

## DALLAS AREA RAPID TRANSIT



**Quarterly Disclosure Update  
for the three-month period ended December 31, 2006**

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*This Quarterly Disclosure Update supplements the information contained in our 2007 Annual Disclosure Statement dated January 23, 2007 (the 2007 Annual Disclosure Statement). The 2007 Annual Disclosure Statement, has been filed as a public record with the Central Repositories and is posted on the Internet at our website, [www.dart.org](http://www.dart.org). You may also obtain a free copy of this Quarterly Disclosure Update by contacting us at the following address or telephone number: Chief Financial Officer, DART, 1401 Pacific Avenue, Dallas, Texas 75202, (214) 749-3148.*

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**GENERAL**

We are posting and filing this Quarterly Disclosure Update to supplement our 2007 Annual Disclosure Statement dated January 23, 2007. We continue to reserve the right to suspend or stop the postings on the Internet and the quarterly updates at any time. However, we will always provide the annual and periodic information called for under any undertaking made in compliance with Rule 15c2-12 under the Securities Exchange Act of 1934.

Whenever we use capitalized words in this Quarterly Disclosure Update, they refer to the defined terms that are found in or incorporated by reference in the 2007 Annual Disclosure Statement. See, 2007 Annual Disclosure Statement, Appendix B, "SUMMARY OF CERTAIN TERMS OF MASTER DEBT RESOLUTION."

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

The information in this Quarterly Disclosure Update is as of the date stated below, except for the unaudited financial information included herein as Exhibit A which is for the three-month period ended December 31, 2006.

**YOU SHOULD CAREFULLY CONSIDER THE INVESTMENT CONSIDERATIONS IN THE 2007 ANNUAL DISCLOSURE STATEMENT.**

**FORWARD-LOOKING STATEMENTS**

*We make "forward-looking statements" in the 2007 Annual Disclosure Statement and in Quarterly Disclosure Updates by using forward-looking words such as "may," "will," "should," "intends," "expects," "believes," "anticipates," "estimates," or others. You are cautioned that forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include general economic and business conditions, conditions in the financial markets, our financial condition, our sales tax revenues, receipt of federal grants, and various other factors that are beyond our control. Because we cannot predict all factors that may affect future decisions, actions, events, or financial circumstances, what actually happens may be different from what we include in forward-looking statements.*

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**Dated: April 24, 2007**

**QUARTERLY DISCLOSURE UPDATE**

The 2007 Annual Disclosure Statement dated January 23, 2007, is updated by the following supplemental information:

**Unaudited Financial Information**

Audited financial statements for our fiscal year ended September 30, 2006, are attached as Appendix A to the 2007 Annual Disclosure Statement. An unaudited statement of our principal accounts for the three-month period ended December 31, 2006 is included as Attachment A to this Disclosure Update. Such quarterly financial statement should be read in conjunction with our annual financial statements. This information is taken from our internal books and records that are created, maintained, and administered by DART in accordance with generally accepted accounting principles. The use of reasonable estimates is a normal part of the preparation of financial statements. Sales tax revenues included in the unaudited quarterly financial statements were accrued using estimates. Actual sales tax receipts could, therefore, differ from those reported in the quarterly financial statements.

We believe that the unaudited financial information for the three-month period ended December 31, 2006, fairly represents the financial position and operating results of DART and is complete as of, but no later than such date. However, you are cautioned that such financial information has not been audited or reviewed by any independent accountants. We do not warrant or guarantee that subsequent audited information for these accounts for this three-month period will not differ from the unaudited financial information presented herein and in Exhibit A.

**Management's Comment**

DART's unaudited financial statements for the three-month period ended December 31, 2006, and December 31, 2005, show sales tax revenues as \$101.0 million and \$93.2 million, respectively, which indicates an increase of 8.4 percent. The actual sales tax collections were \$100.4 million and \$94.8 million for the three-months ended December 31, 2006, and 2005. Our operating results for the three-month period ended December 31, 2006 reflect a net operating gain of \$4.5 million, compared to a net operating loss of \$6.5 million for the three-month period ended December 31, 2005. The overall result for the three-month period ended December 31, 2006 shows an increase in net assets of \$11.2 million, an increase of 0.6 percent.

DART maintains various cash reserves including a Financial Reserve Account that is funded with sales tax collections, if any, that exceed budget during a given year. An affirmative vote of two-thirds of the Board is required to draw upon the Financial Reserve, and the funds may be used for any purpose approved by the Board. As of December 31, 2006, the balance in the Financial Reserve Account was \$47.8 million. In addition, we maintain a working cash balance in the Operating Fund equal to at least two months of expenses that are projected to be paid from sales tax collections. As of December 31, 2006, the Operating Fund balance was \$347.0 million. We are making a repayment to the Comptroller's Office of \$13.1 million over a sixteen-year period as an adjustment to our Sales Tax Receipts. This \$206,000 quarterly repayment began in December 2006.

**The Obligations and our Financing Plans—Outstanding Bond Obligations**

On March 8, 2007, we issued \$770,270,000 in principal amount of Dallas Area Rapid Transit Senior Lien Sales Tax Revenue Refunding Bonds, Series 2007 (the "Refunding Bonds"). The Refunding Bonds were issued to retire: (i) all of our then outstanding Senior Subordinate Lien Sales Tax Revenue Commercial Paper Notes, Series 2001, in the principal amount of \$475,645,000 for debt service restructuring purposes; and (ii) a portion of our outstanding Senior Lien Sales Tax Revenue Bonds, Series 2001 and Series 2002, in the aggregate principal amount of \$328,235,000 for debt service savings. The Refunding Bonds constituted the first series of Additional Senior Lien Obligations we are authorized to issue under our Master Debt Resolution. Including the Refunding Bonds, we currently have outstanding \$909,865,000 in principal amount of Senior Lien Obligations.

We plan to issue additional commercial paper Notes periodically during the year to finance our capital acquisitions. We do not anticipate having more than \$240 million outstanding at year-end. As of March 31, 2007, DART had \$30 million in outstanding commercial paper Notes.

## Lease/Leaseback Transactions Update

On February 26, 2007 the Internal Revenue Service published, in the Internal Revenue Bulletin, IRS Notice 2007-18, which sets forth interpretive guidance on certain aspects of the New Excise Tax discussed in our 2007 Annual Disclosure Statement. See 2007 Annual Disclosure Statement, "DART's FINANCIAL PRACTICES AND RESOURCES—Lease/Leaseback Transactions." We interpret IRS Notice 2007-18 as indicating that the new tax does not apply to any of the amounts we received in the years we closed our five transactions, nor does it apply to annual earnings on amounts that have been set aside to fund payments of that part of our rental obligations sufficient to pay debt incurred by the private investors to fund a portion of the payments they made to us (the "debt defeasance amounts"). However, IRS Notice 2007-18 leaves open (and elicits comments on the question) whether the new tax might apply to annual earnings on amounts that have been set aside to fund payments of the balance of our rental obligations and to fund the payment of a purchase option price should we determine to exercise our purchase option (the "equity defeasance amounts"). We believe there are compelling reasons why those earnings should not be subject to the new tax. Nonetheless, it is possible that the Treasury Department could adopt an interpretation that treats annual earnings on equity defeasance amounts as "proceeds" subject to the new tax. If Treasury adopts that adverse interpretation, our preliminary estimates are that the amount of the new tax owed on those annual earnings could be approximately \$25 million per year, increasing to \$30 million per year as the amounts set aside build up. However, we do not believe payment of those amounts of the new tax would have a material adverse affect on our financial condition including our ability to maintain and operate our public system and our ability to pay debt service.

## Litigation

No significant changes have occurred in the status of pending litigation involving DART since the date of the 2007 Annual Disclosure Statement. We continue to accrue and estimate losses on claims that are asserted in pending litigation and have included this accrual in accounts payable and accrued liabilities in the unaudited statement of our principal accounts attached hereto as Exhibit A.

Other than cases filed in the ordinary course of business as an operating transit agency, no new litigation has been filed against DART since the date of the 2007 Annual Disclosure Statement. See, 2007 Annual Disclosure Statement, "LITIGATION."

## RULE 15c2-12 DISCLOSURES

Since January 23, 2007, the date of our most Annual Disclosure Statement, no material events have occurred that we are required to disclose under the provisions of Rule 15c2-12 under the Securities Exchange Act of 1934.

This Quarterly Disclosure Update, in the form and content presented above and in its Exhibit, was approved by the Board of Directors of DART on April 24, 2007.

ATTEST:

/s/ Mark Enoch

Chairman, Board of Directors

/s/ Angie Chen Button

Secretary, Board of Directors

/s/ Gary C. Thomas

DART, President/Executive Director

**Exhibit A**

**Unaudited Statement of Principal Accounts  
for the three-month period ended December 31, 2006**

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

December 31, 2006 and September 30, 2006 (Dollars in Thousands)

	12/31/2006	9/30/2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 98,845	\$ 77,249
Investments	305,725	347,526
Investments held by trustee for debt service	5,111	19,344
Investments held to pay capital lease/leaseback liabilities	38,358	36,525
Sales tax receivable	72,100	64,768
Transit revenue receivable, net	2,574	2,070
Due from federal and other governments	1,226	1,956
Materials and supplies inventory	22,596	22,773
Prepaid transit expense and other	4,639	4,354
<b>TOTAL CURRENT ASSETS</b>	<b>551,174</b>	<b>576,565</b>
<b>NONCURRENT ASSETS</b>		
Note receivable	3,136	3,112
Investments restricted for system expansion and acquisition	412	29,460
Investment in joint venture	9,525	9,654
Capital assets		
Land and rights-of-way	387,009	387,009
Depreciable capital assets, net of depreciation	1,573,191	1,599,253
Projects in progress	536,059	469,652
Long-term investments held to pay capital lease/leaseback liabilities	408,544	410,600
Net pension asset	3,716	3,716
Unamortized long-term debt issuance costs	4,562	3,811
<b>TOTAL NONCURRENT ASSETS</b>	<b>2,926,154</b>	<b>2,916,267</b>
<b>TOTAL ASSETS</b>	<b>3,477,328</b>	<b>3,492,832</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	65,313	107,089
Commercial paper notes payable	445,645	415,645
Current portion of capital lease/leaseback liabilities	38,358	36,525
Current portion of amount due to State Comptroller	824	824
Local Assistance Program payable	20,644	21,684
Retainage payable	16,020	15,773
Other liabilities	11,649	10,213
Payable from restricted assets:		
Interest Payable	5,230	9,678
Current portion of senior lien sales tax revenue bonds payable	9,240	10,820
<b>TOTAL CURRENT LIABILITIES</b>	<b>612,923</b>	<b>628,251</b>
<b>NONCURRENT LIABILITIES</b>		
Repayment due to State Comptroller	12,154	12,360
Senior lien sales tax revenue bonds payable	455,703	464,899
Capital lease/leaseback liabilities	408,544	410,600
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>876,401</b>	<b>887,859</b>
<b>TOTAL LIABILITIES</b>	<b>1,489,324</b>	<b>1,516,110</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	1,574,011	1,582,230
Restricted for:		
Debt service		9,666
Unrestricted	413,993	384,826
<b>TOTAL NET ASSETS</b>	<b>\$1,988,004</b>	<b>\$1,976,722</b>

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

For the three month ended December 31, 2006 and 2005 (In Thousands)

	2006	2005
<b>OPERATING REVENUES</b>		
Passenger revenues	\$10,326	\$10,108
Advertising, rent, and other	2,185	2,107
<b>TOTAL OPERATING REVENUES</b>	<u>12,511</u>	<u>12,215</u>
<b>OPERATING EXPENSES</b>		
Labor	38,378	36,509
Benefits	15,056	16,923
Services	4,882	4,857
Materials and supplies	10,704	11,502
Purchased transportation	10,085	9,559
Depreciation	26,199	25,925
Utilities	2,389	2,528
Taxes, leases, and other	965	803
Casualty and liability	844	978
<b>TOTAL OPERATING EXPENSES</b>	<u>109,502</u>	<u>109,584</u>
<b>OPERATING LOSS</b>	<u>(96,991)</u>	<u>(97,369)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Sales tax revenue	100,955	93,212
Investment income	6,009	3,106
Interest income from investments held to pay capital lease/leaseback	5,459	6,522
Interest expense on capital lease/leaseback	(5,459)	(6,522)
Local Assistance Program and street improvements	(190)	(498)
Interest and financing expenses	(7,034)	(6,669)
Other non-operating revenues	2,816	1,741
Other non-operating expenses	(1,046)	(29)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>101,510</u>	<u>90,863</u>
<b>(LOSS) BEFORE CAPITAL CONTRIBUTIONS, GRANTS AND REIMBURSEMENTS</b>	<u>4,519</u>	<u>(6,506)</u>
<b>CAPITAL CONTRIBUTIONS, GRANTS AND REIMBURSEMENTS</b>		
Federal capital contributions	6,286	6,212
Federal grants and reimbursements	477	163
<b>TOTAL CAPITAL CONTRIBUTIONS, GRANTS AND REIMBURSEMENTS</b>	<u>6,763</u>	<u>6,375</u>
<b>CHANGE IN NET ASSETS</b>	11,282	(131)
<b>TOTAL NET ASSETS – BEGINNING OF THE QUARTER</b>	<u>1,976,722</u>	<u>1,958,508</u>
<b>TOTAL NET ASSETS – END OF THE QUARTER</b>	<u>\$1,988,004</u>	<u>\$1,958,377</u>

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

For the three months ended December 31, 2006 and 2005 (Dollars in Thousands)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$12,007	\$11,276
Payments to suppliers of goods and services	(39,636)	(44,683)
Payments to purchased transportation service providers	(9,977)	(9,453)
Payments to employees	(37,759)	(36,048)
Benefit payments on behalf of employees	(13,587)	(15,456)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(88,952)</b>	<b>(94,364)</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Sales tax proceeds	93,417	86,875
Other non-capital non-operating revenues	2,288	2,112
Federal grants and reimbursements	478	163
Local Assistance Program and street improvements	(1,230)	(523)
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>94,953</b>	<b>88,627</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	5,765	2,992
Proceeds from sales and maturity of investments	264,458	109,520
Purchase of investments	(221,998)	(34,363)
Decrease in restricted assets	43,280	18,138
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>91,505</b>	<b>96,287</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(89,649)	(19,288)
Proceeds from the issuance of commercial paper notes	30,000	20,000
Principal payment on sales tax revenue bonds	(10,820)	(10,470)
Interest and financing expenses	(11,438)	(13,178)
Federal capital contributions	5,997	6,212
<b>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(75,910)</b>	<b>(16,724)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>21,596</b>	<b>73,826</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE QUARTER</b>	<b>77,249</b>	<b>36,787</b>
<b>CASH AND CASH EQUIVALENTS, END OF THE QUARTER</b>	<b>\$98,845</b>	<b>\$110,613</b>

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

For the three months ended December 31, 2006 and 2005 (Dollars in Thousands)

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating loss	\$(96,991)	\$(92,531)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation and amortization	26,199	25,925
Changes in assets and liabilities		
Increase in transit receivable	(504)	(939)
(Increase) decrease in materials and supplies inventory	178	(1,006)
Increase in prepaid expenses and other current assets	(1,265)	(2,529)
Decrease in accounts payable and accrued liabilities	(18,294)	(20,778)
Increase in other current liabilities	1,725	2,332
NET CASH USED BY OPERATING ACTIVITIES	<u>\$(88,952)</u>	<u>\$(89,526)</u>
NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Interest income from investments held to pay capital lease/leaseback	\$5,459	\$6,522
Interest expense on capital lease/leaseback	(5,459)	(6,522)
Payment of capital lease/leaseback obligation by trustee	(5,682)	(9,957)