183,575	38,032	44,072	58,694	199,176	170,742	396,450
Total operating revenues	2,730,887	2,713,179	3,038,157	3,410,108	3,981,186	4,290,561	4,574,833	4,613,387	4,960,869	5,405,656
Operating expenses										
Salaries,wages and fringe benefits	4,884,853	5,377,646	5,890,580	5,737,446	6,293,238	6,702,365	7,658,566	8,346,152	9,144,246	10,425,981
Services	924,227	1,113,057	1,547,574	1,676,866	1,431,693	1,628,119	1,937,441	2,722,176	2,598,749	2,600,493
Materials and supplies	1,844,446	1,383,676	1,674,511	2,308,815	3,010,582	3,071,662	2,891,739	2,528,741	2,036,382	2,317,170
Utilities	68,103	72,712	74,165	180,953	396,248	415,341	416,818	472,391	404,896	427,013
Insurance	445,320	403,328	328,109	297,994	362,960	625,788	775,986	780,112	849,981	1,600,932
Purchased transportation services	-	-	-	5,537,663	7,605,436	8,874,900	9,632,780	10,080,919	10,666,292	10,587,125
Facility and equipment rents	330,926	323,369	322,041	596,236	943,160	349,592	352,479	124,645	158,251	248,128
Other - Miscellaneous	169,971	145,078	143,697	168,023	126,190	144,743	123,609	186,598	184,509	203,467
Depreciation	1,402,035	1,039,436	1,093,469	3,141,330	6,901,760	8,613,310	8,875,337	9,337,505	9,854,907	9,986,476
Total operating expenses	10,069,881	9,858,302	11,074,146	19,645,326	27,071,267	30,425,820	32,664,755	34,579,239	35,898,213	38,396,785
Operating loss	(7,338,994)	(7,145,123)	(8,035,989)	(16,235,218)	(23,090,081)	(26,135,259)	(28,089,922)	(29,965,852)	(30,937,344)	(32,991,129)
Non-operating revenues (expenses)										
Sales tax revenue	16,208,354	15,666,457	16,188,072	17,135,359	19,009,135	20,209,051	21,367,086	23,261,748	24,658,546	26,790,098
Enhanced local assistance	(1,067,837)	-	-	-	-	-	-	-	-	-
Capital grants	-	63,543,494	102,970,259	77,661,499	7,127,088	5,922,358	4,263,522	2,636,956	5,769,630	6,532,885
Transit system operating assistance grants	2,916,207	1,756,241	3,432,290	5,511,543	3,183,057	3,100,729	3,410,607	4,985,908	5,130,046	4,900,401
Investment Income	1,188,514	335,979	105,503	287,615	53,927	32,137	21,100	24,772	59,364	122,250
Interest expense	(156,267)	-	(162,284)	(200,461)	(1,486,881)	(1,449,718)	(1,247,357)	(1,211,899)	(1,156,229)	(1,098,107)
Bond issuance costs and fees	(7,567)	(22,700)	(89,696)	(7,969)	(12,219)	(213,096)	-	-	-	-
Unreimbursed prior year grant expenses	-	(504,959)	-	-	-	-	-	-	-	-
Trinity mills Design and Construction cost	(300,000)	(439,011)	194,099	184,095	-	-	-	-	-	-
Gain(loss) on disposal of assets	(10,004)	4,590	(38,275)	-	52,269	8,150	22,825	(51,815)	(14,675)	12,208
Total Non-operating revenue	18,771,400	80,340,091	122,599,968	100,571,681	27,926,376	27,609,611	27,837,783	29,645,670	34,446,682	37,259,735
Change in net position	$ 11,432,406	$ 73,194,968	$ 114,563,979	$ 84,336,463	$ 4,836,295	$ 1,474,352	$ (252,139)	$ (320,182)	$ 3,509,338	$ 4,268,606

Denton County Transportation Authority
Capital Assets
Last Ten Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Capital assets not being depreciated:										
Land and Improvement	$ 24,357	$ 14,457,050	$ 16,578,318	$ 17,831,105	$ 16,228,337	$ 16,228,337	$ 16,228,337	$ 16,228,337	$ 16,228,337	$ 17,394,147
Construction in process	7,558,260	80,323,353	184,984,177	83,131,319	19,504,570	20,713,356	10,900,642	9,866,224	13,785,056	21,733,342
Total capital assets not being depreciated	7,582,617	94,780,403	201,562,495	100,962,424	35,732,907	36,941,693	27,128,979	26,094,561	30,013,393	39,127,489
Other Capital Assets being depreciated:										
Rail Assets	-	-	-	198,027,776	286,261,767	295,548,514	276,138,293	278,300,390	282,218,725	282,218,725
Land Improvements	-	-	-	2,035,505	5,386,734	5,386,734	5,386,734	6,458,821	6,458,821	6,458,821
Vehicles and operating equipment	9,993,781	9,998,586	9,198,216	11,217,776	8,261,725	8,261,725	8,940,025	8,370,679	9,997,320	10,228,999
Leasehold improvements	39,720	55,506	55,506	55,506	55,506	55,506	55,506	55,506	55,506	-
Office furniture and equipment	133,360	142,434	147,761	236,446	1,077,612	1,379,286	1,958,428	3,211,034	3,935,542	5,272,885
Facilities	-	-	-	-	-	-	32,843,448	32,843,448	32,843,448	31,760,649
Easement	-	-	7,500,000	16,950,000	16,997,155	16,997,155	16,997,155	16,997,155	16,997,155	16,997,155
Total other capital assets	10,166,861	10,196,526	16,901,483	228,523,009	318,040,499	327,628,920	342,319,589	346,237,033	352,506,517	352,937,234
Less accumulated depreciation:										
Rail Assets	-	-	-	1,179,481	4,840,193	12,681,356	18,028,395	24,381,744	30,883,870	37,160,734
Land Improvements	-	-	-	65,092	284,202	665,279	944,428	1,088,981	1,377,500	1,666,020
Vehicles and operating equipment	4,168,141	5,099,410	4,967,532	5,843,729	4,738,045	4,170,403	4,941,135	4,964,966	5,775,080	6,756,251
Leasehold improvements	39,720	42,877	55,506	55,506	55,506	55,506	55,506	55,506	55,506	-
Office furniture and equipment	108,783	135,463	138,551	154,112	349,772	454,902	713,240	1,000,296	1,604,281	2,389,010
Facilities	-	-	-	-	-	-	1,370,221	2,121,496	2,850,881	3,484,184
Easement	-	-	125,000	1,130,000	1,977,500	2,832,859	3,682,717	4,532,575	5,382,432	6,232,290
Total accumulated depreciation	4,316,644	5,277,750	5,286,589	8,427,920	12,245,218	20,860,305	29,735,642	38,145,564	47,929,550	57,688,489
Total capital assets, net	$ 13,432,834	$ 99,699,179	$ 213,177,389	$ 321,057,513	$ 341,528,188	$ 343,710,308	$ 339,712,926	$ 334,186,030	$ 334,590,360	$ 334,376,234

Denton County Transportation Authority
Revenue by Source
Last Ten Years

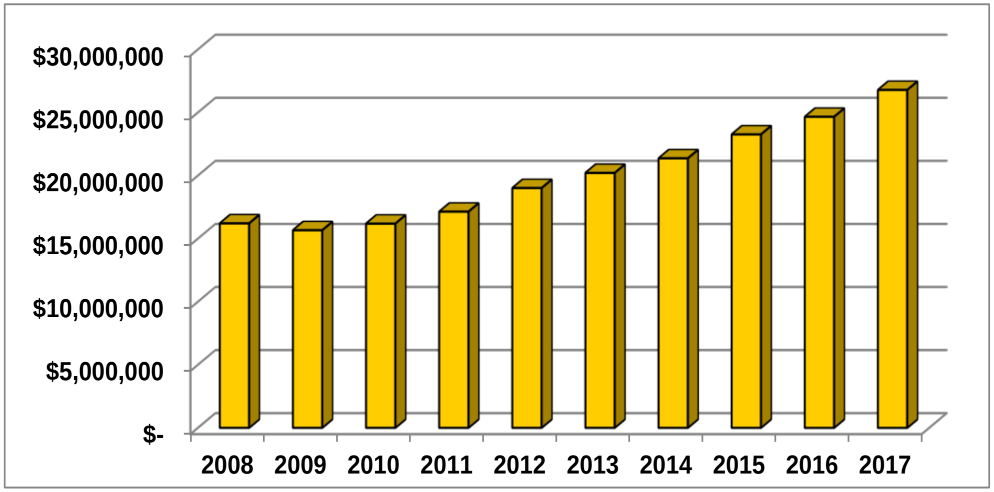
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue										
Sales tax	$ 16,208,354	$ 15,666,457	$ 16,188,072	$ 17,135,359	$ 19,009,135	$ 20,209,051	$ 21,367,086	$ 23,261,748	$ 24,658,546	$ 26,790,098
Passenger revenues	492,282	514,944	539,938	706,497	1,015,813	1,265,685	1,454,750	1,478,840	1,406,471	1,292,725
Contract service revenues	2,238,605	2,199,235	2,498,219	2,703,611	2,965,373	3,024,876	3,120,083	3,134,547	3,554,398	4,112,931
Investment income	1,188,514	335,979	105,503	287,615	53,927	32,137	21,100	24,772	59,364	122,250
Grant revenues	2,916,207	64,794,776	106,402,549	83,173,042	10,310,145	9,023,087	7,674,129	7,622,864	10,899,676	11,433,286
Other revenues	(10,004)	4,590	194,099	184,095	52,269	8,150	22,825	(51,815)	(14,675)	12,208
Total revenue	$ 23,033,958	$ 83,515,981	$ 125,928,380	$ 104,190,219	$ 33,406,662	$ 33,562,986	$ 33,659,973	$ 35,470,956	$ 40,563,780	$ 43,763,498

Denton County Transportation Authority
Sales Tax Revenue
Last Ten Years

Fiscal Year	Sales Tax Revenue	Compounded Percent Change from Base Year [1]	Percent Change from Prior Year
2008	$ 16,208,354		
2009	15,666,457	-3.3%	-3.3%
2010	16,188,072	-0.1%	3.3%
2011	17,135,359	5.7%	5.9%
2012	19,009,135	17.3%	10.9%
2013	20,209,051	24.7%	6.3%
2014	21,367,086	31.8%	5.7%
2015	23,261,748	43.5%	8.9%
2016	24,658,546	52.1%	6.0%
2017	26,790,098	65.3%	8.6%
Average Growth			5.8%

Notes:
[1] Base year for 2009 through 2017 is 2008.

SALES TAX REVENUE

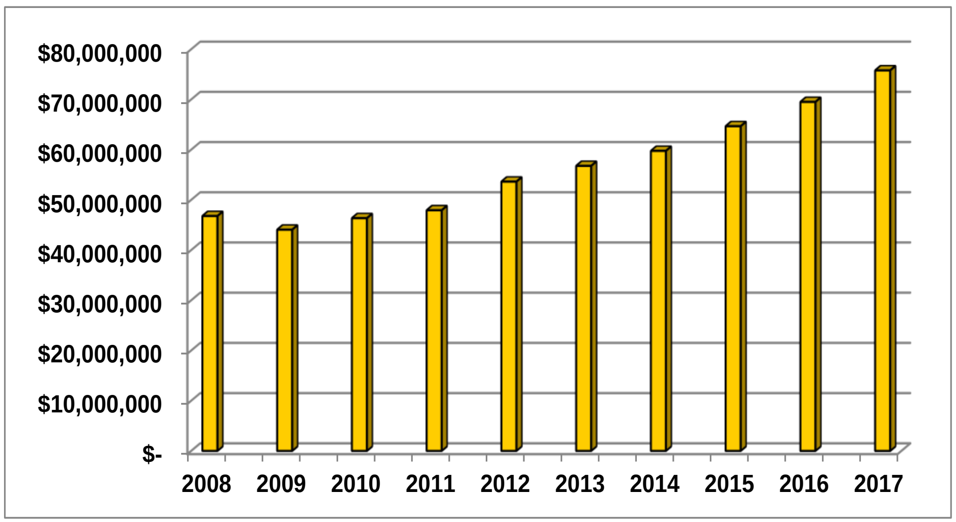


Denton County Transportation Authority
Sales Tax Allocation Received by Member Cities
Last Ten Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
City of Denton	$ 20,546,338	$ 19,247,400	$ 19,946,997	$ 21,369,439	$ 24,367,672	$ 24,954,131	$ 26,062,974	$ 28,717,159	$ 30,745,434	$ 34,956,511
City of Lewisville	23,516,032	22,104,391	23,685,668	23,616,008	26,061,918	28,564,305	30,175,350	32,359,597	35,063,635	37,100,767
City of Highland Village	2,719,056	2,705,699	2,718,127	2,941,989	3,196,265	3,244,944	3,514,486	3,591,789	3,695,262	3,727,798
Total	$ 46,781,426	$ 44,057,490	$ 46,350,792	$ 47,927,436	$ 53,625,855	$ 56,763,380	$ 59,752,810	$ 64,668,545	$ 69,504,331	$ 75,785,076

Source: The Comptroller of Public Accounts allocation of sales tax receipts by city.

SALES TAX REVENUE



Denton County Transportation Authority
Long – Term Debt
Last Ten Years

Fiscal Year	Sales Tax Revenue Bonds, Series 2008	Sales Tax Revenue Refunding Bonds, Series 2009	Contractual Obligations, Series 2011	Total	Percentage of Personal Income	Per Capita
2008	$ 20,000,000	$ -	$ -	$ 20,000,000	0.10%	$ 32.54
2009	20,000,000	-	-	20,000,000	0.10%	31.83
2010	-	20,890,000	-	20,890,000	0.10%	31.53
2011	-	20,890,000	14,390,000	35,280,000	0.16%	52.66
2012	-	20,890,000	14,390,000	35,280,000	0.15%	51.65
2013	-	20,005,000	14,390,000	34,395,000	0.15%	49.56
2014	-	19,085,000	14,390,000	33,475,000	0.14%	46.94
2015	-	18,130,000	13,835,000	31,965,000	0.12%	43.49
2016	-	17,135,000	13,250,000	30,385,000	0.11%	38.71
2017	-	16,105,000	12,635,000	28,740,000	(A)	35.20

N/A: Certain aspects of the above data have been omitted as the information is not available to DCTA at this time.

Denton County Transportation Authority

Demographic and Economic Statistics for Denton County
Last Ten Years

Fiscal Year	Population [1]	Personal Income (in Thousands) [2]	Per Capita Personal Income [2]	Median Age [2]	Education Level in Years of Formal Schooling [2]	School Enrollment [2]	Unemployment Rate [3]
2008	614,650	$ 19,794,189	$ 32,204	32.1	13.9	193,381	4.7%
2009	628,300	$ 19,437,717	$ 30,937	32.8	14.0	199,920	7.4%
2010	662,614	$ 20,587,417	$ 31,070	32.9	14.1	212,297	7.1%
2011	669,930	$ 22,276,512	$ 33,252	32.8	14.0	202,879	6.9%
2012	683,010	$ 22,938,891	$ 33,585	33.0	14.0	209,157	5.6%
2013	694,050	$ 23,497,063	$ 33,855	33.4	14.1	215,359	5.4%
2014	713,200	$ 24,625,370	$ 34,528	33.8	14.1	219,368	4.5%
2015	734,970	$ 25,660,743	$ 34,914	34.2	14.1	223,446	3.4%
2016	784,840	$ 28,441,032	$ 36,238	34.5	14.1	224,226	3.6%
2017	814,560	(A)	(A)	(A)	(A)	(A)	3.1%

Sources:

[1] Regional Data Center, North Central Texas Council of Governments (NCTCOG) estimates and 2010 census

[2] U.S. Census Bureau, American Community Survey 5-Year Estimates

[3] Texas Workforce Commission, data for September of respective year

Note:

(A) Certain portions of the above data have been omitted as the information is not available to DCTA at this time.

Denton County Transportation Authority
Principal Employers in Denton County
September 30, 2017 and Nine Years Ago

10 Largest Employers	Industry	2017 Rank	2017 Estimated Number of Employees	2017 Percentage of Total Employment	2008 Rank	2008 Estimated Number of Employees	2008 Percentage of Total Employment
University of North Texas	Education	1	8,887	2.00%	1	7,400	2.25%
Denton Independent School District	Education	2	4,417	0.99%	3	2,681	0.81%
Wal-Mart (Distribution Center & Stores)	Retail	3	3,722	0.84%	-	900	0.27%
Frito Lay	Manufacturing/Distributing	4	2,500	0.56%	5	2,050	0.62%
Peterbilt Motors	Manufacturing	5	2,314	0.52%	6	2,000	0.61%
Northwest Independent School District	Education	6	2,246	0.50%	-	(A)	(A)
Lewisville Independent School District	Education	7	2,061	0.46%	2	5,665	1.72%
Nebraska Furniture Mart	Retail	8	2,000	0.45%	-	(A)	(A)
Texas Woman's University	Education	9	1,787	0.40%	-	1,159	0.35%
Denton County	County Government	10	1,700	0.38%	8	1,420	0.43%
Denton State School	State Government				7	1,450	0.44%
American Airlines	Air Transportation				4	2,170	0.66%
Centex Home Equity	Real Estate				9	1,400	0.43%
City of Denton	Municipality				10	1,300	0.39%
			31,634	7.10%		27,871	8.99%

Sources: Denton County Budget Department, Texas Workforce Commission

Notes:
(A) Certain portions of the above data have been omitted as the information is not available to DCTA at this time.

Denton County Transportation Authority
Total Employees and Contract Operations
Last Ten Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Employee Count										
DCTA - Administration	28	24	23	23	18	22	24	25	27.25	30
Transit Management of Denton County (First Transit)- Contract bus operations	130	135	140	130	119	126	130	133	152	141
Total head count	158	159	163	153	137	148	154	158	179.25	171

Sources: Denton County Transportation Authority HR Department.

Note 1: Figures represent total head count as of fiscal year end.

Denton County Transportation Authority
Operating Statistics
Last Ten Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Actual Vehicle Revenue Miles										
Demand Response Directly Operated Transportation	343,414	334,897	344,883	234,287	244,606	237,817	236,203	226,065	276,159	260,833
Fixed Route Bus Directly Operated Transportation	1,324,913	1,310,666	1,436,125	1,343,447	1,269,081	1,213,224	1,223,746	1,403,748	1,482,110	1,626,952
A-train Rail Purchased Transportation	(A)	(A)	(A)	139,126	250,758	299,037	313,062	326,217	334,468	338,750
Total Actual Vehicle Revenue Miles	1,668,327	1,645,563	1,781,008	1,716,860	1,764,445	1,750,077	1,773,011	1,956,030	2,092,737	2,226,535
Actual Vehicle Revenue Hours										
Demand Response Directly Operated Transportation	22,844	26,204	25,537	18,214	16,975	17,408	17,655	17,614	24,452	24,659
Fixed Route Bus Directly Operated Transportation	90,454	94,922	100,834	96,826	96,479	99,468	104,932	116,874	126,214	135,091
A-train Rail Purchased Transportation	(A)	(A)	(A)	5,707	10,121	11,125	12,215	13,149	13,580	13,511
Total Actual Vehicle Revenue Hours	113,298	121,126	126,371	120,747	123,575	128,001	134,802	147,637	164,246	173,261
Total Annual Unlinked Trips - Bus	1,957,864	2,063,265	2,337,255	2,420,155	2,586,036	2,502,586	2,259,168	2,407,225	2,396,220	2,458,623
Total Annual Unlinked Trips - Rail	(A)	(A)	(A)	121,061	387,126	510,738	568,338	555,423	545,250	504,958
Annual Passenger Miles										
Demand Response Directly Operated Transportation	343,416	366,696	344,876	227,587	221,474	237,922	236,238	226,214	258,644	202,774
Fixed Route Bus Directly Operated Transportation	5,936,304	6,256,876	7,095,853	7,276,977	7,818,249	7,415,162	6,092,976	7,132,608	6,322,593	5,918,759
A-train Rail Purchased Transportation	(A)	(A)	(A)	1,851,047	5,724,715	7,637,399	8,339,421	8,175,102	8,000,309	7,409,115
Total Annual Passenger Miles	6,279,720	6,623,572	7,440,729	9,355,611	13,764,438	15,290,484	14,668,635	15,533,924	14,581,546	13,530,648
Operating Expenses										
Demand Response Directly Operated Transportation	$ 691,233	$ 773,936	$ 962,197	$ 977,383	$ 1,383,900	$ 1,478,366	$ 1,569,707	$ 1,429,741	$ 1,703,434	$ 2,225,894
Fixed Route Bus Directly Operated Transportation	7,139,863	6,301,682	6,784,260	6,891,337	7,994,301	8,456,825	9,179,521	9,934,604	10,956,771	11,877,132
A-train Rail Purchased Transportation	(A)	(A)	(A)	6,910,500	9,787,380	11,319,050	12,402,812	13,429,333	12,757,014	13,528,182
Total Operating Expenses	$ 7,831,096	$ 7,075,618	$ 7,746,457	$ 14,779,220	$ 19,165,581	$ 21,254,240	$ 23,152,040	$ 24,793,678	$ 25,417,219	$ 27,631,208

Actual Vehicle Revenue Miles: The miles a vehicle travels while in revenue service. This definition includes layover and recovery, but excludes travel to and from storage facilities, the training of operators prior to revenue service, road tests, deadhead travel, and school bus and charter service. FY 2015 includes special service. For A-train, this is defined as revenue train miles.

Actual Vehicle Revenue Hours: The hours a vehicle travels while in revenue service. This definition includes layover and recovery, but excludes travel to and from storage facilities, the training of operators prior to revenue service, road tests, deadhead travel, and school bus and charter service. FY 2015 includes special service. For A-train, this is defined as revenue train hours.

Unlinked Passenger Trips: The number of passengers who board public transportation vehicles. A passenger is counted each time the passenger boards a vehicle even though the passenger might be on the same journey from origin to destination. FY 2015 includes special service.

Annual Passenger Miles: The sum of miles traveled by passengers, calculated by multiplying the average miles traveled per passenger by the total number of boardings.

Notes:

(A) A-train began service in June 2011.

Denton County Transportation Authority
Farebox Recovery Percentage
Last Ten Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Farebox Recovery - Bus	42.27%	42.91%	42.74%	53.68%	47.65%	46.30%	46.07%	42.73%	44.14%	41.25%
Farebox Recovery - Rail	0.00%	0.00%	0.00%	2.82%	5.51%	6.53%	6.87%	6.15%	6.17%	5.36%

Fare Structure at 9/30/2017

Connect & UNT Shuttle (Bus Only)	
Connect One-Way	$ 1.50
Connect One-Way Reduced*	$ 0.75
Connect 10-Ride Book	$ 13.00
Connect Monthly/31-Day	$ 45.00
Connect Monthly/31-Day Reduced*	$ 25.00
Connect Annual Pass	$ 450.00

Local System (Bus & Rail)	
Local System 2 Hour	$ 3.00
Local System 2 Hour Reduced*	$ 1.25
Local System Day Pass	$ 6.00
Local System Day Pass Reduced*	$ 2.50
Local System 7-Day Pass	$ 25.00
Local System 10 Pack of Day Passes	$ 40.00
Local System Monthly/31-Day Pass	$ 90.00
Local System Monthly/31-Day Pass Reduced*	$ 40.00
Local System Annual Pass	$ 650.00
Local System Annual Pass Reduced*	$ 480.00
Local System Summer Youth Pass	$ 30.00
Local System University Student Full Semester Pass**	$ 125.00
Local System University Student Summer Semester Pass**	$ 80.00
Local System University Student Annual Pass**	$ 300.00
Local System University Faculty/Staff Full Semester Pass***	$ 170.00
Local System University Faculty/Staff Annual Pass***	$ 420.00

Regional (Bus & Rail)	**Current**
Regional 2 Hour	$ 5.00
Regional 2 Hour Reduced*	$ 1.25
Regional Day Pass	$ 10.00
Regional Day Pass Reduced*	$ 2.50
Regional 7-Day Pass	$ 50.00
Regional 10 Pack of Day Passes	$ 70.00
Regional Monthly/31-Day Pass	$ 160.00
Regional Monthly/31-Day Pass Reduced*	$ 40.00
Regional Annual Pass	$ 1,600.00
Regional Annual Pass Reduced*	$ 480.00
Regional University Student Full Semester Pass**	$ 175.00
Regional University Student Summer Semester Pass**	$ 150.00
Regional University Student Annual Pass**	$ 400.00
Regional University Faculty/Staff Full Semester Pass***	$ 340.00
Regional University Faculty/Staff Annual Pass***	$ 840.00

NCTC Shuttle	
NCTC Shuttle One-Way	$ 3.00
NCTC Shuttle One-Way Reduced*	$ 1.50

Access	
Access One-Way	$ 3.00
Access 10-Ride Book	$ 30.00

* Reduced = Seniors (65+), disabled (with DCTA issued ID), Medicare cardholders, and students (Ages 5-18, students over the age of 14 require a valid high school or DCTA issued ID)
** Students attending colleges with physical campuses within Denton County are eligible to participate in the University Pass Program. Proof of enrollment is required.
*** Faculty and staff working at colleges with physical campuses within Denton County are eligible to participate in the University Pass Program. Proof of employment is required.

Farebox recovery ratio is a proportion of the amount of revenue generated through fares by its paying customers including contract services as a fraction of the cost of its total operating expenses without depreciation expense.

DCTA