

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended, September 30, 2011

PARTNERSHIP

TRANSFORMATION

GROWTH



COMMUNITY



DENTON COUNTY TRANSPORTATION AUTHORITY
LEWISVILLE, TX

DCTA

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INTRODUCTORY SECTION



“DCTA has experienced the same financial impact, as have other agencies, from this economic downturn. The Board has spent a considerable amount of time and energy balancing the service demands and resources to provide the citizens of Denton County with the best services possible. With the opening of A-train service in the Spring of 2011 we are pleased to deliver, in the most efficient manner possible, transportation options to current and future riders, which can be provided without jeopardizing our financial stability.”

CHARLES EMERY

Board Chairman
City of Lewisville
2002-Present

“DCTA is Denton County's mobility and transportation future and it is here today!”

CHARLES CORRELL

Board Vice Chairman
Denton County Unincorporated
2002-Present

TRANSFORMATION



Denton County Transportation Authority
1660 S. Stemmons, Suite 250 • Lewisville, TX 75067
972-221-4600 • fax 972-221-4601 • www.dcta.net

Letter of Transmittal

February 23, 2012

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

We are pleased to submit the Comprehensive Annual Financial Report for the Denton County Transportation Authority (DCTA) for the fiscal year ended September 30, 2011.

This report is published to provide the DCTA Board of Directors and staff, our citizens, our bondholders and other interested parties with information concerning the financial condition and activities of the Denton County Transportation Authority. The responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the DCTA.

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 unqualified ("clean") opinion on the DCTA's financial statements for the year ended September 30, 2011. 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 should be read in conjunction with it.

DCTA PROFILE

In 2002 Legislation authorizing the authority was passed, with a vision of building an integrated transportation system for Denton County, one that would provide transportation alternatives to its citizens.

The 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. Numerous federal and state laws and regulations impact the powers and duties exercised by DCTA and the Board of Directors.

The legislation authorizing DCTA's creation required that the Authority develop a Service Plan. The Service Plan was submitted to the voters of eight cities in Denton County on September 13, 2003, for consideration and approval of a one-half percent sales and use tax. The election was successful in the cities of Denton, Highland Village, and Lewisville. These three cities accounted for approximately 80% of the sales tax revenue in the county. Imposition of the sales and use tax, dedicated to the Authority for implementation of the Long Range Service Plan, began January 1, 2004.

The 2003 Long Range Service Plan included a rail component and a bus service component with interim regional commuter bus service, local fixed route bus service, university shuttle service and demand response service. In addition it outlined the plan for a network of Park-and-Rides, Rail and Bus Operations Facilities to be established to serve Denton County residents. These elements would provide services to help mitigate congestion and improve mobility as well as connect the Denton County's larger cities to commuter rail.

A major component of the 2003 Long Range Service Plan was to implement rail service connecting Denton County with Dallas Area Rapid Transit (DART) light rail transit facilities. Planning for this began in 2004 with the development of the Alternatives Analysis. A Regional Toll Road Funding Initiative (RTRFI) grant was received in March of 2009 and a contract for construction of the 21 mile rail corridor was awarded in May of 2009. Construction of the rail corridor and rail stations lining riders from Denton County to Dallas Area Rapid Transit (DART) light rail was completed and passenger service began late June of 2011. With the completion of the rail corridor, over half the county's population will now have access to regional rail service. The remaining portion of the A-train project is the completion of the rail operations and maintenance facility. This facility is planned for completion by December 2011. A major milestone of the 2003 Long Range Service Plan was achieved with the start of A-train commuter rail service in 2011. With completion of the rail operations and maintenance facility, DCTA will have attained a major goal by completing all construction and starting rail revenue service in just over two and one-half years.

Services Provided

DCTA is the primary public transportation operator in Denton County. It operates a range of services including local bus services in the cities of Denton, Lewisville, and Highland Village, A-train (and midday bus services), student transportation operated under contract with UNT and NCTC, and Access paratransit services. DCTA's transportation services include the following:

- A-train is a 21-mile regional rail system connecting Denton and Dallas Counties. DCTA has five A-train stations: two in Denton, three in the greater Highland Village-Lewisville area, and connects with the DART Green Line at the DART Trinity Mills Station in Carrollton.
- DCTA Connect offers local fixed-route bus service in the cities of Denton and Lewisville, with nine bus routes in Denton and three in Lewisville. In January 2010, the combined

- Denton routes averaged 875 weekday boarding's, while Lewisville services carried 219 passengers on an average weekday. Denton routes run on average headways of about 40 minutes during peak hours and midday, while Lewisville services operate approximately every 35 minutes during the peak and 70 minutes midday. Key trip generators in Denton include UNT and TWU.
- DCTA Connect RSVP provides peak-hour service on demand in Highland Village and north Lewisville.
- University of North Texas 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 nearby apartment complexes to the campus, as well as circulation throughout the campus. The UNT services experience the highest ridership of any bus operations in the DCTA system. Routes average about 5,500 boarding passengers per day during the school year.
- North Central Texas College purchases service from DCTA to operate between Denton and Corinth, as well as to Lewisville and Flower Mound.
- DCTA Access 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, Lewisville, and Highland Village. 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.

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 intent of DCTA is that the costs (expenses, including depreciation) of providing transit services to the general public will be funded through a combination of farebox revenue, sales tax, and other grants. 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.

Chapter 460 of the Texas Transportation Code requires the preparation of an annual budget. This budget is reviewed by the Finance Committee and Board of Directors and formally adopted by passage of a budget resolution. The President is authorized to transfer budgeted amounts between lines items and departments. The Board, via adoption of a resolution, must approve any revision that increases the overall amount of the adopted budget.

Budget control has been established at the department level. Financial reports are produced showing budget to actual expenditures by line item, and are distributed monthly for review by management. Financial reports are presented to the Board monthly for their review and

acceptance. In addition, quarterly budget reviews are conducted with the Executive Team-the President and Vice Presidents. Individual line items are reviewed and analyzed for budgetary compliance. Revenue budgets are reviewed monthly.

Annually, as part of the budget process, a rolling five-year Financial Forecast and Cash Flow model is presented to the Board. This document forecasts the operating, debt service and Capital Improvement Plan for the next five years 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 budgetary decisions.

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.

A YEAR OF PROGRESS

DCTA has made great progress in the past year, accomplishing many goals of the Service Plan while looking ahead to substantial achievements in the future.

The Bus system as a whole has experienced continued ridership growth since DCTA assumed existing bus service in 2005. The number of total annual passenger trips has increased more than 91 percent from 1.27 million in 2005 to 2.43 million in 2011. The Connect fixed-route service, in particular, has seen marked increases since its implementation in 2008. The Federal Transit Administration recognized the agency's ridership gains in 2008 with the "Success in Enhancing Ridership" Award.

In 2011, construction was completed on the Downtown Denton Transit Center -- a joint DCTA – City of Denton project. The transit facility creatively reuses an existing City of Denton Building near downtown. Half of the center provides a public waiting area for transit passengers, a ticket office and kiosk, restrooms, retail space, and an outdoor performance venue for local musicians and artists. The remainder of the 9,150 square foot facility includes office space for DCTA bus operations as well as rooms for staff training and public meetings.

A regional rail system has been the overarching goal of DCTA since its inception. DCTA and Denton County leaders and residents recognized the need for such a system based upon projected population and employment growth; growing traffic congestion, air quality concerns and the need to improve access to Denton County's health care facilities, employment centers, retail and entertainment opportunities and higher education campuses.

A major milestone was reached in 2011 with the completion of construction and the official opening of the A-train regional rail project. The agency carried 8,300 passengers on its first day of service. The A-train runs along the former Missouri-Kansas-Texas Railroad (MKT) line parallel to Interstate 35E. This regional rail line includes an adjacent bicycle and pedestrian path to provide further transportation options for the people of Denton County.

In May 2009, DCTA entered into a construction service agreement with North Texas Rail Group for the construction of the A-train infrastructure. In the same month, the Authority signed an agreement with Stadler to provide 11 Diesel Multiple Unit (DMU) rail vehicles for the A-train system. Upon completion In June 2011, the construction work included replacement of 21 miles of track, construction of 9,000 linear feet of sound walls and 26 passenger and freight rail bridge structures, quiet zone improvements at 43 railroad crossings, installation of a state-of-the-art wayside signal and communication system, as well as completion of the five rail stations.

To initiate service in a timely fashion, DCTA opted to commence revenue operations utilizing leased BUDD Rail Diesel Car (RDC) vehicles previously operated by the Trinity Railway Express (TRE). The agency received the first of 11 new Stadler GTW 2/6 Diesel Multiple Units (DMUs) in late 2011 and will transition these into service by September 2012.

The final component of the A-train project is the completion of the Rail Operations and Maintenance Facility in Lewisville. Construction has begun on the facility and is anticipated to be complete in October 2011, with final closeout of the construction element to be completed by January 2012. The next major rail related project is the implementation of federally mandated Positive Train Control by 2015.

In 2012, DCTA will continue adding amenities to improve the passenger experience and expanding transit alternatives by planning for future service opportunities. DCTA has incorporated bus feeder routes that connect the Authority's five stations with important destinations throughout its service area and expand regional travel opportunities for the Authority's bus and rail passengers.

THE FUTURE

Population Growth and Travel Demand

Population growth is projected to be significant. The City of Denton's population is expected to increase in size by nearly 150% by 2040, while significant growth is anticipated in other cities as well, notably Frisco, with high population growth projected in the smaller cities of Sanger and Pilot Point.

North Central Texas Council of Governments (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 points to the importance of providing transportation links from Denton County to major employment destinations, primarily in Dallas County, but also in Tarrant County.

About 2.8 million trips are made each day in Denton County. Of these, about one-quarter are home-based work trips. By 2030, NCTCOG estimates that total trips will increase to more than 4.7 million. 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 are also expected to see large increases in travel demand.

Service Plan

For the past few years, the Denton County Transportation Authority (DCTA) has focused on implementing the first phase of regional rail service, as well as improving local bus routes in Denton and Lewisville and demand-response service in Highland Village.

Having attained the milestone of delivering the first phase of regional rail service, DCTA is now looking beyond the A-train implementation and preparing for the future needs of Denton County. It began the process of updating its 2003 Service Plan with the development of a Long Range Service Plan. This plan will provide a roadmap for decision making about transit investments in Denton County over the next 25 years, in support of the Mobility 2035 plan developed by the North Central Texas Council of Governments (NCTCOG). The Long Range Service Plan will provide recommendations regarding how transit can help to support Denton County's health, economy and environment.

It will recommend specific services in specific corridors, with associated recommended service spans, frequencies, capital investments and suggested timelines for implementation. The plan will help provide the framework for future decisions, but more detailed planning by the DCTA Board and staff will still be required to carry out the recommendations of the plan.

As with any long-range plan, it includes assumptions about, but cannot predict changes in the environment, funding, community support and local priorities for investment. 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 insure that transit services mature and develop to better meet the needs of Denton County.

The draft Plan was developed by an outside consulting firm with input from the DCTA Board, staff, and users of DCTA services, the general public and other stakeholders. It is currently under review by the Board, with adoption anticipated in the next fiscal year.

OTHER INFORMATION

Independent Audit

Section 460.402 of the Texas Transportation Code requires a financial audit:

“(a) the authority shall have an annual audit of the affairs of the Authority by an independent certified public accountant.

(b) the audit is a public record as defined by Chapter 552, Government Code.

(c) on receipt of the audit as prescribed by Subsection (a), the board of directors shall address on the record any deficiencies noted in the report at a regular meeting of the board of directors.”

This requirement has been complied with, and the independent auditor's report is included in this report.

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, 2010. 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 first year for the DCTA to receive the Certificate of Achievement.

In order to be a 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.

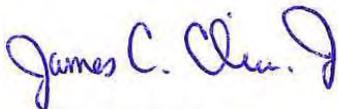
A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Acknowledgements

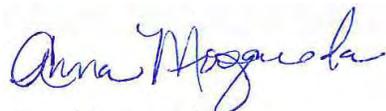
The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire DCTA Finance Department staff. We also express our appreciation to all the DCTA staff members who assisted and contributed to the successful completion of this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

We would like to thank the members of the DCTA Board of Directors, the Finance Committee and the Audit 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



Anna M. Mosqueda
V-P Finance/Chief Financial Officer

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, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



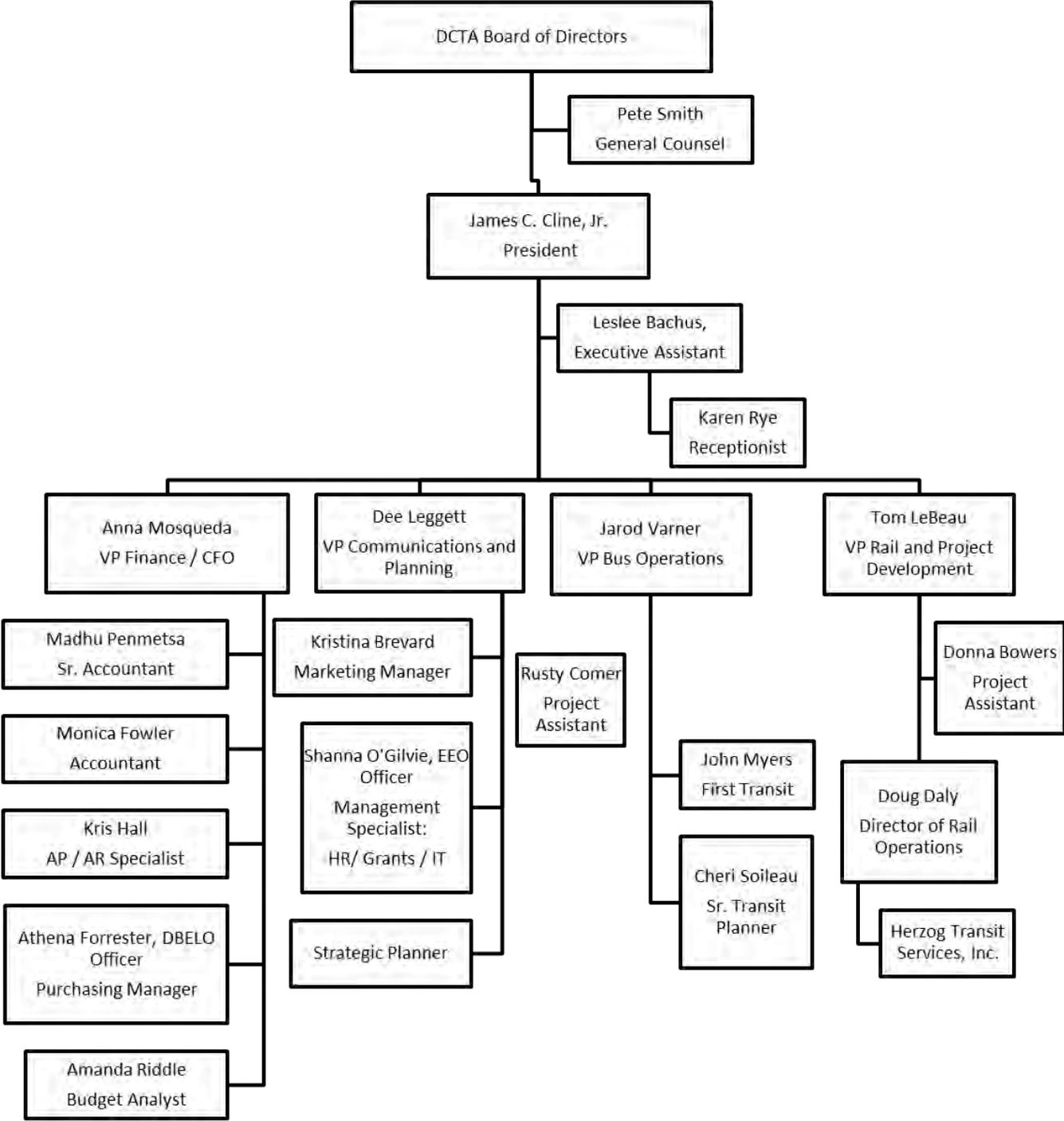
Linda C. Danison

President

Jeffrey R. Emer

Executive Director

**Denton County Transportation Authority
Organizational Chart
September 30, 2011**



List of Principle Officials

DCTA is governed by a Board of Directors currently composed of 14 members:

- one member from each municipality with a population of 17,000 or more (8);
- three members from the unincorporated area of Denton County;
- 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. The Board is responsible for the general policy governance of the DCTA with the President and staff responsible for day-to-day management, operations, and implementation of the DCTA’s goals and objectives.

Board Member	Position	Appointed by
Charles Emery	Chairman	Lewisville
Charles Correll	Vice – Chairman	Denton County Unincorporated
Dave Kovatch	Secretary	The Colony
Paul Pomeroy	Treasurer	Highland Village
Richard Huckaby	Member	Denton
Skip Kalb	Member	Small Cities
Doug Peach	Member	Little Elm
Daniel Peugh	Member	Cornith
Jim Robertson	Member	Flower Mound
Thomas Smith	Member	Denton County At-Large
Jeff Snowden	Member	Frisco
Tom Spencer	Member	Small Cities
Bill Walker	Member	Small Cities
Vacant	Member	Denton County Unincorporated

FINANCIAL SECTION

“The county-wide partnership of citizens that created DCTA recognized that an efficient public transportation system was critical. Regardless of differences, we shared a common vision - clean air and an efficient, equitable and responsible public transportation system. The start-up of A-train service builds on a solid bus service and is an excellent next step toward an integrated transportation network for Denton County.”

DOROTHY PALUMBO

Board Secretary
City of Highland Village
2005-2011

FINANCIAL SECTION

TRANSPORTATION

“We will continue to be effective and frugal stewards of the public’s dollars.”

JEFF G. SNOWDEN

Board Treasurer
City of Frisco
2005-Present





INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Denton County Transportation Authority

We have audited the accompanying statement of net assets of the Denton County Transportation Authority (the Authority) as of September 30, 2011 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Authority as of and for the year ended September 30, 2010, were audited by other auditors whose report dated January 18, 2011 expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February X, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis for the year ended September 30, 2011, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Denton County Transportation Authority

Page 2

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of revenues and expenses - budget and actual is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February X, 2012

**Denton County Transportation Authority
Management's Discussion and Analysis
For the Year Ended September 30, 2011
(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, 2011. This discussion and analysis is designed to provide an objective and easily readable analysis of DCTA 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, 2011 and 2010, total assets of DCTA exceeded total liabilities by \$316,131,437 and \$231,794,974 respectively. The amount of unrestricted net assets as of September 30, 2011 was \$15,963,924 compared to \$39,507,585 in 2010. Unrestricted net assets are the amount which may be used to meet DCTA's ongoing obligations in accordance with the fiscal policies.
- Net assets increased \$84,336,463 during the current fiscal year compared to an increase of \$114,563,979 in the prior year. The change compared to the prior year was the result of substantial completion of the A-train rail project construction and vehicle acquisition. Funding of \$250.6 million from the Regional Toll Revenue Funding Initiative (RTRFI) was received in March 2009 and construction started for DCTA's first major passenger rail project. Rail revenue service began June 2011.
- Net capital assets were \$321.1 million as of September 30, 2011 compared to \$213.2 million as of September 30, 2010. The increase of \$107.9 million was due to the additional construction, easement, and vehicle acquisitions related to the rail capital project.

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 assets, 2) statements of revenues, expenses, and changes in net assets, 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.

**Denton County Transportation Authority
Management's Discussion and Analysis
For the Year Ended September 30, 2011
(Unaudited)**

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 Assets – The statement of net assets reports all of the financial and capital resources of DCTA. The statement is presented in the format where total assets equal total liabilities plus net assets. 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 assets is to show a picture of the liquidity and health of the organization as of the end of the reporting period. Changes in net assets may serve as an indication of whether the financial position of DCTA is improving or deteriorating.

Statement of Revenues, Expenses, and Changes in Net Assets – The statement of revenues, expenses, and changes in net assets is similar to an income statement. This statement includes operating revenues, such as bus 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 assets is to present the change in net assets during the two most recent fiscal years. The increase or decrease in net assets 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.

**Denton County Transportation Authority
Management's Discussion and Analysis
For the Year Ended September 30, 2011
(Unaudited)**

Financial Analysis

Statement of Net Assets - As noted earlier, net assets and especially net assets by category may serve over time as a useful indicator of DCTA's financial position. Total assets exceeded total liabilities by \$316,131,437 and \$231,794,974 as of September 30, 2011 and 2010 respectively. The largest portion, 95% in 2011 is invested in capital assets (net of related debt) primarily as a result of the rail line construction and related acquisitions. The remaining 5% is in unrestricted net assets which represents assets with no external restriction as to the use or purpose. The unrestricted net assets can be employed for any lawful purpose designated by the governing board. In 2010, 17% of the excess was in unrestricted net assets. Net assets of DCTA increased 36% or \$84,336,463 during the current fiscal year compared to an increase of 98% or \$114,563,979 in the prior year. The increase in the current fiscal year in net assets is the result of capitalizing of the rail assets put into service and corresponding reduction of construction work in progress totaling \$107.9 million net of related debt and reduction of \$23.5 million in unrestricted net assets. In late Fiscal Year 2011, the rail project was substantially complete with only the construction of a \$20 million rail maintenance facility and acquisition of rail vehicles remaining.

Comparative Condensed Statement of Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets			
Current and other assets	\$ 59,503,879	\$ 156,402,074	240,468,022
Capital assets	<u>321,057,513</u>	<u>213,177,389</u>	<u>99,699,179</u>
Total Assets	<u>\$ 380,561,392</u>	<u>\$ 369,579,463</u>	<u>\$ 340,167,201</u>
Liabilities and Net Assets			
Current liabilities	\$ 27,349,955	\$ 116,894,489	\$ 202,936,206
Non-current liabilities	<u>37,080,000</u>	<u>20,890,000</u>	<u>20,000,000</u>
Total Liabilities	64,429,955	137,784,489	222,936,206
Net Assets			
Invested in capital assets	300,167,513	192,287,389	79,699,180
Unrestricted	<u>15,963,924</u>	<u>39,507,585</u>	<u>37,531,815</u>
Total Net Assets	<u>316,131,437</u>	<u>231,794,974</u>	<u>117,230,995</u>
Total Liabilities and Net Assets	<u>\$ 380,561,392</u>	<u>\$ 369,579,463</u>	<u>\$ 340,167,201</u>

Assets – During fiscal year 2011, DCTA total assets increased 3% or \$10,981,929 over fiscal year 2010. The net increase is primarily due to a \$91.9 decrease in the DCTA current assets of restricted cash and cash equivalents related to the funding of the A-train project offset by the net increase of \$102.8 in capital assets as the rail project moved toward completion.

**Denton County Transportation Authority
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(Unaudited)**

Capital Assets, net of depreciation, increased \$107.9 million due to the capitalization of construction costs for construction work in progress; ROW easement land acquisition; less depreciation, bond issuance costs; amortization, and asset retirements. The capital assets activity for the year is captured in Note 6 (pg 23 and 24).

Liabilities – Current liabilities decreased \$89,544,534 primarily due to the decrease of \$77.5 million in deferred revenue related to the RTRFI funding for the rail line construction and rail vehicles. Revenues are recognized as grant funds were drawn down for expenditures related to the rail project.

A decrease in retainage held on contracts for the rail line construction along with a decrease in construction contracts payable resulted in the net decrease in current liabilities.

DCTA's current ratio, current assets of \$59,503,879 and current liabilities of \$27,349,955, was 2:15:1 as of September 30, 2011 compared to 1.29:1 as of September 30, 2010. DCTA has restricted current assets – cash and cash equivalents and recognized deferred revenue as a current liability related to the A-train project. With the completion of the rail project there was a reduction of \$77.5 million in deferred revenue.

There was \$16,190,000 change in non-current liabilities in FY2011 due primarily to the issuance of \$14,390,000 of contractual obligations. This was to fund DCTA's match for the purchase of rail vehicles and for first phase of a Positive Train Control system which will need to be implemented by 2015 to meet new Federal requirements. The bond payable activity for the year is captured in Note 8 (pg 24 and 25).

Statement of Revenues, Expenses, and Changes in Net Assets – During the 2011 fiscal year DCTA's activities resulted in an increase in net assets of \$84,336,463 compared to an increase of \$114,563,979 in 2010. The increase in the current fiscal year net assets is the result of the A-train capital project and related reimbursement of expenditures in addition to the Transit System grants. This also reflects the mobilization and start-up of revenue service for the new A-train commuter service. The changes in net assets for the fiscal years ended September 30, 2011 and 2010 are shown in the following table.

**Denton County Transportation Authority
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For the Year Ended September 30, 2011
(Unaudited)**

Comparative Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
OPERATING REVENUES			
Passenger revenue	\$ 706,497	\$ 539,938	\$ 514,944
Contract services	2,520,036	2,368,908	2,086,401
Other	183,575	129,311	112,834
Total operating revenues	<u>3,410,108</u>	<u>3,038,157</u>	<u>2,714,179</u>
OPERATING EXPENSES			
Salaries, wages and fringe benefits	5,737,446	5,890,580	5,377,646
Services	1,676,866	1,547,342	1,113,057
Materials and supplies	2,308,815	1,674,511	1,383,676
Purchased transportation services	5,537,663	-	-
Utilities	180,953	74,397	72,712
Casualty and liability insurance	297,994	328,109	403,328
Facility and equipment rents	596,236	322,041	323,369
Other - miscellaneous	168,023	143,697	145,078
Depreciation	3,141,330	1,093,469	1,039,436
Total operating expenses	<u>19,645,326</u>	<u>11,074,146</u>	<u>9,858,302</u>
Operating loss	<u>(16,235,218)</u>	<u>(8,035,989)</u>	<u>(7,144,123)</u>
NON-OPERATING REVENUES (EXPENSES)			
Sales tax revenue	17,135,359	16,188,072	15,666,457
Transit system operating assistance grants	5,511,543	3,432,290	1,756,241
Investment income	287,615	105,503	335,979
Interest expense	(200,461)	(162,284)	-
Amortization of bond issuance costs	(7,969)	(89,696)	(22,700)
Unreimbursed prior year grant expenses	-	-	(504,959)
Design costs and construction	184,095	194,099	(439,011)
Gain (loss) on disposal of assets	-	(38,275)	4,590
Total non-operating revenue (expenses)	<u>22,910,182</u>	<u>19,629,709</u>	<u>16,796,597</u>
INCOME BEFORE CAPITAL GRANTS	<u>6,674,964</u>	<u>11,593,720</u>	<u>9,652,474</u>
GRANTS FOR CAPITAL IMPROVEMENTS	<u>77,661,499</u>	<u>102,970,259</u>	<u>63,543,494</u>
Change in net assets	<u>84,336,463</u>	<u>114,563,979</u>	<u>73,195,968</u>
NET ASSETS, beginning of year	<u>231,794,974</u>	<u>117,230,995</u>	<u>44,035,027</u>
NET ASSETS, end of year	<u>\$ 316,131,437</u>	<u>\$ 231,794,974</u>	<u>\$ 117,230,995</u>

Operating Revenues

Passenger Revenue - The 2011 passenger revenues increased 31% or \$166,559 over the prior year. The increase is due to increases in fixed route ridership and enhancements to fixed route schedules. This also includes three (3) months of rail system ridership.

Contract Service - The 2011 contract service revenues increased 6% or \$151,128 over the prior year. The increase is due to the University of North Texas (UNT) contract services which includes a 3% escalation increase. Fuel prices are a pass-through on the contract, the increase in fuel prices over 2010 also impacted the increase in contract revenues. The contract provides bus service for students and faculty.

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Operating Expenses

Operating Expense - The 2011 operating expenses increased 77% or \$8,571,180 over the prior year. The increased operating expense is primarily due to \$5.5 million in purchased transportation for the mobilization costs and operating costs for the start-up of the new commuter rail service. Increase in Materials and Supplies is a result of increase in fuel costs as well as consumption with the addition of the rail vehicles.

The 2011 depreciation expense increased 187% or \$2,047,861 over the prior year. This increase is primarily due to the rail asset project completing during 2011 and being depreciated.

Non-operating Revenue and Expenses

Sales Tax Revenue - The 2011 sales tax revenue increased \$947,287 over 2010. DCTA collects one-half percent sales and use tax in the member cities of Denton, Highland Village, and Lewisville. The Dallas-Fort Worth Metroplex (DFW) has been impacted by the recession and the credit crisis in 2009. However, Texas has fared better than the rest of the country. We saw slow but continued improvement in 2011 as reflected by the increase in sales tax revenue.

Capital Grants - Capital grants revenue decreased \$25,308,760 primarily as a result of revenue recognition of rail capital project expenditures reimbursed from RTRFI funds.

Transit System Operating Assistance Grants - The 2011 federal and state grant revenue increased 61% or \$2,079,253 over 2010. ARRA, the Hebron Park and Ride construction, and purchase of additional buses comprised the major portion of the increase.

Investment Income - The 2011 investment income increased 173% or \$182,112 over 2010 due to a more active investment approach and some improvements in market conditions.

Debt Administration

In June of 2008, DCTA completed its first debt issuance. DCTA issued \$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. This rail project will provide 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 will be due in 2013.

In September of 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 which is currently mandated to be implemented by 2015. These Obligations were issued through a private placement to be repaid over 20 years at an interest rate of 3.13% with the first principal payment due in 2015.

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DCTA Fiscal Year 2011 Budget

The FY2010-2011 budget was adopted September 23, 2010. Amendments to the original budget included an increase in capital projects to recognize the additional requirements of the Positive Train Control System implementation and Ticket Vending Machines for the rail project. Operating revenues were reduced to reflect the delay in start of revenue service for the A-train computer rail project. A new debt issuance for a portion of DCTA's share of the new rail vehicles and for the first phase of the Positive Train Control System closed in September, 2011.

Condensed Statements of Revenues, Expenses, and Changes in Net Assets, Budget Year Ending September 30, 2012 and Financial Year Ending 2011 and 2010

	2012 Budget	2011 Actual	2010 Actual	Increase (Decrease) from 2011	Percent Increase (Decrease) from 2011
Operating revenues	\$ 4,579,674	\$ 3,410,108	\$ 3,038,157	\$ 1,169,566	34%
Operating expenses	<u>25,776,266</u>	<u>19,645,326</u>	<u>11,074,146</u>	<u>6,130,940</u>	<u>31%</u>
Operating loss	(21,196,592)	(16,235,218)	(8,035,989)	(4,961,374)	31%
Non-operating revenues	<u>18,265,613</u>	<u>22,910,182</u>	<u>19,629,709</u>	<u>(4,644,569)</u>	<u>-20%</u>
Income before capital grants	(2,930,979)	6,674,964	11,593,720	(9,605,943)	-144%
Grants for capital improvements	<u>7,482,026</u>	<u>77,661,499</u>	<u>102,970,259</u>	<u>(70,179,473)</u>	<u>-90%</u>
Change in net assets	4,551,047	84,336,463	114,563,979	(79,785,416)	-95%
Net assets, beginning of year	<u>316,131,437</u>	<u>231,794,974</u>	<u>117,230,995</u>	<u>84,336,463</u>	<u>36%</u>
Net assets, end of year	<u>\$ 320,682,484</u>	<u>\$ 316,131,437</u>	<u>\$ 231,794,974</u>	<u>\$ 4,551,047</u>	<u>1%</u>

DCTA Fiscal Year 2012 Budget

Operating revenues show an increase of 34% or \$1,169,566 over 2011 actual results. This reflects an increase in bus fare which was effective October, 2011; service hour rate increase under a new contract negotiated with UNT along with increase in budgeted fuel revenue. The UNT contract, as well as the NCTC contract, provides bus service for students, staff, and faculty. This increase also reflects ridership for the first full year of operations for rail revenue service.

The fiscal year 2012 operating expenses (excluding depreciation) are projected to increase \$4,639,902 over 2011 actual results. Approximately 43% or \$2 million of the increase is due to the start up of new passenger rail service for operating and maintenance costs. The fiscal year 2012 budget anticipates increases in fuel costs. Diesel fuel is budgeted at \$3.75 per gallon in fiscal year 2012. In fiscal year 2011 fuel was budgeted at \$3.25 per gallon. This accounts for the majority of the increase in Materials & Supplies. The most recent price for diesel fuel was \$3.56 per gallon. The fiscal year 2012 budget also anticipates a 10% increase in employee medical benefits over the prior fiscal year.

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Operating expenses also reflect an increase in utilities of \$106,556 due to the addition of the 8,800 square foot Downtown Denton Transit Center as well as the additional utilities required to operate the A-train maintenance facility, rail stations and crossings. Fiscal year 2012 will be the first full year of operation for all of these new assets.

Non-operating revenue, net of expenses, is projected to decrease 74% or \$74,824,066 over 2011 actual results. The decrease in non-operating revenue is due to the planned completion of the rail line construction project. A decrease in revenue of \$71,936,716 reflects the completion of rail project construction. The only portion of RTRFI funds remaining to be drawn down are for the balance of the new rail car purchase. RTRFI funding was received by DCTA to fund 80% of the DCTA A-train regional rail project. Transit System Operating grants to fund various bus operating and capital needs also reflect a decrease of \$1.2 million due to the completion of ARRA funded projects.

The passenger rail capital project represents a significant investment by DCTA and its stakeholders. DCTA will complete this project in mid-2012 with the final acquisition of the new rail cars and the completion of the Rail Operations and Maintenance Facility. In fiscal year 2012, DCTA is projecting to spend \$30.3 million for completion of the A-train project.

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 1660 S. Stemmons Freeway, Suite 250, Lewisville, Texas 75067, by phone at (972) 221-4600, or by electronic mail at info@dcta.net.

BASIC FINANCIAL STATEMENTS

**DENTON COUNTY TRANSPORTATION AUTHORITY
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2011 AND 2010**

ASSETS	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents	\$ 16,757,848	\$ 61,382,373
Restricted cash and cash equivalents	36,996,801	84,921,289
Receivables	4,904,981	4,125,382
Prepaid expenses	248,290	254,336
Total current assets	<u>58,907,920</u>	<u>150,683,380</u>
Noncurrent assets:		
Investments	-	4,999,306
Deferred charges	595,959	719,388
Land and construction in progress	100,962,424	201,562,495
Other capital assets, net of accumulated depreciation/amortization	220,095,089	11,614,894
Total noncurrent assets	<u>321,653,472</u>	<u>218,896,083</u>
TOTAL ASSETS	<u><u>\$ 380,561,392</u></u>	<u><u>\$ 369,579,463</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,788,125	\$ 1,204,440
Construction contracts payable	10,666,924	19,471,879
Retainage payable	6,291,743	11,264,680
Deferred revenue	7,453,163	84,953,490
Easement obligation- current portion	150,000	-
Total current liabilities	<u>27,349,955</u>	<u>116,894,489</u>
Noncurrent liabilities:		
Easement obligation	1,800,000	-
Bonds payable	35,280,000	20,890,000
Total noncurrent liabilities	<u>37,080,000</u>	<u>20,890,000</u>
Total liabilities	<u>64,429,955</u>	<u>137,784,489</u>
NET ASSETS		
Invested in capital assets, net of related debt	300,167,513	192,287,389
Unrestricted	15,963,924	39,507,585
Total net assets	<u>316,131,437</u>	<u>231,794,974</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 380,561,392</u></u>	<u><u>\$ 369,579,463</u></u>

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

**DENTON COUNTY TRANSPORTATION AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	2011	2010
OPERATING REVENUES		
Passenger revenue	\$ 706,497	\$ 539,938
Contract services	2,520,036	2,368,908
Other	183,575	129,311
Total operating revenues	3,410,108	3,038,157
OPERATING EXPENSES		
Salaries, wages and fringe benefits	5,737,446	5,890,580
Services	1,676,866	1,547,342
Materials and supplies	2,308,815	1,674,511
Purchased transportation services	5,537,663	-
Utilities	180,953	74,397
Insurance	297,994	328,109
Facility and equipment rents	596,236	322,041
Other - miscellaneous	168,023	143,697
	16,503,996	9,980,677
Depreciation and amortization	3,141,330	1,093,469
Total operating expenses	19,645,326	11,074,146
NET OPERATING LOSS	(16,235,218)	(8,035,989)
NON-OPERATING REVENUES (EXPENSES)		
Sales tax revenue	17,135,359	16,188,072
Transit system operating assistance grants	5,511,543	3,432,290
Investment income	287,615	105,503
Interest expense	(200,461)	(162,284)
Amortization of bond issuance costs	(7,969)	(89,696)
Trinity Mills design and construction	184,095	194,099
Loss on disposal of assets	-	(38,275)
Total non-operating revenue (expenses)	22,910,182	19,629,709
INCOME BEFORE CAPITAL GRANTS	6,674,964	11,593,720
GRANTS FOR CAPITAL IMPROVEMENTS	77,661,499	102,970,259
Change in net assets	84,336,463	114,563,979
NET ASSETS, beginning of year	231,794,974	117,230,995
NET ASSETS, end of year	\$ 316,131,437	\$ 231,794,974

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

**DENTON COUNTY TRANSPORTATION AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 3,476,477	\$ 2,934,205
Payments to suppliers	(8,606,119)	(4,484,751)
Payments to employees	(5,747,244)	(5,841,725)
	(10,876,886)	(7,392,271)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Sales tax received	17,051,100	15,693,726
Operating grant reimbursements	4,736,321	5,573,444
	21,787,421	21,267,170
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributions and grants for capital improvements	174,685	542,677
Proceeds from debt issuance	14,390,000	-
Acquisition and construction of capital assets	(122,606,360)	(96,491,236)
Trinity Mills design and construction	184,095	(244,912)
Interest paid on bonds	(888,889)	(913,503)
	(108,746,469)	(97,106,974)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	-	(5,000,000)
Interest received on investments	287,615	105,503
Proceeds from sale of investments	4,999,306	-
	5,286,921	(4,894,497)
Net decrease in cash and cash equivalents	(92,549,013)	(88,126,572)
CASH AND CASH EQUIVALENTS, beginning of year	146,303,662	234,430,234
CASH AND CASH EQUIVALENTS, end of year	\$ 53,754,649	\$ 146,303,662

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

**DENTON COUNTY TRANSPORTATION AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010
(CONTINUED)**

	2011	2010
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (16,235,218)	\$ (8,035,989)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization expense	3,141,330	1,093,469
Change in operating assets and liabilities		
Operating accounts receivable	79,882	(114,486)
Prepaid expenses	6,046	42,515
Operating accounts payable	2,180,308	60,703
Accrued payroll and payroll related taxes	(9,798)	48,854
Other accrued liabilities	(25,923)	(497,871)
Deferred revenue	(13,513)	10,534
	\$ (10,876,886)	\$ (7,392,271)
NONCASH INVESTING ACTIVITY		
Bond issuance costs	\$ 85,000	\$ 163,000
Prepayment penalty on bond repurchase	\$ -	\$ 727,000
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS		
Cash and cash equivalents	\$ 16,757,848	\$ 61,382,373
Restricted cash	36,996,801	84,921,289
	\$ 53,754,649	\$ 146,303,662

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

**DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL 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 years ended September 30, 2011 and 2010, 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.

**DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
CONTINUED**

Basis of Accounting – Continued

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 2011 and 2010 are for fiscal years ended September 30, 2011 and 2010.

The Authority has elected not to apply all Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

When both restricted and unrestricted resources are available 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.

**DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
CONTINUED**

Restricted Assets

Restricted assets consist of unspent proceeds from capital grants 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. In 2010, the investments consisted of bonds and were stated at fair value. Realized and unrealized gains and losses are reflected in the statement of revenues, expenses, and changes in net assets.

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 are 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	7-12 years
Paratransit	4-5 years
Transportation equipment	3-5 years
Office equipment	3 years

**DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
CONTINUED**

Capital Assets – Continued

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 restricted assets received from the Texas Department of Transportation for the use of the passenger rail system and to purchase rail vehicles.

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.

Deferred Revenue

The University of North Texas (UNT) and Texas Woman's University (TWU) 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 the Authority recognizes the revenue through straight-line amortization over the respective period. At September 30, 2011 and 2010, the Authority has received \$66,538 and \$32,201 in advance payments respectively.

**DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
CONTINUED**

Deferred Revenue – Continued

In addition, during 2010, the Authority received a grant and advanced funding in the amount of \$250,360,000 from the Texas Department of Transportation for the development of the passenger rail system and to purchase rail vehicles. The Authority recognizes revenue as the funds are spent. At September 30, 2011 and 2010, unspent grant funds plus interest amounted to \$7,386,625 and \$84,921,289, respectively, and are reflected as part of restricted cash and cash equivalents in the statement of net assets.

Net Assets

Equity is displayed in two components as follows:

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

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets."

Operating Revenues

Passenger revenue consists of fare box collections, the sale of passes, and amortization of deferred revenue. Fare box revenue is recorded at the time service is performed. Revenue from the sale of passes is recorded at the time of the sale. Deferred 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 revenue is recorded in the period earned. The Authority provides contract services for UNT, TWU, and the City of Corinth.

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, interest expense, and amortization of bond fees.

**DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
CONTINUED**

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.

Reclassification

Certain 2010 amounts have been reclassified to conform to the 2011 presentation.

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 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 Board of Directors' approval. 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.

**DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3. SERVICE AGREEMENT

On October 1, 2006, 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 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.

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 Fund Balance Reserve to address unanticipated emergencies which may be allocated by the approval of the Board. At September 30, 2011, the Fund Balance Reserve is \$4,079,980.

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

	September 30, 2011	September 30, 2010
Cash and cash equivalents		
Demand deposits	\$ 47,159	\$ 85,696
Sweep repurchase agreements	8,008,738	501,891
Money market account	35,544,272	2,506,527
Certificates of deposit	5,025,759	46,339,126
TexSTAR	5,128,721	96,870,422
Investments		
FNMA Bonds	-	4,999,306
	\$ 53,754,649	\$ 151,302,968
Reconciliation		
Cash and cash equivalents	\$ 16,757,848	\$ 61,382,373
Restricted cash and cash equivalents	36,996,801	84,921,289
Investments	-	4,999,306
	\$ 53,754,649	\$ 151,302,968

**DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4. CASH, CASH EQUIVALENTS, AND INVESTMENTS – CONTINUED

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 twelve months.

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, U.S. Treasury Notes 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 Inter-local 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.

Bonds held by the Authority in 2010 were invested in the Federal National Mortgage Association. The Authority's investments are reported at fair value, and all investments are insured or registered, or the securities are held by the Authority's agent in its name.

NOTE 5. RECEIVABLES

Receivables at September 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Operating		
Ticket, token and other receivables	\$ 538,196	\$ 618,184
Sales tax	3,119,044	3,034,785
Grants receivable	<u>1,247,741</u>	<u>472,413</u>
Total	<u><u>\$ 4,904,981</u></u>	<u><u>\$ 4,125,382</u></u>

**DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6. CAPITAL ASSETS

Changes in capital assets for the fiscal years ended September 30, 2011 and 2010 follow:

	Balance September 30, 2010	Increases	Transfers/ Decreases	Balance September 30, 2011
Capital assets, not being depreciated:				
Land	\$ 16,578,318	\$ 1,252,787	\$ -	17,831,105
Construction in progress	184,984,177	98,210,423	(200,063,281)	83,131,319
Total capital assets not being depreciated	201,562,495	99,463,210	(200,063,281)	100,962,424
Capital assets, being depreciated/amortized				
Rail system	-	-	198,027,776	198,027,776
Land improvements	-	-	2,035,505	2,035,505
Vehicles and operating equipment	9,198,216	2,019,560	-	11,217,776
Leasehold improvements	55,506	-	-	55,506
Office furniture and equipment	147,761	88,685	-	236,446
Easement	7,500,000	9,450,000	-	16,950,000
Total capital assets being depreciated/amortized	16,901,483	11,558,245	200,063,281	228,523,009
Less accumulated depreciation/amortization for				
Rail system	-	1,179,481	-	1,179,481
Land improvements	-	65,092	-	65,092
Vehicles and operating equipment	4,967,532	876,197	-	5,843,729
Leasehold improvements	55,506	-	-	55,506
Office furniture and equipment	138,551	15,561	-	154,112
Easement	125,000	1,005,000	-	1,130,000
Total accumulated depreciation	5,286,589	3,141,331	-	8,427,920
Total capital assets, being depreciated, net	11,614,894	8,416,914	200,063,281	220,095,089
Total capital assets, net	<u>\$ 213,177,389</u>	<u>\$ 107,880,124</u>	<u>\$ -</u>	<u>\$ 321,057,513</u>
	Balance September 30, 2009	Increases	Decreases	Balance September 30, 2010
Capital assets, not being depreciated:				
Land	\$ 14,457,050	\$ 2,121,268	\$ -	\$ 16,578,318
Construction in progress	80,323,353	104,660,824	-	184,984,177
Total capital assets not being depreciated	94,780,403	106,782,092	-	201,562,495
Capital assets, being depreciated/amortized				
Vehicles and operating equipment	9,998,586	339,257	(1,139,627)	9,198,216
Leasehold improvements	55,506	-	-	55,506
Office furniture and equipment	142,434	7,105	(1,778)	147,761
Easement	-	7,500,000	-	7,500,000
Total capital assets being depreciated/amortized	10,196,526	7,846,362	(1,141,405)	16,901,483
Less accumulated depreciation/amortization for				
Vehicles and operating equipment	5,106,277	945,882	(1,084,627)	4,967,532
Leasehold improvements	42,877	12,629	-	55,506
Office furniture and equipment	128,596	9,955	-	138,551
Easement	-	125,000	-	125,000
Total accumulated depreciation	5,277,750	1,093,466	(1,084,627)	5,286,589
Total capital assets, being depreciated, net	4,918,776	6,752,896	(56,778)	11,614,894
Total capital assets, net	<u>\$ 99,699,179</u>	<u>\$ 113,534,988</u>	<u>\$ (56,778)</u>	<u>\$ 213,177,389</u>

Primary capital asset expenditures in 2011 and 2010 relate to the design of the 21-mile rail corridor. See related commitment disclosure in Note 9.

**DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6. CAPITAL ASSETS – CONTINUED

As of October 1, 2009, the Authority adopted GASB Statement 51 *Accounting and Financial Reporting for Intangible Assets*. This Statement provides guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period.

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, 2011, \$15,000,000 had been paid to the Dallas Area Rapid Transit (DART). The remaining payments of \$1,950,000 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 \$1,005,000 and \$125,000 for the years ended September 30, 2011 and 2010, respectively.

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. The Authority presently matches up to a maximum of five percent of the participating employee's salary in a 401(A) plan, with 20% of the Authority's contribution vesting to the employee each year.

During fiscal years 2011 and 2010, employee contributions were \$31,023, or 2.8% of the total payroll, and \$35,122, or 3% of the total payroll, respectively. The Authority's contributions were \$29,080 in 2011 and \$32,106 in 2010, or 3% and 2% of the total payroll for each year, respectively.

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 is being amortized over the remaining life of the 2008 issuance. This amount was financed through the refunding bonds. The Authority has pledged the sales tax revenues towards the repayment of the bonds. Beginning September 15, 2013, principal payments are due in annual installments and continue through September 2029.

**DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8. BONDS PAYABLE – CONTINUED

In September 2011, the Authority issued Sales Tax Contractual Obligations for \$14,390,000. This issuance funds the acquisition of personal property related to the rail project, rail vehicles, and the first phase of the new federal mandate for Positive Train Control. Beginning September 15, 2015, principal payments are due in annual installments and continue through September 2031.

The annual debt service requirements follow:

Fiscal Year Ending September 30,	Principle	Interest	Total
2012	\$ -	\$ 1,283,918	\$ 1,283,918
2013	885,000	1,283,918	2,168,918
2014	920,000	1,248,607	2,168,607
2015	1,510,000	1,211,898	2,721,898
2016	1,580,000	1,156,423	2,736,423
2017 - 2021	8,980,000	4,861,690	13,841,690
2022 - 2026	11,120,000	3,068,352	14,188,352
2027 - 2031	10,285,000	920,379	11,205,379
Total requirements	<u>\$ 35,280,000</u>	<u>\$ 15,035,185</u>	<u>\$ 50,315,185</u>

The following is a summary of changes in bonds payable of the Authority for the year ended September 30, 2011:

Balance at October 1, 2010	\$ 20,890,000
Additions	14,390,000
Reductions	-
Balance at September 30, 2011	<u>\$ 35,280,000</u>

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%.

Total interest capitalized during the years ended September 30, 2011 and 2010 was \$833,511 and \$742,586, respectively.

Amortization of bond issuance costs in the amount of \$7,969 and \$89,696 were recognized for the years ended September 30, 2011 and 2010, respectively. Amortization expense relating to the early repayment penalty was \$200,460 and \$162,284 for the years ended September 30, 2011 and 2010, respectively.

**DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8. BONDS PAYABLE – CONTINUED

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, 2011 and 2010, 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,	Principle
2012	\$ 150,000
2013	150,000
2014	150,000
2015	100,000
2016	100,000
2017 - 2021	500,000
2022 - 2026	500,000
2027 - 2029	300,000
Total requirements	\$ 1,950,000

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) to provide insurance for errors and omission, general liability, workers' compensation, automobile liability, and physical damage coverage. TML was self-sustaining in 2010 based on premiums charged so that total contributions plus earnings on the contributions will be sufficient to satisfy claims and liabilities.

**DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 10. COMMITMENTS AND CONTINGENCIES – CONTINUED

Risk Management – Continued

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.

The Authority has a government crime policy with TML insuring against employee theft up to \$1,000,000 per loss. For the year ended September 30, 2011, the Authority has not incurred any losses under these plans.

Litigation

The Authority has two pending lawsuits. 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, 2011, the Authority has the following outstanding commitments:

Design and construction of Mid-Park extension	\$ 1,000,000
Design and construction of rail line and rail facilities	5,467,277
Purchase of rail cars	23,300,304
Consulting services for implementation of PTC	2,849,111
Operations and Maintenance Agreement with DART	11,718,055
Final design of rail project	1,466,743
Management agreement for bus transit operations	144,358
Engineering and construction of support services for rail and bus	<u>698,853</u>
	<u>\$ 46,644,701</u>

**DENTON COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 10. COMMITMENTS AND CONTINGENCIES – CONTINUED

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 next year. The total lease expense was \$614,515 for 2011 and \$312,888 for 2010. The lease payments by year are as follows:

	<u>2012</u>	<u>Total</u>
Lease commitments		
Transit Management of Denton County operations	\$ 91,614	\$ 91,614
Denton operating facility	103,510	103,510
DART Rail Diesel Cars Lease	<u>737,880</u>	<u>737,880</u>
Total lease commitments	<u>\$ 933,004</u>	<u>\$ 933,004</u>

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.

SUPPLEMENTAL INFORMATION

“The largest hurdle that we as Denton County citizens had was believing in the vision of a few, taking that vision as our dream, providing the leadership and working for funding through a sales tax election from Lewisville, Highland Village and Denton. Our success will continue to be defined by increased use of DCTA services.”

GUY L. MCELROY
City of Denton
2008-2011

PAT HOWELL
City of Corinth
2007-2010

GROWTH

SKIP KALB
Small Cities
2005-Present



**DENTON COUNTY TRANSPORTATION AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES – BUDGET TO ACTUAL
YEAR ENDED SEPTEMBER 30, 2011 WITH COMPARATIVE ACTUAL FOR 2010**

	2011				2010
	Original Budget	Final Budget	Actual	Variance	Actual
OPERATING REVENUES					
Passenger revenue	\$ 978,266	\$ 683,257	\$ 706,497	\$ 23,240	\$ 539,938
Contract services	2,577,439	2,577,439	2,520,036	(57,403)	2,368,908
Other	-	-	183,575	183,575	129,311
	<u>3,555,705</u>	<u>3,260,696</u>	<u>3,410,108</u>	<u>149,412</u>	<u>3,038,157</u>
OPERATING EXPENSES					
Salaries, wages and fringe benefits	6,394,089	6,399,859	5,737,446	662,413	5,890,580
Services	8,966,776	2,158,175	1,676,866	481,309	1,547,342
Materials and supplies	2,018,237	2,469,754	2,308,815	160,939	1,674,511
Purchased transportation services	-	5,215,522	5,537,663	(322,141)	-
Utilities	112,416	183,906	180,953	2,953	74,397
Insurance	361,248	507,915	297,994	209,921	328,109
Facility and equipment rents	892,265	434,118	596,236	(162,118)	322,041
Other - miscellaneous	181,003	178,653	168,023	10,630	143,697
Depreciation and amortization	6,566,380	981,370	3,141,330	(2,159,960)	1,093,469
Total operating expenses	<u>25,492,414</u>	<u>18,529,272</u>	<u>19,645,326</u>	<u>(1,116,054)</u>	<u>11,074,146</u>
Operating loss	<u>(21,936,709)</u>	<u>(15,268,576)</u>	<u>(16,235,218)</u>	<u>(966,642)</u>	<u>(8,035,989)</u>
NON-OPERATING REVENUES (EXPENSES)					
Sales tax revenue	16,050,509	16,417,223	17,135,359	718,136	16,188,072
Transit system operating assistance grants	5,215,334	5,128,604	5,511,543	382,939	3,432,290
Investment income	414,890	192,313	287,615	95,302	105,503
Interest expense	(833,511)	(833,511)	(200,461)	633,050	(162,284)
Amortization of bond issuance costs	-	-	(7,969)	(7,969)	(89,696)
Trinity Mills design and construction	75,661	137,970	184,095	46,125	194,099
Gain (loss) on disposal of assets	-	-	-	-	(38,275)
Total non-operating revenue (expenses)	<u>20,922,883</u>	<u>21,042,599</u>	<u>22,910,182</u>	<u>1,867,583</u>	<u>19,629,709</u>
INCOME BEFORE CAPITAL GRANTS	<u>(1,013,826)</u>	<u>5,774,023</u>	<u>6,674,964</u>	<u>900,941</u>	<u>11,593,720</u>
GRANTS FOR CAPITAL IMPROVEMENTS	<u>60,706,246</u>	<u>77,170,643</u>	<u>77,661,499</u>	<u>490,856</u>	<u>102,970,259</u>
Change in net assets	<u>\$ 59,692,420</u>	<u>\$ 82,944,666</u>	<u>\$ 84,336,463</u>	<u>\$ 1,391,797</u>	<u>\$ 114,563,979</u>

STATISTICAL SECTION

“DCTA with great local government partnerships has developed the core of a County public transportation system that will provide economic, environmental and public mobility benefits for the citizens of Denton County for generations into the future.”

DOUG PEACH
City of Little Elm
2004-Present

“DCTA’s measure of success will be its ability to make a lasting change and help improve the quality of life in Denton County by providing economical transportation alternatives, decreasing traffic congestion and minimizing environmental impacts related to air quality. The existing bus service and the future rail service are steps in that direction.”

THOMAS SMITH
Denton County at Large
2007-Present



COMMUNITY



BILL WALKER
Small Cities
2002-Present

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.

<u>Contents</u>	<u>Page</u>
Financial Trends <i>These schedules contain trend information for the past six years to help the reader understand how the Authority's financial performance and progress have changed over time.</i>	31
Revenue Capacity <i>These schedules contain information to help the reader assess the Authority's most significant local revenue sources.</i>	34
Debt Capacity <i>This schedule presents information to help the reader assess the affordability of the Authority's current level of outstanding debt and the ability to issue additional debt in the future.</i>	37
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment in which the Authority's financial activities take place.</i>	38
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the Authority's financial report relates to the services the Authority provides and the activities it performs.</i>	40

DENTON COUNTY TRANSPORTATION AUTHORITY
CONDENSED STATEMENT OF NET ASSETS
LAST SEVEN YEARS
(accrual basis of accounting)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Net assets							
Invested in capital assets, net of related debt	\$ 2,264,339	\$ 6,183,506	\$ 7,249,758	\$ 3,277,402	\$ 79,699,179	\$ 192,287,389	\$ 300,167,513
Unrestricted	12,640,228	16,622,199	25,352,863	40,757,625	37,531,816	39,507,585	15,963,924
Total net assets	<u>\$ 14,904,567</u>	<u>\$ 22,805,705</u>	<u>\$ 32,602,621</u>	<u>\$ 44,035,027</u>	<u>\$ 117,230,995</u>	<u>\$ 231,794,974</u>	<u>\$ 316,131,437</u>

DENTON COUNTY TRANSPORTATION AUTHORITY
CONDENSED STATEMENT OF CHANGE IN NET ASSETS
LAST SEVEN YEARS
(accrual basis of accounting)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating revenues							
Passenger revenue	\$ 198,391	\$ 199,627	\$ 382,141	\$ 492,282	\$ 514,944	\$ 539,938	\$ 706,497
Contract services	1,408,917	1,644,794	2,033,900	2,234,145	2,086,401	2,368,908	2,520,036
Other	5,297	1,925	1,371	4,460	112,834	129,311	183,575
Total operating revenues	<u>1,612,605</u>	<u>1,846,346</u>	<u>2,417,412</u>	<u>2,730,887</u>	<u>2,714,179</u>	<u>3,038,157</u>	<u>3,410,108</u>
Operating expenses							
Salaries,wages and fringe benefits	296,949	755,780	4,356,664	4,884,853	5,377,646	5,890,580	5,737,446
Services	1,160,717	2,361,773	3,451,095	924,227	1,113,057	1,547,574	1,676,866
Materials and supplies	22,585	73,340	1,404,956	1,844,446	1,383,676	1,674,511	2,308,815
Utilities	6,865	10,471	76,864	68,103	72,712	74,165	180,953
Insurance	2,552	135,434	388,924	445,320	403,328	328,109	297,994
Purchased transportation services	3,707,829	4,075,845	-	-	-	-	5,537,663
Facility and equipment rents	74,717	194,116	319,076	330,926	323,369	322,041	596,236
Other - Miscellaneous	53,733	81,851	143,363	169,971	145,078	143,697	168,047
Depreciation	619,970	914,830	1,379,928	1,402,035	1,039,436	1,093,469	3,141,330
Total operating expenses	<u>5,945,917</u>	<u>8,603,440</u>	<u>11,520,870</u>	<u>10,069,881</u>	<u>9,858,302</u>	<u>11,074,146</u>	<u>19,645,350</u>
Operating loss	(4,333,312)	(6,757,094)	(9,103,458)	(7,338,994)	(7,144,123)	(8,035,989)	(16,235,242)
Non-operating revenues (expenses)							
Sales tax revenue	13,685,028	14,796,379	15,530,585	16,208,354	15,666,457	16,188,072	17,135,359
Enhanced local assistance	(3,421,257)	(3,699,095)	(3,882,646)	(1,067,837)	-	-	-
Capital grants	-	-	-	-	63,543,494	102,970,259	77,661,499
Transit system operating assistance grants	2,339,832	2,808,151	5,932,486	2,916,207	1,756,241	3,432,290	5,511,543
Investment Income	303,992	752,797	1,320,149	1,188,514	335,979	105,503	287,615
Interest expense	-	-	-	(156,267)	-	(162,284)	(200,461)
Amortization of bond issuance costs	-	-	-	(7,567)	(22,700)	(89,696)	(7,969)
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	(2,456)	-	(200)	(10,004)	4,590	(38,275)	24
Total Non-operating revenue	<u>12,905,139</u>	<u>14,658,232</u>	<u>18,900,374</u>	<u>18,771,400</u>	<u>80,340,091</u>	<u>122,599,968</u>	<u>100,571,705</u>
Change in net assets	<u>\$ 8,571,827</u>	<u>\$ 7,901,138</u>	<u>\$ 9,796,916</u>	<u>\$ 11,432,406</u>	<u>\$ 73,195,968</u>	<u>\$ 114,563,979</u>	<u>\$ 84,336,463</u>

**DENTON COUNTY TRANSPORTATION AUTHORITY
CAPITAL ASSETS
LAST SEVEN YEARS**

	2005	2006	2007	2008	2009	2010	2011
Capital assets not being depreciated:							
Land and Improvement	\$ -	\$ -	\$ -	\$ 24,357	\$ 14,457,050	\$ 16,578,318	\$ 17,831,105
Construction in process	-	-	-	7,558,260	80,323,353	184,984,177	83,131,319
Total capital assets not being depreciated	-	-	-	7,582,617	94,780,403	201,562,495	100,962,424
Other Capital Assets being depreciated:							
Rail Assets	-	-	-	-	-	-	198,027,776
Land Improvements	-	-	-	-	-	-	2,035,505
Vehicles and operating equipment	-	-	10,006,819	9,993,781	9,998,586	9,198,216	11,217,776
Leasehold improvements	-	-	39,720	39,720	55,506	55,506	55,506
Office furniture and equipment	-	-	120,860	133,360	142,434	147,761	236,446
Unallocated and Easement	3,179,169	6,803,476	-	-	-	7,500,000	16,950,000
Total other capital assets	3,179,169	6,803,476	10,167,399	10,166,861	10,196,526	16,901,483	228,523,009
Less accumulated depreciation:							
Rail Assets	-	-	-	-	-	-	1,179,481
Land Improvements	-	-	-	-	-	-	65,092
Vehicles and operating equipment	-	-	2,822,601	4,168,141	5,099,410	4,967,532	5,843,729
Leasehold improvements	-	-	17,203	39,720	42,877	55,506	55,506
Office furniture and equipment	-	-	78,018	108,783	135,463	138,551	154,112
Unallocated and Easement	914,830	619,970	-	-	-	125,000	1,130,000
Total accumulated depreciation	914,830	619,970	2,917,822	4,316,644	5,277,750	5,286,589	8,427,920
Total capital assets, net	\$ 2,264,339	\$ 6,183,506	\$ 7,249,577	\$ 13,432,834	\$ 99,699,179	\$ 213,177,389	\$ 321,057,513

**DENTON COUNTY TRANSPORTATION AUTHORITY
REVENUE BY SOURCE
LAST SEVEN YEARS**

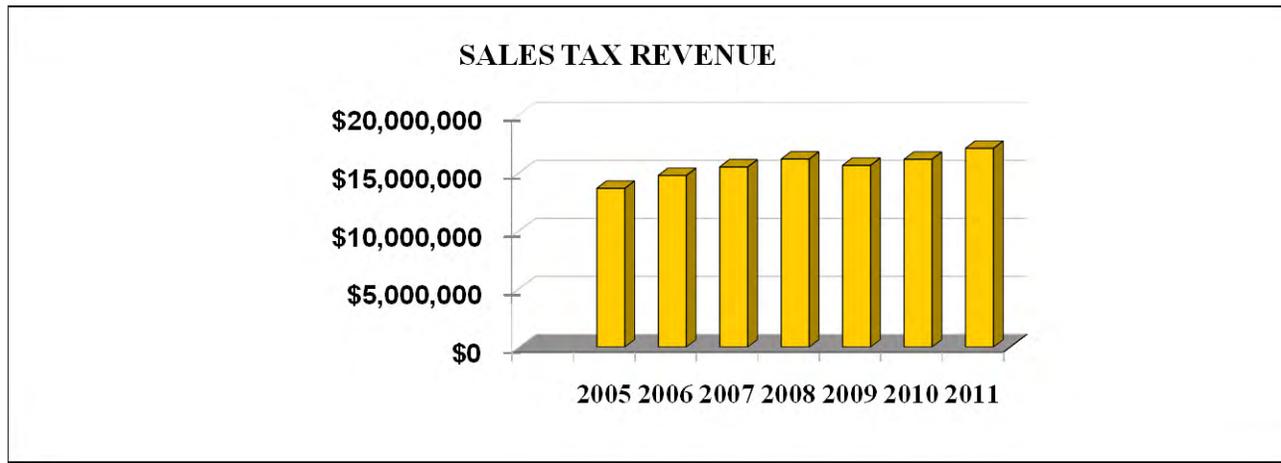
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenue							
Sales tax	\$13,685,028	\$14,796,379	\$15,530,585	\$16,208,354	\$15,666,457	\$16,188,072	\$17,135,359
Passenger revenues	198,391	199,627	382,141	492,282	514,944	539,938	706,497
Contract service revenues	1,408,917	1,644,794	2,035,271	2,238,605	2,199,235	2,498,219	2,703,611
Investment income	303,992	752,797	1,320,149	1,188,514	335,979	105,503	287,615
Grant revenues	2,339,832	2,808,151	5,932,486	2,916,207	64,794,776	106,402,549	83,173,042
Other revenues	5,297	1,925	-	(10,004)	4,590	194,099	184,095
Total revenue	<u>\$17,941,457</u>	<u>\$20,203,673</u>	<u>\$25,200,632</u>	<u>\$23,033,958</u>	<u>\$83,515,981</u>	<u>\$125,928,380</u>	<u>\$104,190,219</u>

**DENTON COUNTY TRANSPORTATION AUTHORITY
SALES TAX REVENUE
LAST SEVEN YEARS**

Fiscal Year	Sales Tax Revenue	Compounded Percent Change from Base Year (¹)	Percent Change from Prior Year
2005	\$ 13,685,028		
2006	\$ 14,796,379	8.1%	8.1%
2007	\$ 15,530,585	13.5%	5.0%
2008	\$ 16,208,354	18.4%	4.4%
2009	\$ 15,666,457	14.5%	-3.3%
2010	\$ 16,188,072	18.3%	3.3%
2011	\$ 17,135,359	25.2%	5.9%
Average Growth			2.9%

Note:

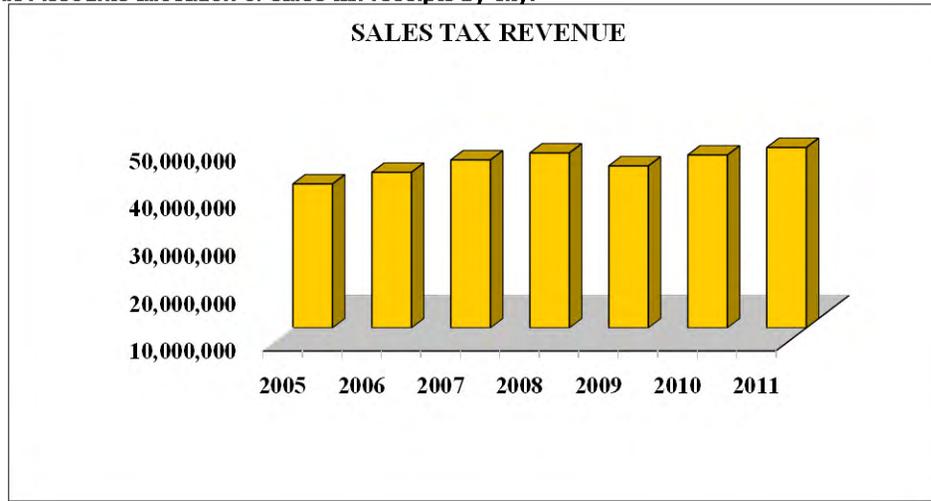
(¹) Base year for 2006 through 2011 is 2005.



**DENTON COUNTY TRANSPORTATION AUTHORITY
SALES TAX ALLOCATION RECEIVED BY MEMBER CITIES
LAST SEVEN YEARS**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
City of Denton	\$ 18,173,139	\$ 19,147,941	\$ 19,814,214	\$ 20,546,338	\$ 19,247,400	\$ 19,946,997	\$ 21,369,439
City of Lewisville	21,460,076	22,713,653	24,026,981	23,516,032	22,104,391	23,685,668	23,616,008
City of Highland Village	627,206	846,604	1,467,009	2,719,056	2,705,699	2,718,127	2,941,989
Total	<u>\$ 40,260,421</u>	<u>\$ 42,708,198</u>	<u>\$ 45,308,204</u>	<u>\$ 46,781,426</u>	<u>\$ 44,057,490</u>	<u>\$ 46,350,792</u>	<u>\$ 47,927,436</u>

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



**DENTON COUNTY TRANSPORTATION AUTHORITY
LONG – TERM DEBT
LAST SEVEN YEARS**

\$20,890,000 - SALES TAX REV REF BONDS, SERIES 2009				\$14,390,000 - CONTRACTUAL OBLIGATIONS, SERIES 2011				TOTAL			
Fiscal Year		Debt		Fiscal Year		Debt		Fiscal Year		Debt	
Ending	Principal	Interest	Service	Ending	Principal	Interest	Service	Ending	Principal	Interest	Service
2012	\$ -	\$ 833,511	\$ 833,511	2012	\$ -	\$ 450,407	\$ 450,407	2012	\$ -	\$ 1,283,918	\$ 1,283,918
2013	885,000	833,511	1,718,511	2013	-	450,407	450,407	2013	885,000	1,283,918	2,168,918
2014	920,000	798,200	1,718,200	2014	-	450,407	450,407	2014	920,000	1,248,607	2,168,607
2015	955,000	761,491	1,716,491	2015	555,000	450,407	1,005,407	2015	1,510,000	1,211,898	2,721,898
2016	995,000	723,387	1,718,387	2016	585,000	433,035	1,018,035	2016	1,580,000	1,156,422	2,736,422
2017	1,030,000	683,687	1,713,687	2017	615,000	414,725	1,029,725	2017	1,645,000	1,098,412	2,743,412
2018	1,075,000	642,589	1,717,589	2018	645,000	395,476	1,040,476	2018	1,720,000	1,038,065	2,758,065
2019	1,115,000	599,697	1,714,697	2019	675,000	375,287	1,050,287	2019	1,790,000	974,984	2,764,984
2020	1,160,000	555,209	1,715,209	2020	710,000	354,160	1,064,160	2020	1,870,000	909,369	2,779,369
2021	1,205,000	508,924	1,713,924	2021	750,000	331,936	1,081,936	2021	1,955,000	840,860	2,795,860
2022	1,255,000	460,845	1,715,845	2022	780,000	308,462	1,088,462	2022	2,035,000	769,307	2,804,307
2023	1,305,000	410,771	1,715,771	2023	820,000	284,047	1,104,047	2023	2,125,000	694,818	2,819,818
2024	1,355,000	358,701	1,713,701	2024	865,000	258,382	1,123,382	2024	2,220,000	617,083	2,837,083
2025	1,410,000	304,636	1,714,636	2025	910,000	231,307	1,141,307	2025	2,320,000	535,943	2,855,943
2026	1,465,000	248,378	1,713,378	2026	955,000	202,824	1,157,824	2026	2,420,000	451,202	2,871,202
2027	1,525,000	189,924	1,714,924	2027	1,000,000	172,932	1,172,932	2027	2,525,000	362,856	2,887,856
2028	1,585,000	129,076	1,714,076	2028	1,050,000	141,633	1,191,633	2028	2,635,000	270,709	2,905,709
2029	1,650,000	65,835	1,715,835	2029	1,105,000	108,767	1,213,767	2029	2,755,000	174,602	2,929,602
2030	-	-	-	2030	1,155,000	74,181	1,229,181	2030	1,155,000	74,181	1,229,181
2031	-	-	-	2031	1,215,000	38,030	1,253,030	2031	1,215,000	38,030	1,253,030
	<u>\$ 20,890,000</u>	<u>\$ 9,108,372</u>	<u>\$ 29,998,372</u>		<u>\$ 14,390,000</u>	<u>\$ 5,926,812</u>	<u>\$ 20,316,812</u>		<u>\$ 35,280,000</u>	<u>\$ 15,035,184</u>	<u>\$ 50,315,184</u>

**DENTON COUNTY TRANSPORTATION AUTHORITY
DEMOGRAPHIC AND ECONOMIC STATISTICS FOR DENTON COUNTY
LAST SEVEN YEARS**

<u>Fiscal Year</u>	<u>Population</u>	<u>Personal Income (in Thousands) ⁽¹⁾</u>	<u>Per Capita Personal Income ⁽¹⁾</u>	<u>Median Age ⁽¹⁾</u>	<u>Education Level in Years of Formal Schooling ⁽¹⁾</u>	<u>School Enrollment ⁽¹⁾</u>	<u>Unemployment Rate ⁽¹⁾</u>
2005	552,600	17,938,501	32,462	32	14	164,982	4.2%
2006	578,500	-	-	-	-	178,444	3.8%
2007	559,350	17,087,583	30,549	32	14	187,564	4.0%
2008	614,650	-	-	-	-	193,381	4.4%
2009	628,300	19,984,338	31,807	31	17	-	7.7%
2010	662,614	20,053,411	30,264	-	-	-	7.1%

Sources:

U.S.Census Bureau
Texas Workforce Commission
Denton County website

Notes:

⁽¹⁾ Certain aspects of the above data has been omitted as the information is not available to DCTA at this time.

**DENTON COUNTY TRANSPORTATION AUTHORITY
PRINCIPAL EMPLOYERS
LAST SEVEN YEARS**

10 Largest Employers	Industry	Rank	Estimated Number of Employees	Percentage of Total Employment
University of North Texas	Education	1	7,762	1.13%
Lewisville Independent School District	Education	2	5,896	0.72%
Denton Independent School District	Education	3	2,948	0.39%
American Airlines Alliance, Fort Worth (Maintenance Base)	Airlines	4	2,105	0.38%
Frito-Lay Inc.	Manufacturing	5	2,000	0.37%
Texas Woman's University, Denton	Education	6	1,586	0.35%
Denton State School, Denton (MHMR Facility)	Education	7	1,500	0.23%
Peterbilt Motors, Denton	Trucking	8	1,500	0.23%
Wal-Mart (Distribution Center)	Grocery retail/Distribution	9	1,500	0.23%
Denton County	County Government	10	1,478	0.20%

Sources: North Central Texas Council of Governments (NCTCOG), various cities and chambers of commerce.

**DENTON COUNTY TRANSPORTATION AUTHORITY
TOTAL EMPLOYEES / CONTRACT OPERATIONS
LAST SEVEN YEARS**

Employee Count	2005	2006	2007	2008	2009	2010	2011
DCTA - Administration	9	19	24	28	24	23	23
Transit Management of Denton County (First Transit)- Contract bus operations	78	100	110	130	135	140	130
Total head count	<u>87</u>	<u>119</u>	<u>134</u>	<u>158</u>	<u>159</u>	<u>163</u>	<u>153</u>

Source: Denton County Transportation Authority and TMDC operations.

Note: Figures represent total head count as of FYE 09-30-2011.

**DENTON COUNTY TRANSPORTATION AUTHORITY
OPERATING STATISTICS
LAST SEVEN YEARS**

	2005	2006	2007	2008	2009	2010	2011
Actual vehicle revenue miles							
Access purchased transportation	-	296,300	250,796	343,414	334,897	335,812	311,987
Connect purchased transportation	-	852,454	1,196,500	1,324,913	1,310,666	1,311,258	1,498,295
Total actual vehicle revenue miles	-	1,148,754	1,447,296	1,668,327	1,645,563	1,647,070	1,810,282
Actual vehicle revenue hours							
Access purchased transportation	-	-	-	22,844	26,204	20,204	18,263
Connect purchased transportation	-	-	-	90,454	94,922	92,955	96,786
Total actual vehicle revenue hours	-	-	-	113,298	121,126	113,159	115,049
Total Annual Unlinked Trips	-	-	-	1,957,864	2,105,994	2,105,994	2,427,902
Annual Passenger Miles							
Access purchased transportation	-	245,025	228,566	343,416	366,784	386,545	278,984
Connect purchased transportation	-	3,253,169	5,390,395	5,936,304	6,386,452	6,386,452	7,179,087
Total Annual Passenger Miles	-	3,498,194	5,618,961	6,279,720	6,753,236	6,772,997	7,458,071
Operating expenses							
Access purchased transportation	\$ 1,112,349	\$ 1,727,696	\$ 754,548	\$ 691,233	\$ 773,936	\$ 962,197	\$ -
Connect purchased transportation	2,595,480	5,766,798	6,416,111	7,139,863	6,301,682	6,784,260	-
Total operating expenses	\$ 3,707,829	\$ 7,494,494	\$ 7,170,659	\$ 7,831,096	\$ 7,075,618	\$ 7,746,457	\$ -

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.

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.

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.

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

