

# Dallas Area Rapid Transit

Financial Statements as of and for the Years Ended  
September 30, 2007 and 2006



## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Dallas Area Rapid Transit

We have audited the accompanying statements of net assets of Dallas Area Rapid Transit ("DART") as of September 30, 2007 and 2006 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of DART's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DART's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 DART at September 30, 2007 and 2006 and the results of its operations and changes in cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of DART's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

*Deloitte & Touche LLP*

January 22, 2008



**DALLAS AREA RAPID TRANSIT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007 and 2006 (Dollars in Thousands)**

The management of Dallas Area Rapid Transit (DART) offers the users of DART's financial statements this narrative overview and analysis of the financial activities for the fiscal years ended September 30, 2007 and 2006. This discussion and analysis is designed to assist the reader to focus on significant financial activities and identify any significant changes in the financial position of DART. It should be read in conjunction with the financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

**FINANCIAL HIGHLIGHTS**

As of September 30, 2007 and 2006, total assets of DART exceeded total liabilities by \$2,093,675 and \$1,976,722 respectively. The amount of unrestricted net assets as of September 30, 2007 was \$454,505 compared to \$384,826 in 2006.

The net assets of DART increased by \$116,953 during the current fiscal year compared to an increase of \$18,214 last year. The increase in the current fiscal year is a result of increases in sales tax, investment income, operating revenues, capital contributions, and grants, net of the increases in operating expenses and a decrease in non-operating expenses. The increase in 2006 is a result of increases in sales tax, investment income and operating revenues, net of the increases in operating expenses and interest and financing expenses.

DART's total debt increased by \$182,182 (14%) during the current fiscal year compared to an increase of \$79,733 (6%) in 2006. The increase in 2007 is due to additional borrowing in the form of sales tax revenue bonds and in 2006 it was due to additional borrowing in the form of commercial paper notes.

Capital contributions from federal and local governments were \$96,980 in 2007 and \$32,405 in 2006. Such contributions were used to finance the construction of light rail projects, and acquisition of light rail vehicles, and equipment.

Federal and state grants and reimbursements were \$40,931 in 2007 compared to \$39,090 in 2006.

For fiscal year 2007, total expenses exceeded total revenues resulting in a loss before capital contribution, grants, and reimbursements of \$20,958 compared to \$53,281 for 2006. The loss in 2007 is less than that of 2006 because of the increase in sales tax, investment income and operating revenues and a decrease in non-operating expenses.

**BASIC FINANCIAL STATEMENTS**

Management's Discussion and Analysis serves as an introduction to DART's basic financial statements. DART's basic financial statements are comprised of four components: statements of net assets; statements of revenues, expenses, and changes in net assets; statements of cash flows; and notes to the financial statements.

The statements of net assets present information on all of DART's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of DART is improving or deteriorating. The statements of net assets are shown on page 12.

The statements of revenues, expenses, and changes in net assets present information on revenues, expenses, capital contributions, and how DART's net assets changed during the two most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues, expenses, and capital contributions are reported in the statements for some items that result only in cash flows in future fiscal periods. The increase or decrease in net assets may serve as an indicator of the effect of DART's current year operation on its financial position. The statements of revenues, expenses, and changes in net assets are shown on page 13 of this report.

The statements of cash flows summarize all of DART's cash flows into four categories: cash flows from operating activities; cash flows from non-capital financing activities; cash flows from capital and related financing activities; and cash flows from investing activities. The statements of cash flows, along with related notes and information in other financial statements, can be used to assess the following: DART's ability to generate positive future cash flows and pay its debt as the debt matures; the reasons for differences between DART's operating cash flows and operating income (loss); and the effect of cash and non-cash investing, capital, and financing activities on DART's financial position. The statements of cash flows are shown on pages 14-15 of this report.

**DALLAS AREA RAPID TRANSIT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007 and 2006 (Dollars in Thousands)**

Notes to the financial statements provide additional information that is essential to fully understand the data provided in the statements of net assets, statements of revenues, expenses, and changes in net assets, and statements of cash flows. The notes to the financial statements are shown on pages 16-32.

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

The financial statements of DART include the accounts and operations of a blended component unit, Regional Rail Right-of-Way Corporation.

**FINANCIAL ANALYSIS**

Statements of Net Assets – Total assets of DART exceeded total liabilities by \$2,093,675 and \$1,976,722 as of September 30, 2007 and 2006, respectively. The largest portion of this excess (78% in 2007 and 80% in 2006) was invested in capital assets, net of related outstanding debt. DART uses these capital assets to provide public transportation services to customers and member jurisdictions; consequently, these assets are not available for future spending. Although DART's investments in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be obtained from other sources such as sales tax, since the capital assets themselves cannot be used to liquidate these liabilities.

**Condensed Summary of Assets, Liabilities, and Net Assets  
(Amounts in thousands)**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current assets	\$690,216	\$576,565	\$527,634
Other non-current assets	450,167	460,353	453,307
Capital assets (net of accumulated depreciation)	<u>2,722,545</u>	<u>2,455,914</u>	<u>2,390,070</u>
Total assets	<u>3,862,928</u>	<u>3,492,832</u>	<u>3,371,011</u>
Current liabilities	443,210	628,251	513,989
Long-term liabilities	<u>1,326,043</u>	<u>887,859</u>	<u>898,514</u>
Total liabilities	<u>1,769,253</u>	<u>1,516,110</u>	<u>1,412,503</u>
Net assets			
Invested in capital assets, net of related debt	1,627,343	1,582,230	1,615,195
Restricted for:			
Debt service	11,827	9,666	9,621
Unrestricted	<u>454,505</u>	<u>384,826</u>	<u>333,692</u>
Total net assets	<u><u>\$2,093,675</u></u>	<u><u>\$1,976,722</u></u>	<u><u>\$1,958,508</u></u>

In 2007, \$11,827 of DART's net assets represented resources that were restricted for debt service compared to \$9,666 in 2006. The remaining balance of net assets other than amounts invested in capital assets, net of related debt, \$454,505 in 2007 and 384,826 in 2006, was unrestricted and available to meet DART's ongoing obligations. The DART Board designated \$62,696 and \$42,968 of the unrestricted net assets for self-insurance and financial reserves in 2007 and 2006, respectively.

The increase in unrestricted net assets of \$69,679 (18%) in 2007 was due to increases in sales tax, investment income, operating revenues, capital contribution and grants, net of the increases in operating expenses. The increase in unrestricted net assets of \$51,134 (15%) in 2006 was due to increases in sales tax, investment income, operating revenues, net of the increases in operating expenses and interest and financing expenses.

**DALLAS AREA RAPID TRANSIT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007 and 2006 (Dollars in Thousands)**

Statements of Revenues, Expenses, and Changes in Net Assets – During fiscal year 2007 DART's activities resulted in an increase in net assets of \$116,953 compared to an increase of \$18,214 in 2006. The increase in net assets during 2007 is due to increases in sales tax, investment income, operating revenues, and grants net of the increases in operating expenses and a decrease in non-operating expenses. The increase in net assets during 2006 is due to increases in sales tax, investment income and operating revenues. The key elements of the changes in net assets for the fiscal years ended September 30, 2007 and 2006 with comparative information for 2005 are shown in the following table.

Summary of Revenues, Expenses, and Changes In Net Assets  
(Amounts in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues			
Passenger revenues	\$ 41,114	\$ 40,799	\$ 37,131
Advertising, rent and other	9,430	9,196	9,096
Total operating revenues	<u>50,544</u>	<u>49,995</u>	<u>46,227</u>
Operating expenses			
Labor	160,209	152,804	151,572
Benefits	54,512	59,659	62,325
Services	27,919	27,511	24,291
Materials and supplies	45,996	47,140	41,451
Purchased transportation	42,411	41,172	38,071
Depreciation	112,965	104,593	106,225
Utilities	10,371	10,623	9,799
Taxes, leases, and other	4,773	4,806	5,478
Casualty and liability	1,778	(1,183)	9,554
Total operating expenses	<u>460,934</u>	<u>447,125</u>	<u>448,766</u>
Operating loss	<u>(410,390)</u>	<u>(397,130)</u>	<u>(402,539)</u>
Non-operating revenues (expenses)			
Sales tax	389,953	358,248	342,670
Investment income	47,506	42,463	32,855
Other non-operating revenues	9,784	8,960	10,822
Interest expense	(52,688)	(52,437)	(52,053)
Street improvements for member cities	(684)	(2,242)	(630)
Other non-operating expenses	(4,439)	(11,143)	(3,958)
Total non-operating revenues (expenses), net	<u>389,432</u>	<u>343,849</u>	<u>329,706</u>
Loss before capital contribution, grants, and reimbursements	<u>(20,958)</u>	<u>(53,281)</u>	<u>(72,833)</u>
Capital contributions	96,980	32,405	39,442
Federal and state grants and reimbursements	40,931	39,090	42,104
Total capital contributions, grants, and reimbursements	<u>137,911</u>	<u>71,495</u>	<u>81,546</u>
Increase (decrease) in net assets	116,953	18,214	8,713
Net assets, beginning of the year	<u>1,976,722</u>	<u>1,958,508</u>	<u>1,949,795</u>
Net assets, end of the year	<u>\$2,093,675</u>	<u>\$1,976,722</u>	<u>\$1,958,508</u>

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

**DALLAS AREA RAPID TRANSIT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007 and 2006 (Dollars in Thousands)**

**REVENUES**

**Passenger Revenues** – Farebox receipts, monthly and annual pass revenue, paratransit revenue, and special event fares are included in passenger revenues. Passenger revenues increased by 1% (\$315) in 2007 compared to a 10% (\$3,668) increase in 2006. The increase in 2007 is due to the increase in bus ridership and more revenue from the annual pass program. The increase in 2006 is due to an increase in ridership.

**Advertising and Rental Income** – Advertising income includes revenues from advertisements at transit stations, on DART buses, and electronic signs on light rail cars. Rental income includes revenue from the rental of buildings and rail corridor properties. Advertising and rental income increased by 3% (\$234) in 2007 compared to an increase of 1% (\$100) in 2006. The increase in both 2007 and 2006 is due to annual rate increases in advertising income.

**Sales Tax** – Sales tax is a dedicated 1% tax imposed on certain items within DART's member jurisdictions or service area. Sales and use tax increased by 9% (\$31,705) in 2007 compared to an increase of 5% (\$15,578) in 2006. The increase in both 2007 and 2006 was due to an improvement in the local economy. The sales tax revenue for 2006 is shown net of a \$13.2 million refund due to the State Comptroller. This is due to overpayments made to DART by the State Comptroller in the past that resulted from overpayments by some tax payers. Sales and use tax revenue constituted approximately 61% and 67% of DART's total revenues in 2007 and 2006, respectively.

**Federal Grants** – Federal grant revenues increased by 5% (\$1,841) in 2007 compared to a decrease of 7% (\$2,835) in 2006. The increase in 2007 is due to more money made available by the Federal Transit Administration (FTA) for preventive maintenance. Most of the decrease in 2006 was due to less money made available by the Federal Transit Administration (FTA) for preventive maintenance. DART received \$198 in 2007 and \$248 in 2006 from the U S Department of Justice for hiring law enforcement (transit police) officers under the Community Oriented Policing Services (COPS) Universal Hiring Award program. DART also received \$630 in 2007 and \$516 in 2006 from the FTA for vanpool and ozone programs.

**Capital Contributions** – Capital Contributions include federal and local contributions. Capital Contributions increased by 199% (\$64,575) in 2007 compared to a decrease of 18% (\$7,037) in 2006. The increase in 2007 is due to the northwest and southeast light rail system expansion work that generated more activity during 2007 compared to 2006. Some of the cost of the rail expansion projects is funded with federal grants. The decrease in 2006 is due to delay in the completion of projects and timing of grant approvals.

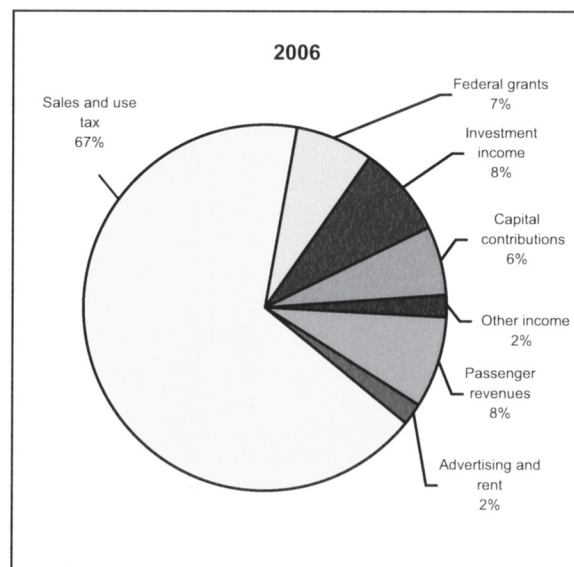
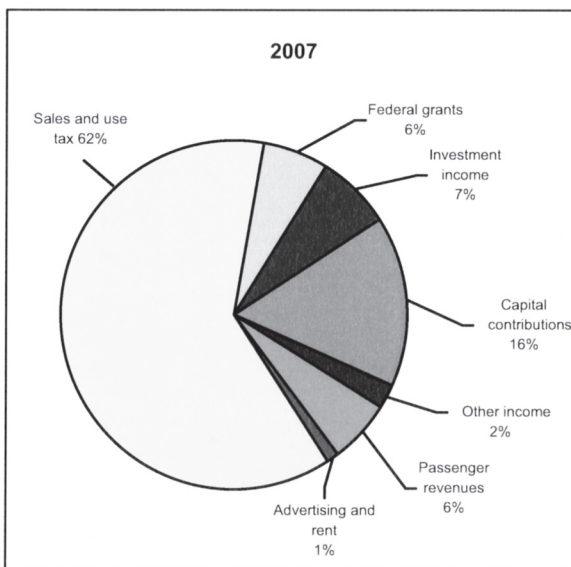
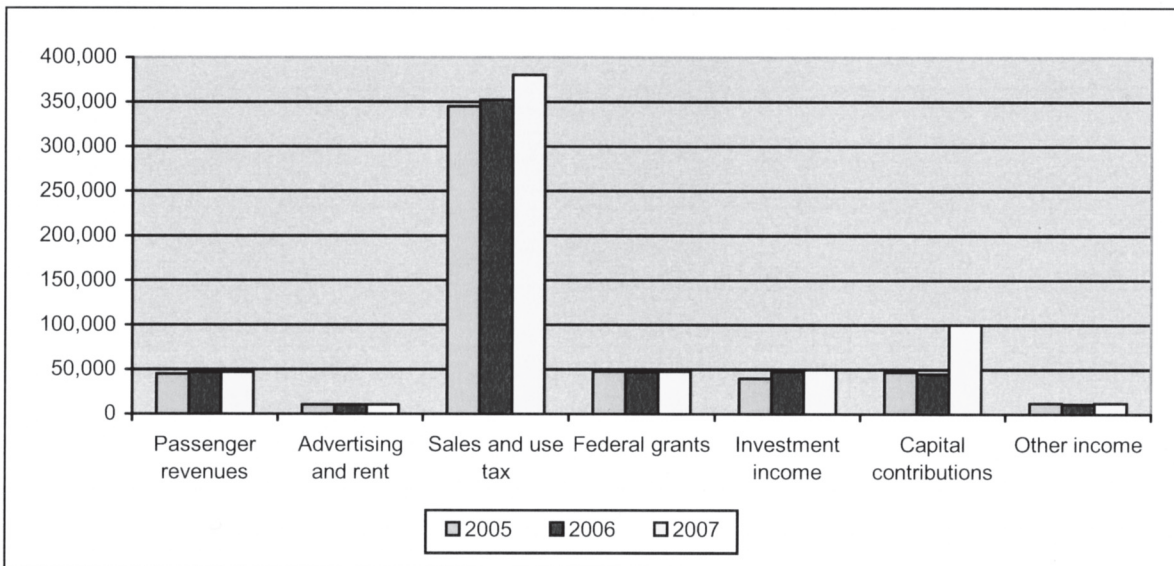
**Investment Income** – Investment income increased by 12% (\$5,043) in 2007 compared to a 29% (\$9,608) increase in 2006. The increases in both 2007 and 2006 were due to an increase in the interest rate and investment balance.

**Other Income** – Other income increased by 9% (\$824) in 2007 compared to a 17% (\$1,862) decrease in 2006. Other income includes receipts from billings to the Fort Worth Transportation Authority (the T) for the T's share of the Trinity Railway Express (TRE) commuter rail service, and toll credits received from the State of Texas as a local match for FTA capital grants. The increase during 2007 is due to the higher amount of toll credits received as a local match. The decrease during 2006 is due to the lower amount of toll credits received as a local match.

**DALLAS AREA RAPID TRANSIT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007 and 2006 (Dollars in Thousands)**

**REVENUES (Amounts in thousands)**

<b>Revenues</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Passenger Revenues	\$ 41,114	\$ 40,799	\$ 37,131
Advertising and Rent	9,430	9,196	9,096
Sales and Use Tax	389,953	358,248	342,670
Federal Grants	40,931	39,090	41,925
State Grants			179
Investment Income	47,506	42,463	32,855
Capital Contributions	96,980	32,405	39,442
Other Income	9,784	8,960	10,822
<b>Total</b>	<b>\$635,698</b>	<b>\$ 531,161</b>	<b>\$ 514,120</b>



**DALLAS AREA RAPID TRANSIT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007 and 2006 (Dollars in Thousands)**

**EXPENSES**

**Labor** – Labor costs increased by 5% (\$7,405) in 2007 compared to 1% (\$1,232) in 2006. Increases in both years are due to a merit raise given to employees and vacant positions filled during 2007 and 2006.

**Benefits** – Fringe benefits decreased by 9% (\$5,147) in 2007 compared to a decrease of 4% (\$2,666) in 2006. The decrease in 2007 is due to lower than expected healthcare claim payments as a result of changes made to the benefits. The decrease in 2006 is due to lower than expected workers compensation claim payments.

**Services** – Services include contracted services; among these are security services; vehicle, equipment and right-of-way maintenance services; advertising and marketing services; computer and communication services; and legal, governmental, and environmental services. Services increased by 1% (\$408) in 2007 compared to an increase of 13% (\$3,220) in 2006. The increase in 2007 is due to an increase in healthcare administrative service, vehicle maintenance service and software license and maintenance service costs. The increase in 2006 is due to an increase in legal service fees, and right-of-way maintenance and repair costs for those commuter rail line segments that have been in service for a long time.

**Materials and Supplies** – Materials and supplies include the cost of fuel, parts, and supplies used to operate and maintain vehicles, equipment, and facilities. Materials and supplies expenses decreased by 2% (\$1,144) in 2007 compared to an increase of 14% (\$5,689) in 2006. The decrease in 2007 is mainly due to decrease in the cost of fuel. The increase in 2006 is due to increase in the cost of fuel and parts needed to maintain rail facilities.

**Purchased Transportation** – Purchased transportation represents the costs of contracted transportation services such as commuter rail, paratransit, DART on-call, and shuttle services. Purchased transportation expenses increased by 3% (\$1,239) in 2007 compared to an 8% (\$3,101) increase in 2006. The increase in 2007 is due to rate increases for commuter rail, paratransit and shuttle services. The increase in 2006 is due to increase in fuel costs and an increase in paratransit service hours.

**Depreciation** – Depreciation expenses increased by 8% (\$8,372) in 2007 compared to a 2% (\$1,632) decrease in 2006. The increase in 2007 is due to new light rail vehicles placed in service during the current year. The decrease in 2006 is due to office equipment that became fully depreciated.

**Utilities** – Utilities represent the cost of electricity, telecommunications, water and sewer, and natural gas. Utilities decreased by 2% (\$252) in 2007 compared to an increase of 8% (\$824) in 2006. The decrease in 2007 is due to decrease in water and natural gas expenses. The increase in 2006 is due to an increase in the costs of electricity and natural gas as a result of increased fuel prices.

**Taxes, leases, and other** – Taxes, leases, and other represent fuel and lube taxes, rental of equipment, lease of operating and passenger facilities, training, travel, business meetings, membership dues and subscriptions, and employee programs. Taxes, leases, and other expenses decreased by 1% (\$33) in 2007 compared to a decrease of 12% (\$672) in 2006. The decrease in 2007 is mainly due to a passenger facility that DART no longer leases. The decrease in 2006 is due to a lower amount spent on training, travel, business meetings and lease and rentals.

**DALLAS AREA RAPID TRANSIT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007 and 2006 (Dollars in Thousands)**

**Casualty and liability** – Casualty and liability expenses increased by 250% (\$2,961) in 2007 compared to a decrease of 112% (\$10,737) in 2006. The increase in 2007 is due to higher than anticipated claim losses. The decrease in 2006 is due to lower than anticipated claim losses.

**Street improvements for member cities** – Local assistance is provided to eligible member jurisdictions in the form of technical and financial assistance to reduce traffic congestion and complement bus and public transit operations. The street improvement program costs decreased by 69% (\$1,558) in 2007 compared to an increase of 256% (\$1,612) in 2006. The decrease in 2007 is due to the timing of project expenditures.

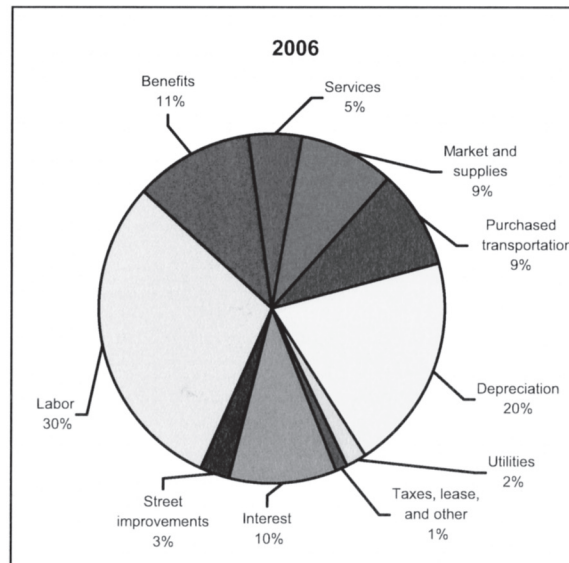
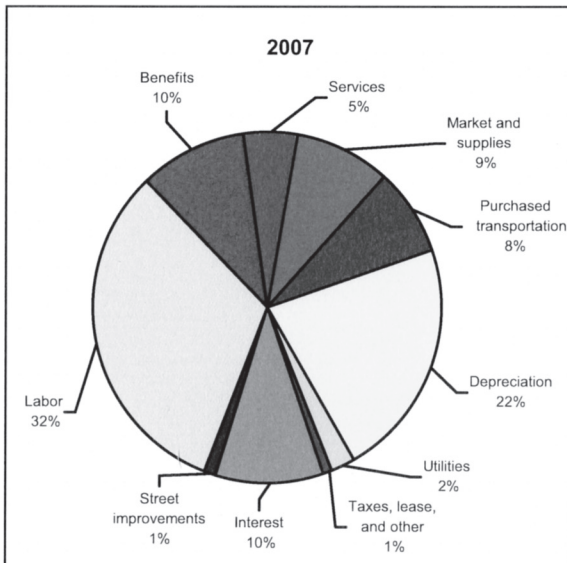
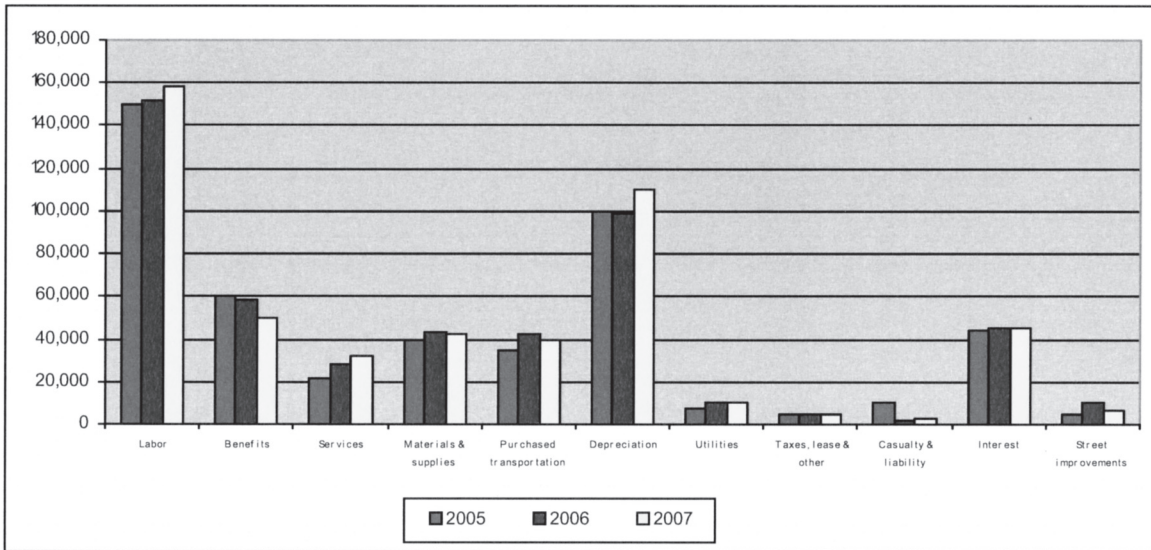
**Interest** – Interest expenses increased slightly by 0.5% (\$251) in 2007 compared to an increase of 1% (\$384) in 2006. In 2007, interest expense increased by a lesser amount than 2006 because of more interest capitalization due to an increase in amounts spent on capital projects. The increase in 2006 is due to the increase in the interest rate for commercial paper notes and additional borrowing in the form of commercial paper.

**Other non-operating expenses** – Other non-operating expenses decreased by 60% (\$6,704) in 2007 compared to an increase of 182% (\$7,185) in 2006. The increase in 2006 is due to abandoned design costs on a capital project that was written off in 2006 and impairment of certain capital assets. No such events occurred in 2007 which explains the decrease in other non-operating expenses in 2007.

**DALLAS AREA RAPID TRANSIT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007 and 2006 (Dollars in Thousands)**

**EXPENSES BY OBJECT CLASS (Amounts in thousands)**

<u>Expenses</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Labor	\$ 160,209	\$ 152,804	\$ 151,572
Benefits	54,512	59,659	62,325
Services	27,919	27,511	24,291
Materials and Supplies	45,996	47,140	41,451
Purchased Transportation	42,411	41,172	38,071
Depreciation	112,965	104,593	106,225
Utilities	10,371	10,623	9,799
Taxes, Leases and Other	4,773	4,806	5,478
Casualty and Liability	1,778	(1,183)	9,554
Street improvements for member cities	684	2,242	630
Interest and financing expenses	52,688	52,437	52,053
Other non-operating expense	4,439	11,143	3,958
<b>Total</b>	<b>\$ 518,745</b>	<b>\$ 512,947</b>	<b>\$ 505,407</b>

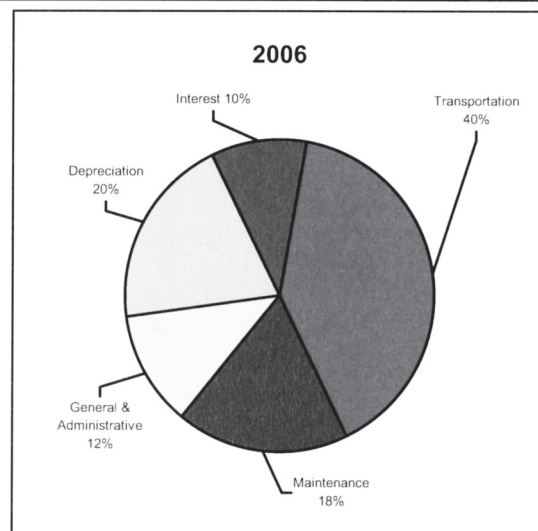
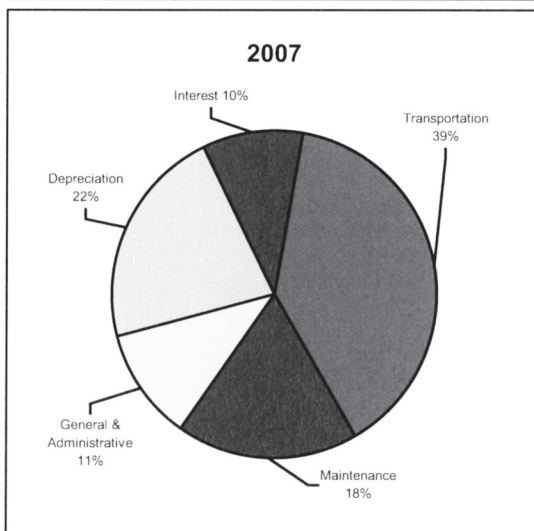
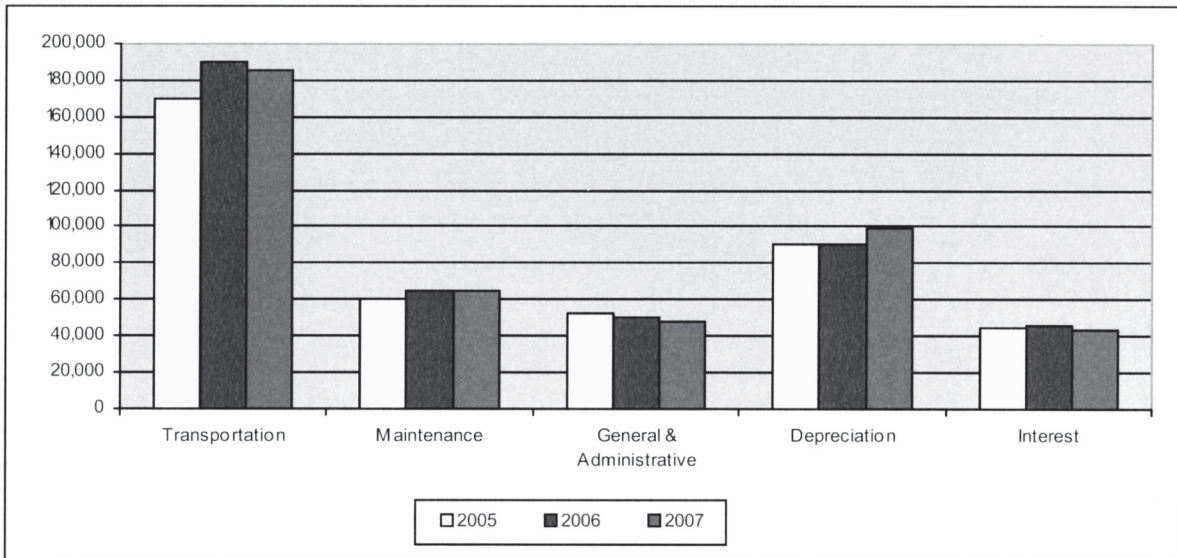


**DALLAS AREA RAPID TRANSIT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Expenses by function** – *Transportation* – includes expenses that are directly related to the operation of bus, light rail, commuter rail, vanpool, paratransit, high occupancy vehicle (HOV) lanes, DART on-call and shuttle services. Such expenses include wages for operators, transit center service employees, transportation supervisors and managers, transit police, fringe benefits, cost of fuel, tires and tubes, propulsion power, purchased transportation, customer service, revenue collection, and other related costs. *Maintenance* – includes labor costs for vehicle and facility maintenance, fringe benefits, parts and inventory, utilities, and all other costs incurred for maintenance purposes. *General and Administration* – includes administrative personnel costs; fringe benefits; accident, general liability and contract claims; local assistance to member jurisdictions; street improvement costs; and other related costs. *Depreciation* – includes depreciation expense on all depreciable capital assets. *Interest* – includes interest expense incurred on debt net of capitalized interest.

**EXPENSES BY FUNCTION (Amounts in thousands)**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Transportation	\$ 199,858	\$ 201,239	\$ 190,856
Maintenance	94,040	92,478	89,627
General and Administration	59,194	62,200	66,646
Depreciation	112,965	104,593	106,225
Interest	52,688	52,437	52,053
<b>Total</b>	<b><u>\$518,745</u></b>	<b><u>\$ 512,947</u></b>	<b><u>\$ 505,407</u></b>



**DALLAS AREA RAPID TRANSIT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007 and 2006 (Dollars in Thousands)**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital assets – Investment in capital assets includes: land and rights-of-way; transitways; buildings and improvements; revenue and non-revenue vehicles; equipment; and furniture, fixtures, and leasehold improvements. DART's investment in capital assets as of September 30, 2007, is \$2,722,545 compared to \$2,455,914 in 2006. The net increase in capital assets during the current year is \$266,631 (11%) compared to an increase of \$65,844 (3%) in 2006.

The increases during 2007 and 2006 are due to the cost of planning, design and construction for the Light Rail Transit (LRT) Phase II build-out. The Phase II build-out consists of approximately 47 miles of light rail transit lines. These new lines will extend northwest from Downtown Dallas to the cities of Carrollton, Farmers Branch, and Irving and southeast from Downtown Dallas to Buckner Blvd. in South Dallas and northeast from the Downtown Garland Station to the Rowlett Park-and-Ride.

The following table summarizes capital assets net of depreciation as of September 30, 2007 and 2006 with comparative information for 2005.

	Capital Assets (Net of Depreciation)		
	(In Thousands)		
	2007	2006	2005
Land and rights-of-way	\$ 388,000	\$ 387,009	\$ 387,010
Transitways	1,011,864	1,059,879	1,083,352
Buildings and improvements	193,981	206,213	220,953
Buses, rail cars, service vehicles and equipment	381,690	331,478	367,368
Furniture, fixtures, and leasehold improvements	1,839	1,683	2,917
Projects in progress	745,171	469,652	328,470
<b>Total</b>	<b>\$2,722,545</b>	<b>\$2,455,914</b>	<b>\$2,390,070</b>

Additional information on DART's capital assets is shown in note 6 on pages 23-24.

Outstanding debt – Outstanding debt includes sales tax revenue commercial paper notes, sales tax revenue bonds, and capital lease/leaseback liabilities. As of September 30, 2007, DART had total outstanding debt of \$1,523,602 compared to \$1,341,420 as of September 30, 2006. Outstanding debt increased by 14% (\$182,182) in 2007 compared to a 6% (\$79,733) increase in 2006.

The sales tax revenue commercial paper notes were \$180,000 and \$415,645 as of September 30, 2007 and 2006, respectively. The decrease of 57% (\$235,645) in 2007 was due to payoff at maturity date of outstanding commercial paper notes with the proceeds from sales tax revenue bonds issued in March 2007. The 40% (\$118,400) increase in 2006 in commercial paper borrowing was to finance capital projects. The commercial paper notes were issued as a senior subordinate lien to sales tax revenues and are payable from the 1% sales and use tax receipts.

Sales tax revenue bonds outstanding were \$909,865 as of September 30, 2007 and \$478,650 as of September 30, 2006. These are senior lien bonds secured by and payable from the 1% sales and use tax receipts. The increase of \$431,215 in 2007 is due to the new sales tax revenue bonds issued in March 2007. These bonds were issued to pay off outstanding commercial paper notes and some of the Series 2001 and 2002 sales tax revenue bonds. The decrease of \$10,470 in 2006 was due to principal payments in December 2005.

Capital lease/leaseback liabilities were \$433,737 and \$447,125 as of September 30, 2007 and 2006, respectively. The decreases in capital lease/leaseback liabilities in both 2007 and 2006 are due to lease payments made. Funds held in long-term investments are adequate to pay the capital lease/leaseback liability amounts as they become due.

**DALLAS AREA RAPID TRANSIT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007 and 2006 (Dollars in Thousands)**

The following table summarizes DART's total outstanding debt.

	Outstanding Debt (In Thousands)		
	2007	2006	2005
Sales tax revenue commercial paper notes	\$ 180,000	\$ 415,645	\$ 297,245
Sales tax revenue bonds	909,865	478,650	489,120
Capital lease/leaseback liabilities	433,737	447,125	475,322
Total debt	<u>\$1,523,602</u>	<u>\$1,341,420</u>	<u>\$1,261,687</u>

The above revenue bonds are shown net of original issuance premium, discount and refunding gain (loss) of \$33,997 and (\$2,931) as of September 30, 2007 and 2006, respectively, on the statement of net assets.

DART maintains a AAA credit rating from Fitch and Standard & Poors, and a Aaa from Moody's for its insured bonds; and a AA credit rating from Fitch and Standard & Poors, and a Aa3 from Moody's for its uninsured bonds. Additional information on DART's outstanding debt is shown in footnotes 10-13.

#### ECONOMIC OUTLOOK

Sales tax is the largest source of revenue for DART, representing 62% and 67% of total revenues in 2007 and 2006, respectively. Sales tax revenues are affected by the changes in the local economy. For the last two fiscal years DART's sales tax revenues showed continued improvement consistent with the local economy. The sales tax budget for 2008 is \$403.7 million compared to \$384.5 million for 2007. This represents a 5% increase from 2007 budget. Actual sales tax revenues in 2007 were \$390.0 million compared to \$371.4 million in 2006. The net sales tax revenue of \$358.2 million for 2006 reported in the statement of revenues, expenses, and changes in net assets is shown net of \$13.2 million adjustment for repayments due to the State Comptroller.

Increases in expenditures are expected in the future years due to expansion of DART's light rail system. DART will be issuing additional long-term debt as necessary to support the expansion efforts.

#### REQUESTS FOR INFORMATION

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

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

September 30, 2007 and 2006 (Dollars in Thousands)

	2007	2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 122,858	\$ 77,249
Investments	386,981	347,526
Restricted investments held by trustee for debt service	28,145	19,344
Investments held to pay capital lease/leaseback liabilities	49,411	36,525
Sales tax receivable	67,020	64,768
Transit revenue receivable, net	2,367	2,070
Due from federal and other governments	6,448	1,956
Materials and supplies inventory	23,562	22,773
Prepaid transit expense and other	3,424	4,354
<b>TOTAL CURRENT ASSETS</b>	<b>690,216</b>	<b>576,565</b>
<b>NONCURRENT ASSETS</b>		
Note receivable	3,208	3,112
Investments restricted for system expansion and acquisition	40,979	29,460
Investment in joint venture	9,158	9,654
Capital assets		
Land and rights-of-way	388,000	387,009
Depreciable capital assets, net of depreciation	1,589,374	1,599,253
Projects in progress	745,171	469,652
Long-term investments held to pay capital lease/leaseback liabilities	384,326	410,600
Net pension asset	4,063	3,716
Unamortized bond issue costs and other	8,433	3,811
<b>TOTAL NONCURRENT ASSETS</b>	<b>3,172,712</b>	<b>2,916,267</b>
<b>TOTAL ASSETS</b>	<b>3,862,928</b>	<b>3,492,832</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	133,928	107,089
Commercial paper notes payable	180,000	415,645
Current portion of capital lease/leaseback liabilities	49,411	36,525
Current portion of amount due to State Comptroller	824	824
Local Assistance Program payable	19,213	21,684
Retainage payable	20,507	15,773
Other liabilities	9,329	10,213
Accrued interest payable from restricted assets	16,318	9,678
Current portion of senior lien sales tax revenue bonds payable	13,680	10,820
<b>TOTAL CURRENT LIABILITIES</b>	<b>443,210</b>	<b>628,251</b>
<b>NONCURRENT LIABILITIES</b>		
Repayment due to State Comptroller	11,536	12,360
Senior lien sales tax revenue bonds payable	930,181	464,899
Capital lease/leaseback liabilities	384,326	410,600
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>1,326,043</b>	<b>887,859</b>
<b>TOTAL LIABILITIES</b>	<b>1,769,253</b>	<b>1,516,110</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	1,627,343	1,582,230
Restricted for:		
Debt service	11,827	9,666
Unrestricted	454,505	384,826
<b>TOTAL NET ASSETS</b>	<b>\$2,093,675</b>	<b>\$1,976,722</b>

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

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

For the Years Ended September 30, 2007 and 2006 (Dollars in Thousands)

	2007	2006
<b>OPERATING REVENUES</b>		
Passenger revenues	\$ 41,114	\$ 40,799
Advertising, rent, and other	9,430	9,196
<b>TOTAL OPERATING REVENUES</b>	<u>50,544</u>	<u>49,995</u>
<b>OPERATING EXPENSES</b>		
Labor	160,209	152,804
Benefits	54,512	59,659
Services	27,919	27,511
Materials and supplies	45,996	47,140
Purchased transportation	42,411	41,172
Depreciation and amortization	112,965	104,593
Utilities	10,371	10,623
Taxes, leases, and other	4,773	4,806
Casualty and liability	1,778	(1,183)
<b>TOTAL OPERATING EXPENSES</b>	<u>460,934</u>	<u>447,125</u>
<b>NET OPERATING LOSS</b>	<u>(410,390)</u>	<u>(397,130)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Sales tax revenue	389,953	371,432
Less: Repayment due to the State Comptroller		(13,184)
Net sales tax revenue	<u>389,953</u>	<u>358,248</u>
Investment income	24,368	18,314
Interest income from investments held to pay capital lease/leaseback	23,138	24,149
Interest expense on capital lease/leaseback	(23,138)	(24,149)
Street improvements for member cities	(684)	(2,242)
Interest and financing expenses	(29,550)	(28,288)
Other non-operating revenues	9,784	8,960
Other non-operating expenses	(4,439)	(11,143)
<b>NET NON-OPERATING REVENUES</b>	<u>389,432</u>	<u>343,849</u>
<b>(LOSS) BEFORE CAPITAL CONTRIBUTIONS, GRANTS, AND REIMBURSEMENTS</b>	<u>(20,958)</u>	<u>(53,281)</u>
<b>CAPITAL CONTRIBUTIONS, GRANTS, AND REIMBURSEMENTS</b>		
Federal capital contributions	96,980	30,405
Local capital contributions		2,000
Total capital contributions	<u>96,980</u>	<u>32,405</u>
Federal grants and reimbursements	40,931	39,090
<b>TOTAL CAPITAL CONTRIBUTIONS, GRANTS, AND REIMBURSEMENTS</b>	<u>137,911</u>	<u>71,495</u>
<b>CHANGE IN NET ASSETS</b>	116,953	18,214
<b>TOTAL NET ASSETS – BEGINNING OF YEAR</b>	<u>1,976,722</u>	<u>1,958,508</u>
<b>TOTAL NET ASSETS – END OF YEAR</b>	<u><u>\$2,093,675</u></u>	<u><u>\$1,976,722</u></u>

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

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

For the Years Ended September 30, 2007 and 2006 (Dollars in Thousands)

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 50,247	\$ 49,655
Payments to suppliers of goods and services	(71,379)	(82,967)
Payments to purchased transportation service providers	(50,615)	(42,755)
Payments to employees	(161,125)	(151,848)
Benefit payments on behalf of employees	(52,999)	(61,052)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>(285,871)</u>	<u>(288,967)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Sales tax proceeds	386,877	366,128
Federal grants and reimbursements	40,936	39,088
Other non-operating receipts	6,663	8,249
Other non-operating payments	(2,219)	(8,558)
Local Assistance Program and street improvements	(3,155)	(7,425)
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<u>429,102</u>	<u>397,482</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	23,368	15,276
Proceeds from sales and maturity of investments	716,460	445,335
Purchase of investments	(754,738)	(459,732)
Increase in restricted assets	(20,320)	(17,032)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(35,230)</u>	<u>(16,153)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(364,355)	(163,015)
Proceeds from the issuance of commercial paper notes	240,000	130,000
Payment on commercial paper notes	(475,645)	(11,600)
Proceeds from the issuance of sales tax revenue bonds	822,514	
Payments for advance refunding of sales tax revenue bonds	(344,547)	
Principal payment on sales tax revenue bonds	(10,820)	(10,470)
Interest and financing expenses	(18,863)	(27,834)
Payment for debt issuance costs	(7,246)	
Federal capital contributions	96,570	30,405
Proceeds from the sale of capital assets		614
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(62,392)</u>	<u>(51,900)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	45,609	40,462
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>77,249</u>	<u>36,787</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 122,858</u>	<u>\$ 77,249</u>

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

(Continued)

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

For the Years Ended September 30, 2007 and 2006 (Dollars in Thousands)

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating loss	\$(410,390)	\$(397,130)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation	112,965	104,593
Changes in assets and liabilities		
Increase in transit receivable	(297)	(341)
Increase in materials and supplies inventory	(789)	(121)
(Increase) decrease in prepaid expenses and other current assets	229	(630)
Decrease in pension assets	(347)	(332)
Increase in accounts payable and accrued liabilities	13,353	2,973
Increase (decrease) in other current liabilities	(595)	2,021
NET CASH USED BY OPERATING ACTIVITIES	<u>\$(285,871)</u>	<u>\$(288,967)</u>
NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Interest income from investments held to pay capital lease/leaseback	\$23,138	\$24,149
Interest expense on capital lease/leaseback	(23,138)	(24,149)
Payment of capital lease/leaseback obligation by trustee	(36,525)	(52,346)
Increase (decrease) in fair value of investments	1,686	(1,557)
Amortization of premium, discount and debt issuance costs	(553)	(382)

(Concluded)

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

**DALLAS AREA RAPID TRANSIT  
NOTES TO FINANCIAL STATEMENTS**

September 30, 2007 and 2006 (Dollars in Thousands)

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1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Amendments to DART's enabling legislation require approval of the Texas State Legislature, which holds its regular session every two years. Past legislative changes limited the term of debt issued by DART without voter approval, allowed the issuance of lease/leaseback transactions (see note 10), and changed the collection period of sales taxes from quarterly to monthly. Future changes to DART's enabling legislation could have a material impact on DART's financial position. The next session of the State Legislature is scheduled to begin in January 2009.

On August 12, 2000, the voters of the DART service area passed a referendum that allows DART to issue up to \$2.9 billion of bonds or notes that are payable from and secured by the DART sales and use tax, have maturities beyond five years, and are issued pursuant to the authority granted at the election. On August 9, 2001, DART issued \$400 million of the authorized \$2.9 billion bonds. On September 10, 2002, \$98.7 million of the authorized bonds were issued. On March 8, 2007, an additional \$770.3 million of the authorized bonds were issued. From the \$770.3 million \$317.7 million was issued to refund part of the 2001 and 2002 bonds. The remaining \$452.6 million was issued to pay-off commercial paper notes (see note 12 and 13).

DART received approximately \$389,953 in 2007 from a 1% sales tax imposed on certain items within its member jurisdictions compared to \$371,432 in 2006. These revenues constituted approximately 61% and 67% of DART's total revenues for fiscal years 2007 and 2006, respectively. In both 2007 and 2006, approximately 51%, 15%, and 11% of these sales tax revenues were collected from sales in the cities of Dallas, Plano, and Irving, respectively.

**Basis of Accounting** – The activities of DART are similar to those of proprietary funds of other local governments and therefore are reported as an enterprise fund in accordance with governmental accounting and financial reporting principles issued by the Governmental Accounting Standards Board (GASB). Accordingly, transactions are accounted for using the accrual basis of accounting. Under Alternative 1 of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, DART has elected to apply all standards issued on or before November 30, 1989, by the Financial Accounting Standards Board (FASB), except when they contradict GASB standards.

**Presentation** – All dollar amounts, unless otherwise noted, are in thousands. Years 2007 and 2006 are fiscal years unless otherwise noted. The amortization method for debt issuance costs of the Series 2001 and 2002 sales tax revenue bonds was changed from the straight-line method to the effective interest method. The change was made for consistency with the method used to amortize the premium and discount on these debts. The effect of this change is immaterial.

**Reporting Entity** – DART has a blended component unit, Regional Rail Right-of-Way Corporation (RRRC). RRRC is a legally separate corporation, which was formed to facilitate the acquisition of certain properties and right-of-way for DART. Because RRRC directly benefits DART, GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*, requires that DART use the blending method to incorporate the financial information of RRRC into DART's financial statements. The accompanying financial statements include the accounts and operations of RRRC. All significant intercompany balances have been eliminated. Internally prepared financial statements for Regional Rail Right-of-Way Corporation may be obtained by contacting the Chief Financial Officer at Dallas Area Rapid Transit, 1401 Pacific Avenue, P.O. Box 660163, Dallas, TX 75266-7220.

**Cash and Cash Equivalents** – DART considers investments with original maturities of less than 90 days to be cash equivalents. Cash and cash equivalents were \$122,858 and \$77,249 as of September 30, 2007 and 2006, respectively.

**DALLAS AREA RAPID TRANSIT  
NOTES TO FINANCIAL STATEMENTS**

September 30, 2007 and 2006 (Dollars in Thousands)

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Investments – The investment balances at September 30, 2007 and 2006 are stated at fair value. Fair value is the amount at which an investment may be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. DART considers quoted market prices at September 30, 2007 and 2006, as the equivalent of the fair value of investments.

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

Capital Assets – Capital assets are assets with an initial, individual cost of more than five thousand dollars (\$5,000) and an estimated useful life in excess of one year. Such assets are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets as indicated in note 6. Major improvements to buildings and equipment are capitalized. Maintenance and repairs are charged to expense as incurred. Improvements and betterments that extend the useful lives of capital assets are capitalized. Transit system development costs for services such as project-related design, construction, construction management, and project management costs are capitalized when incurred. Interest expense incurred during the construction phase of a capital asset is capitalized. In 2007, total interest expense of \$44,839 was incurred, and \$15,289 of this total was capitalized. In 2006, total interest expense of \$37,132 was incurred, and \$8,844 of this total was capitalized. Donated assets are capitalized at estimated fair value on date of donation.

Federal and State Grants – Grant funds used for the acquisition of property and equipment are recorded as revenues when the related grant eligibility requirements are met and qualified expenditures are incurred. DART received \$96,980 in federal capital contributions during the year ended September 30, 2007. Of this total, \$8,451 was based on capital expenditures made in a prior year. This amount is included in Federal Capital Contributions on the Statements of Revenues, Expenses and Changes in Net Assets for the fiscal year ended September 30, 2007.

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

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

Operating expenses are incurred for activities related to providing public transportation services to DART customers. Such activities include transportation, maintenance, transit police, and general and administrative functions. Non-operating expenses include interest and financing costs and the local assistance provided to eligible member jurisdictions.

Revenue Recognition – Operating revenues are recognized when transit service is provided. Monthly tickets and passes are sold for revenue service, including bus and rail operations. An estimate of unused tickets and passes is recorded as deferred transit revenue and is included in the Other Current Liabilities line item in the accompanying statements of net assets.

Sales Tax Revenues – Sales tax revenues are recorded on an accrual basis. The sales tax revenue of \$358.2 million for 2006 reported in the statement of revenues, expenses, and changes in net assets is shown net of \$13.2 million refund due to the State Comptroller. Sales tax revenues are subject to audits by the State Comptroller which sometimes results in refunds to the State.

Self-Insurance Liabilities – DART administers and maintains self-insured reserves for employee medical, operational workers compensation, auto, and general liability (including bus/rail accidents), directors and officers liability and light rail construction workers compensation and general liability claims. These programs are administered by DART, or in some instances, a third party. DART accrues the estimated cost of self-insurance liabilities based on actuarial review. The estimate includes incurred but not reported (IBNR) claims. Changes in the liabilities in 2007 and 2006 for all of DART's self-insured programs are detailed on the next page (dollars in thousands):

**DALLAS AREA RAPID TRANSIT  
NOTES TO FINANCIAL STATEMENTS**

September 30, 2007 and 2006 (Dollars in Thousands)

Description	2007	2006
Beginning balance	\$15,633	\$16,307
Current year claims and changes in estimates	5,463	5,957
Payments	(6,017)	(6,631)
Ending balance	<u>\$15,079</u>	<u>\$15,633</u>

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

Senior Lien Sales Tax Revenue Bonds - Premiums and discounts on Senior Lien Sales Tax Revenue Bonds are amortized using the effective interest method. Costs of issuance and gains/losses on refunding are also amortized using the effective interest method over the life of the bonds.

2. SERVICE AGREEMENTS

DART has entered into several long-term agreements with contractors to provide paratransit, commuter rail, HOV lane, DART on-call and shuttle services. Payments to service providers are recorded as purchased transportation in the accompanying statements of revenues, expenses, and changes in net assets. A summary of the major amounts for services rendered in 2007 and 2006 and the current contract terms, including option periods, is as follows:

Contractor Name	Service Type	Annual Payments for Services		Current Contract Terms	
		2007	2006	Began	Expires
Herzog Transit Services, Inc.	Commuter Rail	\$15,635	\$15,416	10/2005	09/2010
Veolia Transportation Services, Inc.	Paratransit	22,509	21,953	01/2007	12/2012
Other	Various	4,267	3,803	Various	Various
Total		<u>\$42,411</u>	<u>\$41,172</u>		

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and investments as of September 30, 2007 and 2006 are classified in the statements of net assets as follows:

	9/30/2007	9/30/2006
Cash and cash equivalents	\$122,858	\$77,249
Investments	386,981	347,526
Investments held by trustee for debt service	28,145	19,344
Investments restricted for system expansion and acquisition	40,979	29,460
Total cash and investments	<u>\$578,963</u>	<u>\$473,579</u>

Cash and investments as of September 30, 2007 and 2006 consist of the following:

	9/30/2007	9/30/2006
Cash on hand	\$664	\$517
Investments	578,299	473,062
Total cash and investments	<u>\$578,963</u>	<u>\$473,579</u>

**DALLAS AREA RAPID TRANSIT  
NOTES TO FINANCIAL STATEMENTS**

September 30, 2007 and 2006 (Dollars in Thousands)

Deposits

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

At September 30, 2007 and 2006, the carrying amount of DART's deposits was a deficit of \$16,279 and \$1,847, respectively, with an overall bank balance of approximately zero for each year. Bank balances at September 30, 2007 and 2006 were entirely covered either by Federal Depository Insurance or by collateral held by DART's agent in DART's name. The cash deficits are included in the Accounts payable and accrued liabilities line item in the accompanying statements of net assets.

Custodial Credit Risk

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

Investments

Investments authorized by the Texas Public Funds Investment Act and DART's Investment Policy

In accordance with the Texas Public Funds Investment Act and DART's investment policy, DART invests in, among others, obligations of the United States or its agencies and instrumentalities, and obligations of states, agencies, counties, cities, and other state political subdivisions with ratings from a nationally recognized investment rating firm of not less than "A" or its equivalent and commercial paper with ratings of not less than "A1" or "P1." In addition, State statutes authorize DART to invest funds in other cash equivalents such as money market mutual funds. All DART investments are subject to the Texas Public Funds Investment Act.

The following table identifies the investment types that are authorized by DART's Investment Policy. The table also identifies certain provisions of DART Investment Policy that address interest rate risk, credit risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Government Securities	10 years	None	None
Federal Agency Securities	10 years	25%	25%
Municipal Securities	10 years	None	10%
Repurchase Agreements and Reverse Repurchase Agreements	90 days	50%	5%
Money Market Mutual Funds	10 years	15%	None
Commercial Paper	270 days	None	5%
Banker's Acceptance	270 days	None	5%
Certificate of Deposit	10 years	None	None

Investments held by bond trustee are invested in a constant \$1 money market fund that invests in treasury-only securities.

Interest Rate Risk

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

Information about the sensitivity of the fair values of DART's investments to market interest rate fluctuations as of September 30, 2007 and 2006 are provided by the tables on the next page which show the distribution of DART's investments by maturity.

**DALLAS AREA RAPID TRANSIT  
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September 30, 2007 and 2006 (Dollars in Thousands)

Authorized Investment Type	Total Amount	Remaining Maturity (in months) as of September 30, 2007		
		12 months or Less	13 to 24 Months	25 to 60 Months
Federal Agency Securities	\$ 273,542	\$ 113,676	\$ 91,218	\$ 68,648
Commercial Paper	188,014	188,014		
Money Market Funds	116,743	116,743		
<b>Total</b>	<b>\$ 578,299</b>	<b>\$ 418,433</b>	<b>\$ 91,218</b>	<b>\$ 68,648</b>

Authorized Investment Type	Total Amount	Remaining Maturity (in months) as of September 30, 2006		
		12 months or Less	13 to 24 Months	25 to 60 Months
Federal Agency Securities	\$ 337,662	\$ 199,156	\$ 112,585	\$ 25,921
Commercial Paper	64,705	64,705		
Money Market Funds	70,695	70,695		
<b>Total</b>	<b>\$ 473,062</b>	<b>\$ 334,556</b>	<b>\$ 112,585</b>	<b>\$ 25,921</b>

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized rating agency. The following tables show actual ratings as of 9/30/2007 and 9/30/2006 for each investment type.

Authorized Investment Type	Total Amount	Rating as of September 30, 2007		
		AAA	A1/P1	AAAm
Federal Agency Securities				
Federal Farm Credit Banks	\$ 23,564	\$ 23,564		
Federal Home Loan Bank	111,088	111,088		
Federal Home Loan Mortgage Corp	74,627	74,627		
Federal National Mortgage Association	64,263	64,263		
Commercial Paper	188,014		\$188,014	
Money Market Funds	116,743			\$116,743
<b>Total</b>	<b>\$578,299</b>	<b>\$273,542</b>	<b>\$188,014</b>	<b>\$116,743</b>

Authorized Investment Type	Total Amount	Rating as of September 30, 2006		
		AAA	A1/P1	AAAm
Federal Agency Securities				
Federal Farm Credit Banks	\$ 52,037	\$ 52,037		
Federal Home Loan Bank	101,865	101,865		
Federal Home Loan Mortgage Corp	78,199	78,199		
Federal National Mortgage Association	105,561	105,561		
Commercial Paper	64,705		\$64,705	
Money Market Funds	70,695			\$70,695
<b>Total</b>	<b>\$473,062</b>	<b>\$337,662</b>	<b>\$64,705</b>	<b>\$70,695</b>

**DALLAS AREA RAPID TRANSIT  
NOTES TO FINANCIAL STATEMENTS**

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Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of DART's investment in a single issuer. The Investment Policy of DART contains limitations on the amount that can be invested in any one issuer as shown in the table on page 19. Investments in any one issuer that represent 5% or more of total investment portfolio of DART as of September 30, 2007 and 2006 are as shown below:

September 30, 2007			
Investment Type	Issuer	Reported Amount	Percentage of total Portfolio
Federal Agency Securities	Federal Home Loan Bank	\$111,088	19%
	Federal Home Loan Mortgage Corp	74,627	13%
	Federal National Mortgage Association	64,263	11%
Money Market Mutual Funds	Fidelity	40,979	7%
	Deutsche Bank	28,145	5%
September 30, 2006			
Investment Type	Issuer	Reported Amount	Percentage of total Portfolio
Federal Agency Securities	Federal Farm Credit Banks	\$52,037	11%
	Federal Home Loan Bank	101,865	22%
	Federal Home Loan Mortgage Corp	78,199	17%
	Federal National Mortgage Association	105,561	11%
Money Market Mutual Funds	Fidelity	29,460	6%

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, DART will not be able to recover the value of its investment or collateral securities that are in the possession of another party. All of DART's investments including investments held for debt service by trustee are registered in DART's name as of September 30, 2007 and are not exposed to custodial credit risk.

Foreign Currency Risk

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

Investments held by trustee to pay lease/leaseback obligation – Investments held by trustee to pay lease/leaseback liabilities are high-grade investments in the U.S. Treasury and U.S. Agency obligations. The investments are held by the trustee in the name of DART and therefore are not subject to custodial credit risk. These investments include a combination of investments with short-term and long-term maturities. This minimizes the exposure to interest rate risk. Investments held to pay capital lease/leaseback liabilities are invested in guaranteed investment contracts and are not rated. They are reported at cost in the statement of net assets. All other investments are reported at fair value.

Board designated assets – The DART Board has designated that certain cash and investment balances be maintained for self-insurance and financial reserve. These amounts are shown as investments in the accompanying financial statements. The assets for self-insurance include amounts designated by the Board to fund future claims and workers' compensation liabilities. The Board established the financial reserve to accumulate sales taxes in years when receipts exceed the

**DALLAS AREA RAPID TRANSIT  
NOTES TO FINANCIAL STATEMENTS**

September 30, 2007 and 2006 (Dollars in Thousands)

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Budgeted amount. Sales tax receipts were \$5,500 more than budget for fiscal year 2007 compared to \$5,339 more than budget for fiscal year 2006.

Funds may only be spent from this reserve if approved by a two-thirds vote of the Board. Sales tax revenues in excess of the prior year's budget are to be placed in the reserve prior to January 1 of the subsequent year. The Board approved the use of financial reserve monies to reimburse the State Comptroller's office for an overpayment of sales taxes of \$3,653 to DART. The final monthly installment of \$76 was paid to the Comptroller's office in September 2006.

In September 2005, the Board approved a transfer of an annual not-to-exceed amount of \$4,032 for each of the next two years from the financial reserve to the General Operating Fund to pay for the cost of a diesel fuel hedge program. In fiscal year 2006, \$1,273 of the financial reserve money was used for the fuel hedge program. The contract expired and no such transfers have occurred in 2007.

As of September 30, 2007 and 2006, assets designated by the DART Board for specific purposes, including investments and accrued interest, consisted of the following (dollars in thousands):

Designated for	2007	2006
Self-Insurance	\$13,044	\$12,969
Financial Reserve	49,652	29,999
Total	\$62,696	\$42,968

**4. RESTRICTED ASSETS**

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

The System Expansion and Acquisition Fund (SEA Fund) includes monies on deposit to be used solely for the purpose of paying the costs of acquisition and construction of assets, except in the event of a default in payment of obligations. In such event, the Board may, but is not required to, use money on deposit in the SEA Fund for the purpose of curing any such event.

**5. INVESTMENT IN JOINT VENTURE**

DART and the Fort Worth Transportation Authority (the "T") jointly provide commuter rail service between downtown Dallas and downtown Fort Worth. The authorities have adopted the assumed name of *Trinity Railway Express* ("TRE") to provide this service. The operation and maintenance of commuter rail service is contracted to Herzog Transit Services, Inc. Cost of operating TRE, net of operating revenues, is shared between DART and the T based on revenue seat miles operated in Dallas County and Tarrant County, respectively. The transit authorities separately contributed the capital for the passenger stations and track storage areas in their respective counties, including fixtures and fare collection equipment at those stations. DART has separately contributed the capital for thirteen rail diesel cars (RDCs) purchased for the initial TRE commuter rail service. DART and the T have jointly contributed the capital for four rehabilitated locomotives, two new locomotives, ten rehabilitated bi-level coaches, two rehabilitated bi-level cab cars, and two new bi-level cab cars. The book value of DART's share of these capital assets jointly owned with the T is recorded as Investment in Joint Venture in the statement of net assets in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No.39, *Determining Whether Certain Organizations Are Component Units*. There are no separate financial statements for the TRE. Each authority includes its share of revenues, operating costs and capital assets in its own financial statements.

**DALLAS AREA RAPID TRANSIT  
NOTES TO FINANCIAL STATEMENTS**

September 30, 2007 and 2006 (Dollars in Thousands)

6. CAPITAL ASSETS

Changes in capital assets for the years ended September 30, 2007 and 2006 are shown in the following tables (dollars in thousands). The adjustment column for those asset balances as of September 30, 2006 includes a write-down of the book value of a building owned by DART due to impairment per GASB Statement No. 42. The book value of the building was \$3,208 and appraised value was \$790 resulting in the write-down of the book value by \$2,418.

	Beginning Oct. 1, 2006	Additions	Disposals	Net Transfers/ Adjustments	Ending Sept. 30, 2007
Non-Depreciable Assets					
Land and right-of-way	\$387,009		\$ (157)	\$ 1,148	\$388,000
Capital projects in progress	469,652	\$379,328		(103,809)	745,171
Total non-depreciable assets	856,661	379,328	(157)	(102,661)	1,133,171
Depreciable Assets					
Transitways	1,371,496			(2,208)	1,369,288
Buildings and improvements	366,067		(656)	4,000	369,411
Buses and equipment, net of safe harbor lease proceeds	613,603		(9,511)	99,138	703,230
Furniture, fixtures, and Leasehold improvements	31,423		(91)	1,751	33,083
Total depreciable assets	2,382,589		(10,258)	102,681	2,475,012
Less accumulated depreciation					
Transitways	311,617	45,807			357,424
Buildings and improvements	159,854	16,209	(633)		175,430
Buses and equipment, net of safe harbor lease proceeds	282,125	48,835	(9,440)	20	321,540
Furniture, fixtures, and Leasehold improvements	29,740	1,595	(91)		31,244
Total accumulated depreciation	783,336	112,446	(10,164)	20	885,638
Depreciable assets, net	1,599,253	(112,446)	(94)	102,661	1,588,374
Total capital assets	\$2,455,914	\$266,882	\$(251)		\$2,722,545
	Beginning Oct. 1, 2005	Additions	Disposals	Net Transfers	Ending Sept. 30, 2006
Non-Depreciable Assets					
Land and right-of-way	\$387,010			\$ (1)	\$387,009
Capital projects in progress	328,470	\$172,436		(31,254)	469,652
Total non-depreciable assets	715,480	172,436		(31,255)	856,661
Depreciable Assets					
Transitways	1,348,788			22,708	1,371,496
Buildings and improvements	364,689			1,378	366,067
Buses and equipment, net of safe harbor lease proceeds	620,069		\$(10,815)	4,349	613,603
Furniture, fixtures, and Leasehold improvements	35,315		(4,294)	402	31,423
Total depreciable assets	2,368,861		(15,109)	28,837	2,382,589
Less accumulated depreciation					
Transitways	265,436	46,181			311,617
Buildings and improvements	143,736	16,118			159,854
Buses and equipment, net of safe harbor lease proceeds	252,701	39,855	(10,431)		282,125
Furniture, fixtures, and Leasehold improvements	32,398	1,554	(4,212)		29,740
Total accumulated depreciation	694,271	103,708	(14,643)		783,336
Depreciable assets, net	1,674,590	(103,708)	(466)	28,837	1,599,253
Total capital assets	\$2,390,070	\$68,728	\$(466)	\$(2,418)	\$2,455,914

**DALLAS AREA RAPID TRANSIT  
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Capital assets are depreciated using the straight-line method over the following estimated useful lives.

Description	Years
Buildings and improvements	20-30
Buses and equipment	4-12
Furniture, fixtures, and leasehold improvements	3-10
Facilities and Transitways (LRT System and HOV lanes)	20-30
Light rail transit vehicles and remanufactured diesel cars	25

Certain right-of-way assets contain provisions restricting their use to rail and/or transit operations. Violation of these restrictions could result in impairment of DART's use and/or claim to these rights-of-way.

Impairment of capital assets - In fiscal year 2006, DART implemented Governmental Accounting Standards Board issued Statement No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. DART has evaluated events or changes in circumstances that may have affected DART assets and has determined that impairment of a capital asset did occur in one circumstance. In fiscal year 2006, DART discontinued the use of a building and made the decision to sell it. The book value of the building was \$3,208 and the appraised value was \$790 resulting in the write-down of the book value by \$2,418. The loss from impairment has been reported in the statement of revenues, expenses, and changes in net assets as a non-operating expense included in other non-operating expenses. There are no such asset impairments in fiscal year 2007.

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payables and accrued liabilities at September 30, 2007 and 2006 were as follows:

Description	2007	2006
Accounts Payable		
Non-operating expenses and capital related	\$60,638	\$47,152
Payroll	6,125	5,226
Accrued paid time off (PTO), vacation and sick leave	16,761	16,057
Self Insurance Liabilities	15,079	15,633
Other Claims		1,500
Other operating	35,325	21,521
Total operating expense related	73,290	59,937
Total Accounts Payable and Accrued Liabilities	<u>\$133,928</u>	<u>\$107,089</u>

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

Changes in accrued PTO, vacation, and sick leave for the years ended September 30, 2007 and 2006 are shown in the following table.

Description	2007	2006
Beginning balance	\$16,057	\$14,921
Additions	1,275	1,786
Payments	(571)	(650)
Ending balance	<u>\$16,761</u>	<u>\$16,057</u>

**9. LOCAL ASSISTANCE PROGRAM**

In 1989, DART created a Local Assistance Program (LAP) to provide technical and financial assistance to cities for the implementation of projects to reduce traffic congestion and complement bus and public transit operations. Eligible member jurisdictions are responsible for developing and submitting projects to DART for approval in order to receive

**DALLAS AREA RAPID TRANSIT  
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distribution of these funds. According to the terms of interlocal agreements, DART allocated a percentage of its annual sales tax collections for the LAP program. Eligible member jurisdictions received 15% of the estimated sales taxes collected within that jurisdiction, except Irving, which received 7.5%. Dallas, University Park, and Highland Park were not eligible. The LAP program ended in 2004. Accrued but unpaid funds were carried over to succeeding years and were recorded as a liability on the accompanying statements of net assets.

Changes in Local Assistance Program Payable for the years ended September 30, 2007 and 2006 are as follows (dollars in thousands):

Description	2007	2006
Beginning balance	\$21,684	\$26,866
Payments	(2,471)	(5,182)
Ending balance	<u>\$19,213</u>	<u>\$21,684</u>

**10. FINANCE OBLIGATIONS UNDER CAPITAL LEASE/LEASEBACK**

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

Lease Date	Property	Fair Market Value At Closing Date	Book Value At Closing Date	Prepayment Received On Head Lease	Amount Invested to Satisfy Sublease Obligation	DART's Cash Benefit
7/25/97	40 Light rail cars and 12 rail diesel cars	\$126,200	\$116,700	\$111,900	\$102,700	\$9,200
5/26/98	Headquarters, Northwest, and East Dallas facilities	128,000	102,000	113,200	102,100	11,100
9/28/00	28 Light rail cars	91,000	74,600	91,000	84,000	7,000
10/26/00	25 Light rail cars	81,000	67,500	81,000	74,700	6,300
7/10/02	341 Buses	98,700	72,971	98,700	95,300	3,400

The net present value of the future sublease payments has been recorded as both a short-term and long-term liability in the accompanying statements of net assets. Since the investments have been structured to meet all future obligations under the subleases at all times when due, the investment balances have been recorded to equal the sublease liabilities on the accompanying statements of net assets. The benefits from these transactions net of transaction costs were recorded as non-operating revenues in the statements of revenues, expenses, and changes in net assets in the fiscal year each transaction occurred.

The capital lease/leaseback liabilities are reported as follows on the statements of net assets (dollars in thousands):

	2007	2006
Amounts due within one year	\$49,411	\$36,525
Amounts due in more than one year	384,326	410,600
Total	<u>\$433,737</u>	<u>\$447,125</u>

DART's equipment and facilities subleases provide it an opportunity, at DART's sole discretion, to repurchase its equipment on specified dates. As these dates approach, DART will complete a financial analysis on each specific lease to determine if it is financially beneficial to repurchase the equipment. The tables on the following page highlight pertinent information on the subleases:

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Fiscal Year 2007							
Lease Date	Property	Sublease Balance 9/30/06	Interest Accrued 2007	Payment 2007	Sublease Balance 9/30/07	Repurchase Option Date	Sublease Termination Date
7/25/97	40 Light rail cars	\$90,754	\$6,281	\$10,916	\$86,119	01/01/13	03/01/25
	12 Rail diesel cars	13,896	962	1,672	13,186	01/01/08	01/01/19
5/26/98	Headquarters facility	27,288	1,704	2,308	26,684	11/01/13	10/27/27
	Northwest facility	10,244	640	1,083	9,801	11/01/08	01/02/24
	East Dallas facility	15,504	968	1,521	14,951	11/01/10	12/03/25
	Service & Inspection facility	60,380	3,772	4,624	59,528	01/01/14	02/15/29
9/28/00	28 Light rail cars	77,677	2,997	5,215	75,459	01/02/23	01/02/23
10/26/00	25 Light rail cars	72,190	3,350	4,775	70,765	01/02/25	01/02/25
7/10/02	Buses, Group 1	30,847	704	1,486	30,065	01/01/12	01/01/12
	Buses, Group 2	33,848	1,206	1,764	33,290	01/01/13	01/01/13
	Buses, Group 3	14,497	554	1,162	13,889	01/01/14	01/01/14
	Total	\$447,125	\$23,138	\$36,526	\$433,737		

Fiscal Year 2006							
Lease Date	Property	Sublease Balance 9/30/05	Interest Accrued 2006	Payment 2006	Sublease Balance 9/30/06	Repurchase Option Date	Sublease Termination Date
7/25/97	40 Light rail cars	\$104,294	\$6,812	\$20,352	\$90,754	01/01/13	03/01/25
	12 Rail diesel cars	15,195	993	2,292	13,896	01/01/08	01/01/19
5/26/98	Headquarters facility	27,567	1,673	1,952	27,288	11/01/13	10/27/27
	Northwest facility	10,468	636	860	10,244	11/01/08	01/02/24
	East Dallas facility	17,485	1,061	3,042	15,504	11/01/10	12/03/25
	Service & Inspection facility	64,786	3,934	8,340	60,380	01/01/14	02/15/29
9/28/00	28 Light rail cars	79,809	3,083	5,215	77,677	01/02/23	01/02/23
10/26/00	25 Light rail cars	73,549	3,416	4,775	72,190	01/02/25	01/02/25
7/10/02	Buses, Group 1	32,330	730	2,213	30,847	01/01/12	01/01/12
	Buses, Group 2	35,144	1,240	2,536	33,848	01/01/13	01/01/13
	Buses, Group 3	14,695	571	769	14,497	01/01/14	01/01/14
	Total	\$475,322	\$24,149	\$52,346	\$447,125		

The following schedule shows future minimum sublease payments under capital lease/leaseback as of September 30, 2007.

Year Ending <u>September 30</u>	Minimum Sublease Payments
2008	49,411
2009	44,606
2010	51,041
2011	43,908
2012	60,845
2013 – 2017	249,209
2018 – 2022	54,693
2023 – 2024	5,852
Total minimum sublease payments due under capital lease/leaseback	559,565
Less: amount representing interest	(125,828)
Present value of minimum sublease payments	\$433,737

**DALLAS AREA RAPID TRANSIT  
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**11. SENIOR SUBORDINATE LIEN SALES TAX REVENUE COMMERCIAL PAPER NOTES PAYABLE**

In January 2001, the Board approved the issuance of up to \$650 million of Senior Subordinate Lien Sales Tax Revenue Commercial Paper Notes under the provisions of the Master Debt Resolution. The proceeds from the initial \$500 million sale (Series 2001) were used to refund previously-issued commercial paper (\$330 million), to pay interest and principal on North Central Light Rail Project Notes (\$152 million), and to pay for construction of improvements and extensions to the public transportation system. In 2006, a new Revolving Credit Agreement was executed with four lenders (Westdeutsche Landesbank Girozentrale, Bayerische Landesbank Girozentrale, State Street Bank and Trust Company, and Landesbank Baden-Wurtemberg) to provide a liquidity facility to support the Commercial Paper Program. The Revolving Credit Facility expires on June 30, 2010. The authorized amount of Commercial Paper Notes and Revolving Credit Agreement was increased from \$500 million to \$600 million and the agreement was changed from a three-year term to a four-year term. The Revolving Credit Agreement contains certain covenants as follows: Gross sales tax revenues must exceed debt service requirements by 150% for each of the three following years and 200% of four consecutive quarters of the last six quarters. DART complied with these covenants for the years ended September 30, 2007 and 2006.

The commercial paper notes included taxable notes issued to fund DART's self-insured liabilities. Commercial paper is issued in blocks for terms from 1 to 270 days. The commercial paper notes are recorded as current liabilities on the statements of net assets. The Revolving Credit Agreement is secured by and payable from a pledge (senior subordinate lien) of DART's sales tax revenue. The average interest rate on outstanding commercial paper at September 30, 2007 was 3.71% compared to 3.58% at September 30, 2006. Changes in the Commercial Paper Notes for the years ended September 30, 2007 and 2006 are as follows.

	Tax Exempt	Taxable	Total
Balance Sept 30, 2005	\$285,645	\$11,600	\$297,245
Additions	130,000		130,000
Retirement		(11,600)	(11,600)
Balance Sept 30, 2006	415,645		\$415,645
Additions	240,000		240,000
Retirement	(475,645)		(475,645)
Balance Sept 30, 2007	<u>\$180,000</u>		<u>\$180,000</u>

**12. SENIOR LIEN SALES TAX REVENUE BONDS**

In August 2000, the voters in DART's service area approved the issuance of up to \$2.9 billion in sales tax revenue bonds to accelerate the completion of extensions to the existing light rail system and other improvements to the public transportation system.

Subsequently, in July 2001, the Board approved the first issuance of \$400,000 of Senior Lien Sales Tax Revenue Bonds (Bonds) under provisions of the Master Debt Resolution. The Bonds were priced in July 2001 and issued in August 2001 with yields ranging from 2.8% to 5.17%. The bonds are dated August 1, 2001 and bear interest from that date, payable on each June 1 and December 1, commencing on December 1, 2001. Each year a portion of the Bonds mature on December 1. The Bonds have maturities ranging from December 1, 2002 through December 1, 2031. The Bonds maturing after December 1, 2012 are subject to an optional call on or after December 1, 2011.

In July 2002, the Board approved the second issuance of Bonds (Series 2002), in the amount of \$98,735 as authorized by the Master Debt Resolution. The 2002 Bonds are dated September 10, 2002 and bear interest from that date, payable on each June 1 and December 1, commencing on December 1, 2002. The 2002 Bonds have maturities ranging from December 1, 2005 to December 1, 2032. The 2002 Bonds maturing on or after December 1, 2013 are subject to optional redemption on December 1, 2012 or any date thereafter.

In January 2007, the Board approved the third issuance of Bonds (Series 2007), in the amount of \$770,270 as authorized by the Master Debt Resolution. This issuance included \$328,235 to partially refund Series 2001 and 2002 bonds. The 2007 Bonds are dated March 8, 2007 and bear interest from that date, payable on each June 1 and December 1,

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Commencing on December 1, 2007. The 2007 Bonds have maturities ranging from December 1, 2007 to December 1, 2036. The 2007 Bonds maturing on or after December 1, 2017 are subject to optional redemption on December 1, 2016 or any date thereafter. The 2007 Serial Bonds maturing in the years 2028 through 2032 are subject to optional redemption on any interest date commencing on December 1, 2012 or any date thereafter.

Additional bonds may not be issued unless gross sales tax revenues exceed maximum debt service by at least 200% for 12 of the last 18 months. The Bonds are secured by, and payable solely from, a senior lien on revenue that DART receives from the 1% sales and use tax.

Changes in sales tax revenue bonds (shown at par) for the years ended September 30, 2007 and 2006 are shown below.

	Series 2001	Series 2002	Series 2007	Total
Balance Sept 30, 2005	\$391,985	\$97,135		\$489,120
Retirement	(8,770)	(1,700)		(10,470)
Balance Sept 30, 2006	383,215	95,435		478,650
Addition			\$770,270	770,270
Retirement	(276,550)	(62,505)		(339,055)
Balance Sept 30, 2007	\$106,665	\$32,930	\$770,270	\$909,865
Amounts due within one year	\$7,740	\$1,500	\$4,440	\$13,680

The revenue bonds are shown net of original issuance premium, discount and refunding gain (loss) of \$33,976 and (\$2,931) as of September 30, 2007 and 2006, respectively, on the statement of net assets.

Below is a summary of debt service requirements of the Senior Lien Sales Tax Revenue Bonds as of September 30, 2007.

Year Ended September 30	Principal	Interest	Total
2008	\$13,680	\$44,593	\$58,273
2009	14,295	43,976	58,271
2010	14,955	43,315	58,270
2011	15,655	42,616	58,271
2012	16,435	41,837	58,272
2013 – 2017	95,970	195,381	291,351
2018 – 2022	123,385	167,973	291,358
2023 – 2027	157,625	136,317	293,942
2028 – 2032	200,035	91,326	291,361
2033 – 2037	257,830	33,524	291,354
TOTAL	\$909,865	\$840,858	\$1,750,723

**13. DEBT REFUNDINGS**

On March 8, 2007, DART issued \$770,270 in Senior Lien Sales Tax Revenue Bonds (2007 bonds) at a premium of \$52,244 and an average interest rate of 4.96%. A portion of this bond, \$452,540, was issued to pay off at maturity \$475,645 in Commercial Paper Notes with an average interest rate of 3.68%. The remaining portion of the 2007 bonds, \$317,730, was issued to refund \$328,235 of the Series 2001 and the 2002 Bonds with an average interest rate of 5.05%.

The net proceeds of the 2007 bonds of \$816,098, (after payment of \$6,416 in underwriting fees, insurance and other issuance costs), plus an additional \$6,640 from prior debt service accounts and the general operating account were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. As a result, the Series 2001 Commercial Paper Notes, and a portion of the Series 2001 and 2002 bonds are considered defeased and the liability for those notes, bonds, and the corresponding

**DALLAS AREA RAPID TRANSIT  
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Assets in the trust account have been removed from DART's Statements of Net Assets.

The advance refunding of portions of the Series 2001 and Series 2002 bonds resulted in a difference between the reacquisition price and net carrying amount of the old debts of \$16,534. This difference, reported in the Statements of Net Assets as a deduction from bonds payable, is being charged to interest expense through fiscal year 2033 using the effective interest method. DART completed the advance refunding of the Series 2001 and Series 2002 bonds to reduce its total debt service payments over the next 25 years by \$21,413 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$9,294.

As of September 30, 2007, \$328,235 of the refunded DART bonds remains valid debt instruments and is solely payable from and secured by the assets in the irrevocable trust accounts.

**14. PENSION, RETIREMENT, AND DEFERRED COMPENSATION PLANS**

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

Defined Benefit Plan – The DART Employees Defined Benefit Retirement Plan and Trust (the DB Plan) is a single-employer defined benefit pension plan that was designed to provide retirement, death, and disability benefits to certain employees of DART. On October 1, 1995, the DTS Employees Retirement Plan (Plan A) was amended to become the DB Plan. Participants of the DB Plan are those employees who were members of the former plan on September 30, 1995. Those employees who elected to be covered under Plan A have eligibility, vesting, and benefit provisions different from those who elected the DB Plan. DART's covered payroll for the DB Plan as of October 1, 2006 (actuarial valuation date), was approximately \$24.5 million.

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

Participants under the provisions of Original Plan A may elect normal retirement at age 60 or at the date at which the sum of their credited service and age equals 90. Participants who elected to remain under the provisions of the original plan receive monthly benefits equal to 2% times the years of credited service multiplied by the participant's final average monthly compensation. Participants in Amended Plan A are entitled to monthly benefits equal to: 2% times the number of years of credited service up to October 1, 1983; plus 1.5% times the number of years of credited service after October 1, 1983; times the participant's final average monthly compensation. A participant may elect early retirement at age 55 with 10 years of service (30 years of service for participants under the Original Plan A). Monthly income under this election will equal normal retirement benefits reduced by 5/12 of 1% for each full month by which the participant's early retirement date precedes the normal retirement date. DART reports a net pension asset of \$4,063 and \$3,716 in the accompanying statements of net assets at September 30, 2007 and 2006, respectively.

In accordance with GASB Statement No. 27, *Accounting for Pension by State and Local Government Employers*, an actuary determines the contribution amount that DART pays to the plan each year. The amount determined is referred to as the "Annual Required Contribution" (ARC). All significant actuarial assumptions used to compute the ARC are the same as those used to compute the actuarial accrued liability. The net pension asset/obligation is the cumulative difference between annual pension cost (including any interest accumulated on the pension asset/obligation, the ARC, and any adjustments to the ARC), and the employer's actual contribution to the plan.

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The net pension asset for fiscal year 2007 was computed as part of an actuarial valuation performed and dated as of the first day of the fiscal period, October 1, 2006. The significant actuarial assumptions as of October 1, 2006 are as follows:

	October 1, 2006
Investment Return	8% compounded annually, net of expenses
Salary Scales	3.5% per annum
Mortality	RP 200 mortality tables for males and females (adopted effective October 1, 2005)
Disability Mortality	RP 200 mortality tables for males and females (adopted effective October 1, 2005)
Retirement Age	Age 60
Cost-of-Living Factors	2.5% per annum
Actuarial Cost Method	Projected Unit Credit Cost Method

For plan years 2007, 2006, and 2005, the net pension asset was as follows:

	2007	2006	2005
Annual Required Contribution	\$4,670	\$5,170	\$4,742
Interest on net pension asset	(297)	(271)	(263)
Adjustment to annual required contribution	330	301	385
Annual Pension Cost	4,703	5,200	4,864
Employer Contributions	5,050	5,532	4,954
Increase in net pension asset	347	332	90
Net Pension asset, beginning of year	3,716	3,384	3,294
Net Pension asset, end of year	\$4,063	\$3,716	\$3,384

The actuarial value of plan net assets is determined using a technique that smoothes the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized using a level dollar amount on a closed basis with no amortization period exceeding 30 years.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Such trend information as of October 1 of each fiscal year (actuarial valuation date) is as follows.

	2007	2006	2005
Annual Pension Costs	\$4,703	\$5,200	\$4,864
Employer Contribution made	\$5,050	\$5,532	\$4,954
Percentage of annual pension cost contributed	107%	106%	102%
Net pension asset	\$4,063	\$3,716	\$3,384

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

DART Retirement Plan – DART has adopted a defined contribution retirement plan for all employees not covered by the pension plans described above. DART contributes an amount equal to 7.7% of each participant's annual compensation to the plan.

Participants become 25% vested in plan benefits after two years of service, thereafter increasing 25% for each year of additional service until 100% vested. Total expense to DART to fully fund this plan was approximately \$9,609 and \$9,306 for the years ended September 30, 2007 and 2006, respectively.

DART Capital Accumulation Plan – 401(k) – DART has adopted a deferred compensation plan created in accordance with Internal Revenue Code Section 401(k), which allows employees to contribute up to 50% of their annual

**DALLAS AREA RAPID TRANSIT  
NOTES TO FINANCIAL STATEMENTS**

September 30, 2007 and 2006 (Dollars in Thousands)

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Compensation to the plan subject to the annual contribution limits of the Internal Revenue Service. DART matches 50% of the employee's contribution up to a maximum of 3% of the employee's annual compensation. Participants hired before January 1, 2006 are vested in 25% of DART's contributions after two years of service, graduating to 100% vesting after five years. Participants hired after December 31, 2005 become 100% vested in DART's contributions to the Plan only after completing five years of service. Total expense to DART to fully fund this plan was approximately \$2,976 and \$2,600 for the years ended September 30, 2007 and 2006, respectively.

**15. POSTRETIREMENT BENEFITS OTHER THAN PENSION BENEFITS**

In addition to the pension benefits (see note 14), DART provides postretirement health care and life insurance benefits in accordance with DART policy to all employees who retire from DART under the defined contribution retirement plan or the DTS pension plans described above. Total payments for postretirement health care and life insurance benefits for the years ended September 30, 2007 and 2006, were approximately \$1,199 and \$1,483, respectively, with DART funding approximately \$544 in 2007 and \$766 in 2006, and the retirees funding the remainder. DART has 330 retirees eligible to receive these benefits in 2007 compared to 338 retirees in 2006.

**16. CLAIMS AND LITIGATION**

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

**17. COMMITMENTS AND CONTINGENCIES**

The Board has approved a Transit System Plan which includes the design and construction of a 47-mile light rail transit (LRT) extension from Downtown Dallas to Buckner Blvd. (the Southeast Corridor) and from Downtown Dallas to Farmers Branch, Carrollton, and Irving (the Northwest Corridor) and from downtown Garland to Rowlett (Rowlett extension). The timing and completion of the Transit System Plan is based on economic assumptions made in DART's 20-year financial plan and are subject to change based on changing economic conditions. The Transit System Plan is forecasted at \$3.20 billion as of September 30, 2007. DART has entered into contract commitments for the LRT build out and other capital developments in the amount of \$1.56 billion and expended approximately \$566.9 million of the committed amount as of September 30, 2007 on these projects.

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

DART has entered into certain operating lease agreements. Operating lease expenses are approximately \$856 and \$1,050 in 2007 and 2006, respectively. Future minimum lease payments for all non-cancelable operating leases are as follows (dollars in thousands):

Fiscal Year	2008	2009	2010	2011	2012
Minimum Lease Payments	\$744	\$732	\$479	\$227	\$54

**DALLAS AREA RAPID TRANSIT  
NOTES TO FINANCIAL STATEMENTS**

September 30, 2007 and 2006 (Dollars in Thousands)

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18. NEW ACCOUNTING PRONOUNCEMENTS

In June 2004, the Governmental Accounting Standards Board issued Statement No. 45, *Accounting and Financial Reporting for Post Employment Benefits Other Than Pension Plans*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. It becomes effective for DART beginning in the fiscal year ending September 30, 2008.

In June 2005, the Governmental Accounting Standards Board issued Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes accounting standards for termination benefits. It becomes effective for DART in two parts: 1) for those benefits that relate to other post-employment benefits is to be implemented at the same time as GASB 45; and 2) for other termination benefits, the standard was implemented in fiscal year 2006.

In September 2006, the Governmental Accounting Standards Board issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. It becomes effective for DART in fiscal year 2008.

In November 2006, the Governmental Accounting Standards Board issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations. It becomes effective for DART in fiscal year 2009.

In May 2007, the Governmental Accounting Standards Board issued Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other post employment benefits (OPEB). It becomes effective for DART in fiscal year 2008.

In June 2007, the Governmental Accounting Standards Board issued Statement No. 51, *Accounting and Financial Reporting for intangible assets*. This Statement establishes accounting and financial reporting requirements for intangible assets. It becomes effective for DART in fiscal year 2010.

In November 2007, the Governmental Accounting Standards Board issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes accounting and financial reporting requirements for land and other real estate held as investments. It becomes effective for DART in fiscal year 2009.

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

**DALLAS AREA RAPID TRANSIT  
 REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
 SCHEDULE OF PENSION FUNDING PROGRESS**

September 30, 2007 (Dollars in Thousands)

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The schedule of funding progress for the DART Employees Defined Benefit Retirement Plan and Trust calculated by the actuaries as of October 1, 2006, 2005, and 2004 is as follows:

	Actuarial Valuation Date		
	10/1/06	10/1/05	10/1/04
Actuarial Value of Assets	\$130,492	\$123,444	\$120,782
Actuarial Accrued Liability (AAL)	154,873	150,802	144,578
Projected Unit Credit			
Unfunded AAL (UAAL)	24,381	27,358	23,796
Funded Ratio	84.3%	81.9%	83.5%
Covered Payroll	24,527	25,114	24,466
UAAL as a % of Covered Payroll	99.4%	108.9%	97.3%

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Left blank intentionally.

Requests for additional information related to this financial report should be directed to the Chief Financial Officer at Dallas Area Rapid Transit, 1401 Pacific Avenue, P.O. Box 660163, Dallas, TX 75266.

"DART: Your preferred choice of transportation for now and in the future..."