

DALLAS AREA RAPID TRANSIT



Quarterly Disclosure Update for the six-month period ended March 31, 2014

This Quarterly Disclosure Update supplements the information contained in our 2014 Annual Disclosure Statement dated February 25, 2014 (the 2014 Annual Disclosure Statement) and our Quarterly Disclosure Update for the three-month period ending December 31, 2013, dated March 25, 2014, that has been filed as a public record with the Municipal Securities Rulemaking Board's website at www.emma.msrb.org, and is posted on the Internet at our website, 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: Executive Vice President/Chief Financial Officer, DART, 1401 Pacific Avenue, Dallas, Texas 75202, (214) 749-3148.

GENERAL

We are posting and filing this Quarterly Disclosure Update to supplement our 2014 Annual Disclosure Statement dated February 25, 2014 and our Quarterly Disclosure Update for the three-month period ending December 31, 2013, dated March 25, 2014. 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 2014 Annual Disclosure Statement. See, 2014 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 six-month period ended March 31, 2014.

YOU SHOULD CAREFULLY CONSIDER THE INVESTMENT CONSIDERATIONS IN THE 2014 ANNUAL DISCLOSURE STATEMENT.

FORWARD-LOOKING STATEMENTS

We make "forward-looking statements" in the 2014 Annual Disclosure Statement and in Quarterly Disclosure Updates by using forward-looking words such as "may," "will," "should," "intends," "expects," "believes," "anticipates," "estimates," or others. You are cautioned that forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include general economic and business conditions, conditions in the financial markets, our financial condition, our sales tax revenues, receipt of federal grants, and various other factors that are beyond our control. Because we cannot predict all factors that may affect future decisions, actions, events, or financial circumstances, what actually happens may be different from what we include in forward-looking statements.

Dated: May 30, 2014

QUARTERLY DISCLOSURE UPDATE

The 2014 Annual Disclosure Statement dated February 25, 2014 and Quarterly Disclosure Update dated March 25, 2014 is updated by the following supplemental information:

Unaudited Financial Information

Audited financial statements for our fiscal year ended September 30, 2013, are attached as Appendix A to the 2014 Annual Disclosure Statement. An unaudited statement of our principal accounts for the six-month period ended March 31, 2014 and March 31, 2013 is included as Exhibit A to this Quarterly Disclosure Update. Such quarterly financial statements should be read in conjunction with our annual financial statements. This information is taken from our internal books and records that are 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 six-month period ended March 31, 2014, 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 six-month period will not differ from the unaudited financial information presented herein and in Exhibit A.

Management's Comment Regarding Second Quarter Financial Information

DART's unaudited financial statements for the six-month period ended March 31, 2014, and March 31, 2013, show sales tax revenues as \$240.7 million and \$226.3 million, respectively, which indicates an increase of 6.3%. As of March 31, 2014, total assets were \$6.26 billion compared to \$6.30 billion as of March 31, 2013. Capital assets include land, projects in progress, and depreciable assets net of depreciation, and were \$4.92 billion (79%) of total assets, compared to \$4.93 billion (78%) of total assets as of March 31, 2013. Investments represented \$732.9 million (11.7%) of total assets. Net position (total assets plus deferred outflows of resources less total liabilities) was \$2.13 billion as of March 31, 2014, compared to \$2.21 billion as of March 31, 2013. Total revenues for the six months ended March 31, 2014 were \$379.2 million, which was an increase of 12% or \$40.6 million as compared to March 31, 2013. Total outstanding debt, excluding capital lease/leaseback obligations, as of March 31, 2014 was \$3.7 billion.

DART maintains various cash reserves including a Financial Reserve Account that is funded with sales tax collections that exceed budget during a given year, if any. In addition, the Board of Directors authorized the establishment of a Capital Reserve Account. Should the Financial Reserve exceed \$50 million, excess funds are placed in the Capital Reserve Account. An affirmative vote of two-thirds of the Board is required to draw upon the Financial and Capital Reserves, and the funds may be used for any purpose approved by the Board. For Fiscal Year 2013, our sales tax receipts exceeded our sales tax budget by \$3.98 million. Our Financial Standards require us to move any overages to the Financial Reserve Account. These funds were moved in December 2013. The balance in the Financial Reserve Account as of March 31, 2014 was \$45.9 million, and the balance in the Capital Reserve Account was \$0. As of March 31, 2014, the Operating Fund balance was \$767.1 million. We maintain a working cash balance in the Operating Fund equal to at least one month of projected payments.

In April 2013, the DART Board of Directors approved a Tenth Supplemental Debt Resolution authorizing \$150,000,000 in Senior Subordinate Lien Sales Tax Revenue, Commercial Paper Notes, Series I. The Resolution established a Self-Liquidity program for the issuance of DART Commercial Paper. Under the program, DART pledged to maintain two times the authorized amount of Self-Liquidity Commercial Paper (\$300 million) plus interest for 90 days at 12% interest. As of March 31, 2014, DART had \$120 million outstanding under the program. In June 2014, the DART Board of Directors is being asked to approve the First Amendment to Tenth Supplemental Debt Resolution allowing for the increase in the principal from \$150 million to \$200 million.

In April 2014, the DART Board of Directors approved a Cash Defeasance of \$8,079,750 in principal and interest for Series 2008 Bonds maturing December 1, 2014. Payment of this principal and interest payments prior to the end of Fiscal Year 2014 will improve DART's Internal and External Coverage ratios for Fiscal Year 2015.

DARTstaff has consulted with Bond Counsel, and it has been determined that the Quarterly Disclosure Updates will no longer require Board of Directors approval. The documents will be provided to the DART Board of Directors and will continue to be publicly posted as described above.

Litigation

No significant changes have occurred in the status of pending litigation involving DART since the date of the 2014 Annual Disclosure Statement. Accruals and estimated losses on claims that are asserted in pending litigation, if any, are included in accounts payable and accrued liabilities in the unaudited statement of our principal accounts attached hereto as Exhibit A.

Other than cases filed in the ordinary course of business as an operating transit agency, no new litigation has been filed against DART since the date of the 2014 Annual Disclosure Statement. See, 2014 Annual Disclosure Statement, "LITIGATION."

Exhibit A

**Unaudited Statement of Principal Accounts
for the six-month period ended March 31, 2014**

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

March 31, 2014 and September 30, 2013 (Dollars in Thousands)

	3/31/2014	9/30/2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 82,088	\$ 75,826
Investments	732,911	656,424
Sales and use tax receivable	80,736	77,752
Transit revenue receivable, net	1,876	2,759
Due from federal and other governments	16,456	24,575
Materials and supplies inventory, net	27,110	24,252
Prepaid transit expense and other	4,586	4,877
Restricted investments held by trustee for debt service	81,284	87,353
Restricted investments held for advance funding agreements	13,768	11,737
Restricted investments held to pay capital lease/leaseback liabilities	17,089	36,209
TOTAL CURRENT ASSETS	1,057,904	1,001,764
NONCURRENT ASSETS		
Investments restricted for system expansion and acquisition	62,230	121,743
Restricted investments held as security for capital lease/leaseback liabilities	10,017	10,218
Investment in joint venture	21,370	22,058
Capital assets		
Land and rights-of-way	577,298	578,169
Depreciable capital assets, net of depreciation	4,016,582	4,093,901
Projects in progress	328,528	257,514
Restricted investments held to pay capital lease/leaseback liabilities	178,473	184,495
Net pension asset	10,402	9,457
Unamortized bond issue costs and other	1,697	21,492
TOTAL NONCURRENT ASSETS	5,206,597	5,299,047
TOTAL ASSETS	6,264,501	6,300,811
DEFERRED OUTFLOWS OF RESOURCES		
Loss on debt refunding	14,814	17,505
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	97,498	76,563
Commercial paper notes payable	120,000	100,000
Current portion of capital lease/leaseback liabilities	17,089	36,209
Current portion of repayment due to State Comptroller	824	824
Local Assistance Program payable	1,997	1,997
Retainage payable	25,718	23,514
Unearned revenue and other liabilities	40,634	34,029
Accrued interest payable from restricted assets	60,228	59,938
Current portion of senior lien revenue bonds payable	45,910	25,480
TOTAL CURRENT LIABILITIES	409,898	358,554
NONCURRENT LIABILITIES		
Accrued liabilities	32,230	31,129
Repayment due to State Comptroller	9,811	10,223
Senior lien revenue bonds payable	3,430,080	3,481,611
Transportation Infrastructure Finance and Innovation Act (TIFIA) bond payable	90,000	45,000
Capital lease/leaseback liabilities	178,473	184,495
TOTAL NONCURRENT LIABILITIES	3,740,594	3,752,458
TOTAL LIABILITIES	4,150,492	4,111,012
Net investment in capital assets	1,242,632	1,372,321
Restricted for debt service	21,056	27,415
Restricted as security for capital lease/leaseback liabilities	10,017	10,218
Unrestricted	855,118	797,350
TOTAL NET POSITION	\$2,128,823	\$2,207,304

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

For the six months ended March 31, 2014 and 2013 (Dollars in Thousands)

	2014 <u>Unaudited</u>	2013 <u>Unaudited</u>
OPERATING REVENUES		
Passenger revenues	\$ 35,213	\$ 33,465
Advertising, rent, and other	<u>6,161</u>	<u>6,284</u>
TOTAL OPERATING REVENUES	<u>41,374</u>	<u>39,749</u>
OPERATING EXPENSES		
Labor	104,808	104,241
Benefits	47,840	43,497
Services	14,083	14,790
Materials and supplies	23,533	23,759
Purchased transportation	24,038	23,060
Depreciation and amortization	116,405	110,615
Utilities	8,175	9,859
Taxes, leases, and other	2,149	2,272
Casualty and liability	<u>2,331</u>	<u>1,931</u>
TOTAL OPERATING EXPENSES	<u>343,362</u>	<u>334,024</u>
NET OPERATING LOSS	<u>(301,988)</u>	<u>(294,275)</u>
NON-OPERATING REVENUES (EXPENSES)		
Sales and use tax revenue	240,671	226,303
Investment income	1,907	1,612
Interest income from investments held to pay capital lease/leaseback	8,074	9,738
Interest expense on capital lease/leaseback	(8,074)	(9,738)
Street improvements	(832)	(3,425)
Interest and financing expenses	(82,832)	(77,134)
Build America Bonds tax credit	14,135	14,348
Other non-operating revenues	5,559	5,579
Other non-operating expenses	<u>(503)</u>	<u>(1,147)</u>
NET NON-OPERATING REVENUES	<u>178,205</u>	<u>166,136</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<u>(123,783)</u>	<u>(128,139)</u>
CAPITAL CONTRIBUTIONS AND GRANTS		
Federal capital contributions	13,822	26,652
State capital contributions	326	210
Local capital contributions	7	195
Total capital contributions	<u>14,155</u>	<u>27,057</u>
Other federal grants	<u>53,303</u>	<u>14,189</u>
TOTAL CAPITAL CONTRIBUTIONS AND GRANTS	<u>67,458</u>	<u>41,246</u>
CHANGE IN NET POSITION	(56,325)	(86,893)
TOTAL NET ASSETS, BEGINNING OF YEAR	2,207,304	2,344,124
Cumulative effect of a change in accounting principle (1)	<u>(22,156)</u>	
TOTAL NET POSITION, END OF THE SIX MONTHS PERIOD	<u>\$2,128,823</u>	<u>\$2,257,231</u>

- (1) In fiscal year 2014, DART implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement requires the recognition of debt issuance costs as expense in the period incurred, except for any portion related to prepaid insurance costs. As of September 30, 2013, DART had reported prepaid debt issuance costs of \$23,403 on the Statements of Net Position. From this total, only \$1,247 is related to prepaid bond insurance premium. As a result of implementing Statement No. 65, DART is reducing its beginning net position by \$22,156.

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

For the six months ended March 31, 2014 and 2013 (Dollars in Thousands)

	2014 Unaudited	2013 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 43,861	\$ 45,808
Cash flows from other sources	6,082	7,482
Payments to suppliers of goods and services	(54,310)	(43,046)
Payments to purchased transportation service providers	(26,549)	(29,184)
Payments to employees	(108,131)	(106,528)
Benefit payments on behalf of employees	(40,649)	(43,191)
NET CASH USED BY OPERATING ACTIVITIES	<u>(179,696)</u>	<u>(168,659)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Sales and use tax proceeds	237,275	224,717
Other federal grants	53,210	14,402
Build America Bonds tax credit	14,135	15,231
Other non-capital financing receipts		122
Other non-capital financing payments		(104)
Local Assistance Program and street improvements	(832)	(3,800)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>303,788</u>	<u>250,568</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	2,179	1,920
Proceeds from sales and maturity of investments	622,004	386,340
Purchase of investments	(699,221)	(342,434)
(Increase) decrease in restricted assets	63,753	(25,146)
NET CASH (USED) GENERATED BY INVESTING ACTIVITIES	<u>(11,285)</u>	<u>20,680</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(77,373)	(169,178)
Proceeds from the issuance of commercial paper notes	230,000	200,000
Payment on commercial paper notes	(210,000)	(270,000)
Proceeds from the issuance revenue bonds		151,097
Proceeds from TIFIA bonds	45,000	5,000
Principal payment on revenue bonds	(25,480)	(6,740)
Interest and financing expenses	(85,341)	(77,576)
Payments of bond issuance costs		(1,238)
Federal capital contributions	14,782	27,102
State capital contributions	1,591	
Local capital contribution	9	211
Net proceeds from the sale of capital assets	267	213
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(106,545)</u>	<u>(141,109)</u>
NET DECREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	6,262	(38,520)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>75,826</u>	<u>106,532</u>
CASH AND CASH EQUIVALENTS, END OF THE SIX MONTHS PERIOD	<u>\$ 82,088</u>	<u>\$ 68,012</u>

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

For the six months ended March 31, 2014 and 2013 (Dollars in Thousands)

	2014 Unaudited	2013 Unaudited
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating loss	\$(301,986)	\$(294,275)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation	116,405	110,615
Miscellaneous non-operating income	5,393	5,213
Miscellaneous non-operating expenses	(503)	(1,012)
Changes in assets and liabilities		
Decrease in transit receivable	4,185	8,328
Increase in materials and supplies inventory	(2,858)	(330)
Increase in prepaid expenses and other current assets	(1,751)	(1,964)
Increase in net pension asset	(944)	
Decrease in accounts payable and accrued liabilities	(2,165)	(321)
Increase in other current liabilities	4,528	5,087
NET CASH USED BY OPERATING ACTIVITIES	<u>\$(179,696)</u>	<u>\$(168,659)</u>
NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Interest income from investments held to pay capital lease/leaseback	\$8,074	\$9,738
Interest expense on capital lease/leaseback	(8,074)	(9,738)
Decrease in capital lease/leaseback obligations	25,142	58,518
Decrease in investments held to pay capital lease/leaseback	(25,142)	(58,518)
Decrease in fair value of investments	(887)	(292)
Amortization of premium, discount and debt issuance costs	(5,483)	(2,535)