DALLAS AREA RAPID TRANSIT

2003 Annual Disclosure Statement

*This 2003 Annual Disclosure Statement replaces our 2002 Annual Disclosure Statement, dated January 22, 2002. This 2003 Annual Disclosure Statement has been posted on the Internet at our website, **www.dart.org**, and is filed with the Central Repositories named herein. We intend to update this 2003 Annual Disclosure Statement quarterly, beginning in March 2003, and to replace it annually. We reserve the right to suspend or stop postings on the Internet and quarterly updates at any time. However, we will always provide the annual and periodic information called for under our undertaking in compliance with SEC Rule 15c2-12.*

This 2003 Annual Disclosure Statement relates to the following securities that we have issued and intend to issue from time to time: Senior Lien Obligations, Senior Subordinate Lien Obligations, and Junior Subordinate Lien Obligations, but does not replace the Supplemental Official Statement or Supplemental Disclosure Statement and Offering Memorandum prepared for a particular series of debt securities.

You should carefully consider the Investment Considerations beginning on page 20 of this 2003 Annual Disclosure Statement.

DART is a subregional transportation authority created pursuant to Chapter 452 of the Texas Transportation Code (the "Act"). Our boundaries include the corporate limits of 13 North Texas cities and towns and our headquarters are located in Dallas, Texas. Under the Act, we are authorized to provide public transportation and complementary services within such cities and towns.

Pursuant to the authority of the Act and the approval of the voters at an election held on August 12, 2000, we are authorized to issue sales and use tax revenue obligations in an aggregate principal amount up to $2.9 billion. Such amount may not be increased without future voter approval. We are, however, authorized to borrow money in excess of that amount without voter approval by issuing bonds, notes, and other securities having maturities not longer than five years.

Our Board of Directors has adopted a "Master Debt Resolution" that authorizes the issuance and execution of various types of debt instruments (the "Obligations"). Obligations that are issued in the form of bonds, notes, or other securities (the "Bond Obligations") will be issued in multiple series, and each series will be classified as either "Senior Lien Obligations," "Senior Subordinate Lien Obligations," or "Junior Subordinate Lien Obligations." The Senior Lien Obligations are secured by a first lien on Pledged Revenues; the Senior Subordinate Lien Obligations are secured by a second lien on Pledged Revenues; and the Junior Subordinate Lien Obligations are secured by a third lien on Pledged Revenues. These liens are senior to any other claim against the Pledged Revenues. Pursuant to the Master Debt Resolution, we have issued and have outstanding both Senior Lien Obligations and Senior Subordinate Lien Obligations. See,"OUTSTANDING OBLIGATIONS AND OUR FINANCING PLANS."

The Pledged Revenues consist of the gross revenues that we receive from a 1% sales and use tax (the "Sales Tax") and the investment thereof while held by the Trustee in the Gross Sales Tax Revenue Fund. The Sales Tax is imposed on items and services that are sold, rented or purchased, or acquired for use within our boundaries, and that are subject generally to the Texas sales and use tax. See, "DART'S FINANCIAL PRACTICES AND RESOURCES—Principal Source of Revenue—The Sales Tax." The Bond Obligations will be issued for any one or more of the following purposes: refunding outstanding indebtedness, obtaining capital funds for the expansion of our public transportation system, creating reserves, paying interest during limited periods, paying our costs of issuance; or for other purposes if permitted by applicable law.

Unless otherwise indicated, capitalized terms used herein have the meanings assigned to them in the Master Debt Resolution.

This 2003 Annual Disclosure Statement may be used to offer and sell a series of Senior Lien Obligations, Senior Subordinate Lien Obligations, or Junior Subordinate Lien Obligations only if it is accompanied by the Supplemental Official Statement or Supplemental Disclosure Statement and Offering Memorandum for that series.

Dated: January 28, 2003

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IMPORTANT NOTICES

We have included cross-references to captions in the Table of Contents where you can find further discussions of summarized information.

We do not claim that the information in this 2003 Annual Disclosure Statement is accurate as of any date other than the Dated Date stated on the front cover, except for financial information which is accurate as of its stated date. We will update this 2003 Annual Disclosure Statement as described on the cover page. In addition, the summary of the Master Debt Resolution presented in Appendix B is not intended to be comprehensive. You may obtain copies of the Master Debt Resolution, or any updates to this 2003 Annual Disclosure Statement, from the Central Repositories, from our website on the Internet at ***www.dart.org***, or by contacting our Chief Financial Officer at our corporate address or telephone number to request a free copy: Chief Financial Officer, DART, 1401 Pacific Avenue, Dallas, Texas 75202, 214-749-3148.

In this 2003 Annual Disclosure Statement, “we,” “our,” “us,” and “DART” refer to Dallas Area Rapid Transit, a subregional transportation authority under the Act.

FORWARD-LOOKING STATEMENTS

We make “forward-looking statements” in this 2003 Annual Disclosure Statement 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, receipt of federal grants, and various other factors which 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.

OUTSTANDING OBLIGATIONS AND OUR FINANCING PLANS

On an as needed basis, we issue Senior Subordinate Lien Obligations in the form of short-term commercial paper notes (the “Notes”) to fund capital projects. Under the terms of the Revolving Credit Agreement securing the Notes, the maximum aggregate amount of Notes permitted to be outstanding is $450 million, of which $73,645,000, are currently outstanding. We periodically refund the outstanding Notes with Senior Lien Obligations in the form of long-term bonds. We currently have two series of Senior Lien Obligations outstanding--our Senior Lien Sales Tax Revenue Bonds, Series 2001 (the “Series 2001 Bonds”), outstanding in the aggregate principal amount of $400,000,000 and our Senior Lien Sales Tax Revenue Bonds, Series 2002 (the “Series 2002 Bonds”), outstanding in the aggregate principal amount of $98,735,000.

Bond Obligations We Expect to Issue In 2003

We do not plan to issue any Senior Lien Obligations in 2003. However, we do plan to issue additional Notes periodically during the year to continue the financing of our capital acquisitions.

Preconditions to Issuance of Bond Obligations—Financial Coverage Tests

– Conditions to Issuance of Senior Lien Obligations

The Master Debt Resolution authorized us to issue $500 million of Initial Senior Lien Obligations without complying with specific financial tests as a precondition to issuing such Obligations. The Series 2001 Bonds together with the Series 2002 Bonds represent all of the Initial Senior Lien Obligations we are authorized to issue. Therefore, under the Master Debt Resolution we cannot issue any Additional Senior Lien Obligations unless:

(1) An independent economist broadly experienced in economic forecasting in the North Texas region, or an independent certified public accountant or accounting firm, reports to us

projections of Gross Sales Tax Revenues and the projections show that the estimated Gross Sales Tax Revenues for each of three consecutive Fiscal Years, beginning with the first Fiscal Year in which Debt Service will be due on the proposed Additional Senior Lien Obligations, are equal at least to 200% of the Debt Service that will be due on all Senior Lien Obligations that will be outstanding after the proposed new issue during each of such three Fiscal Years; or

(2) During either our most recent Fiscal Year or during 12 out of the most recent 18 months, our Gross Sales Tax Revenues were equal to at least 200% of the maximum Debt Service that will be due on any outstanding and the proposed Additional Senior Lien Obligations during any of the current or any future Fiscal Year; and

(3) Our Chief Financial Officer certifies that we will receive Gross Sales Tax Revenues, during each of three consecutive Fiscal Years beginning with the Fiscal Year in which Debt Service is due on the proposed Additional Senior Lien Obligations, which will be sufficient to pay all Senior Lien Obligations and all Subordinate Lien Obligations during such three Fiscal Years; and

(4) We satisfy any additional financial tests that may be contained in a Supplemental Resolution or Credit Agreement.

– Conditions to Issuance of Subordinate Lien Obligations

The Master Debt Resolution does not itself impose financial tests as preconditions to the issuance of additional Bond Obligations as Senior Subordinate Lien Obligations or as Junior Subordinate Lien Obligations beyond the requirement that we demonstrate the ability to pay them when due.

However, the Revolving Credit Agreement securing the Notes imposes additional financial tests as preconditions to the issuance of Bond Obligations as Senior Lien Obligations or Senior Subordinate Lien Obligations. The Revolving Credit Agreement has a current termination date of February 4, 2004, and is subject to annual renewal at the option of the lender.

Under the requirement of the Revolving Credit Agreement, we have the right to issue Bond Obligations as Senior Lien Obligations or Senior Subordinate Lien Obligations in any principal amount that is actually applied to the payment, refunding or defeasance of the commercial paper notes or Loans under the Revolving Credit Agreement by meeting solely the financial tests of the Master Debt Resolution, as summarized above.

However, we cannot issue additional Bond Obligations as Senior Lien Obligations or Senior Subordinate Lien Obligations for other purposes unless:

(1) We satisfy the financial tests contained in the Master Debt Resolution summarized above; and

(2) An independent economist broadly experienced in economic forecasting in the North Texas region, or an independent certified public accountant or accounting firm, reports to us projections of Gross Sales Tax Revenues and the projections show that the estimated Gross Sales Tax Revenues for each of the three following and consecutive Fiscal Years, beginning with the first Fiscal Year in which Debt Service will be due on the proposed Bond Obligations, are equal at least to 150% of the Debt Service that will be due on all Bond Obligations that are issued as Senior Lien Obligations and Senior Subordinate Lien Obligations that will be outstanding after the proposed new issue during each of such three Fiscal Years; and

(3) During any 4 of the most recent 6 calendar quarters immediately preceding the issuance date of the proposed Bond Obligations our Gross Sales Tax Revenues must have been equal at least to 200% of the Debt Service on our Bond Obligations that were outstanding during such 4 calendar quarters plus Debt Service on the proposed Bond Obligations, assuming that they were outstanding during such period and after taking into account any reduction in Debt Service that may result from the issuance of the proposed Bond Obligations.

We expect that future Credit Providers and general market requirements will, from time to time, impose different or additional financial tests as preconditions to the issuance of additional Bond Obligations having any lien ranking. Any such additional requirements will be contained in a Supplemental Resolution or in a Credit Agreement. See, Appendix B, SUMMARY OF CERTAIN TERMS OF THE MASTER DEBT RESOLUTION—Permitted DART Indebtedness.

Method of Issuing Bond Obligations

To issue any series of Bond Obligations, the Master Debt Resolution requires our Board to adopt a Supplemental Resolution establishing the specific terms of the series to be issued. **When we issue Bond Obligations, you should purchase them on the basis of this 2003 Annual Disclosure Statement only if you have also obtained a "Supplemental Official Statement" or a "Supplemental Annual Disclosure Statement and Offering Memorandum" relating to the series of Bond Obligations you are considering.**

Security for the Obligations—Flow of Funds

Our Gross Sales Tax Revenues consist of the money we are entitled to receive under the Act and other state law from the levy and collection of the voter-approved Sales Tax that is levied on taxable items and services that are sold or used within our boundaries. That revenue and the investments thereof, if any, while held by the Trustee in the Gross Sales Tax Revenue Fund are the Pledged Revenues that secure all of the Obligations.

State law requires the sellers and suppliers of taxable items and services to collect the Sales Tax from consumers and to pay collected taxes to the Texas Comptroller of Public Accounts. The Comptroller receives and collects all such taxes that are imposed throughout the state and pays them over to the agencies, such as DART, that levy them, net of a 2% collection fee and reserves for possible refunds.

The Master Debt Resolution establishes (1) the procedure for handling the Gross Sales Tax Revenues from the point of release of the revenues by the Comptroller to the Trustee to the point they are released by the Trustee to us; (2) the priorities of the liens that are created for the benefit of the Senior Lien Obligations, the Senior Subordinate Lien Obligations, and the Junior Subordinate Lien Obligations; and (3) the permissible investments thereof at our direction.

The law requires the Comptroller to deliver the net amount of the collected taxes to us or for our benefit not less frequently than quarterly. Under current practice, the Comptroller delivers net tax collections monthly directly to the Trustee for the benefit of the Holders of Obligations under the Master Debt Resolution.

The Trustee is required to deposit money received from the Comptroller to the Gross Sales Tax Revenue Fund. On the day of receipt, the Trustee is required to withdraw that money and to make deposits to three debt service funds in amounts equal to the Accrued Aggregate Debt Service on the Obligations of each lien ranking, beginning first with the Senior Lien Debt Service Fund, then the Senior Subordinate Lien Debt Service Fund, and finally the Junior Subordinate Lien Debt Service Fund, before any monies are released to us for other uses.

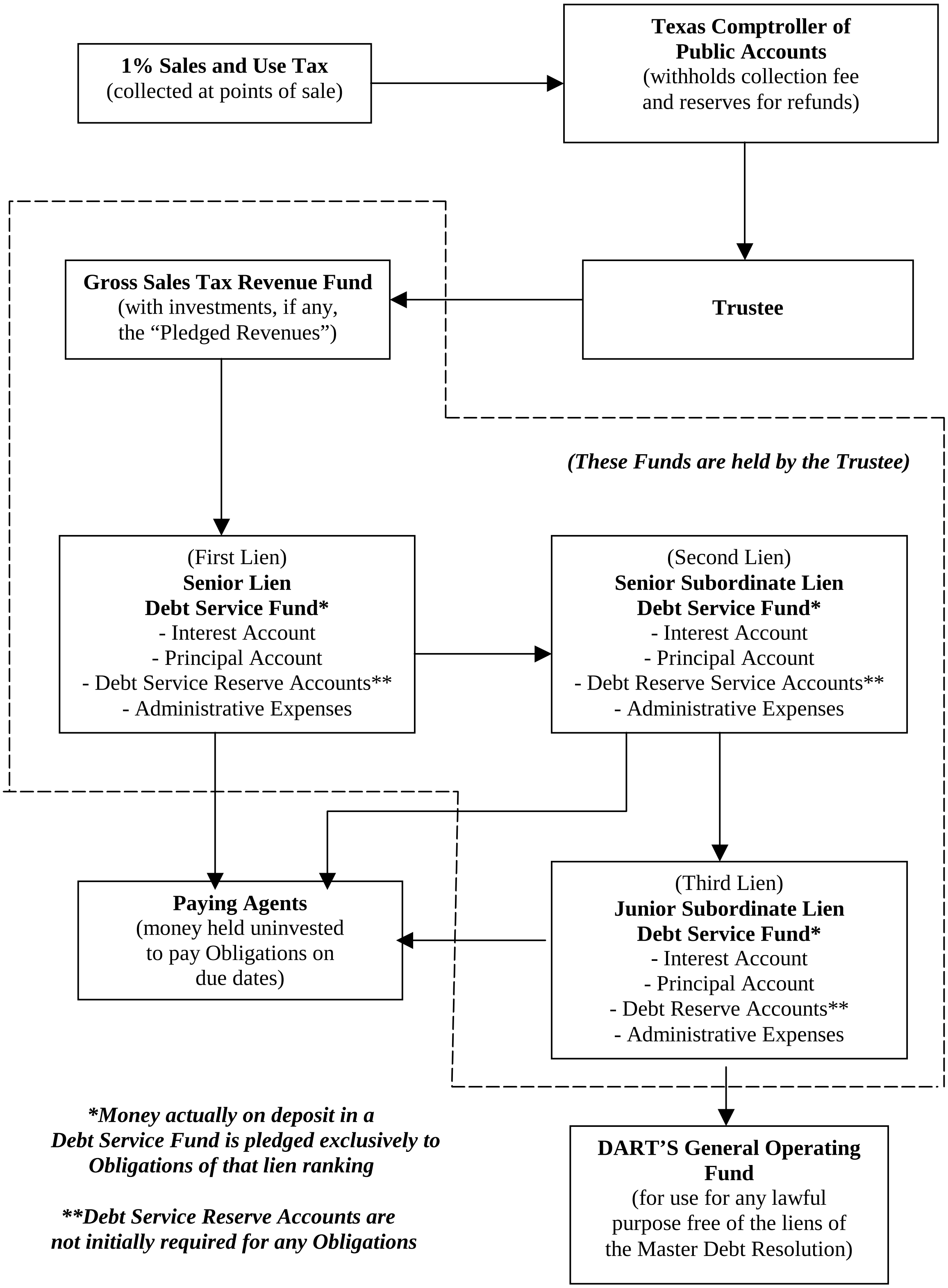
Money actually on deposit in a Debt Service Fund is pledged exclusively and irrevocably to the Obligations of the applicable lien ranking.

If the monies received from the Comptroller are not sufficient to fill all three of the Debt Service Funds to the level of current requirements, they are filled in the order of lien ranking and any deficiencies are restored with the next available Gross Sales Tax Revenues.

If there is an excess of money over the amounts needed to make the required deposits to all three Debt Service Funds, and after restoring deficiencies, if any, the Trustee is required to deliver the excess revenue to DART, free and clear of the liens of the Master Debt Resolution.

When payments are due on Bond Obligations, the Trustee sends the required amounts from the applicable Debt Service Fund to the Paying Agent(s) for the maturing Obligations, as shown in the following chart of the flow of funds:

Flow of Funds (cont'd)



Money actually on deposit in a Debt Service Fund is pledged exclusively to Obligations of that lien ranking

*****Debt Service Reserve Accounts are not initially required for any Obligations***

Securities Secured by Special Revenues

We have not pledged our "Special Revenues" as security for the payment of any of our Obligations. Special Revenues include such revenues and resources as our farebox revenues and funds that we may receive as federal grants. We have reserved the right in the Master Debt Resolution to pledge Special Revenues as additional security for Bond Obligations issued as Subordinate Lien Obligations, and to issue other debt securities that are payable from and secured solely by Special Revenues.

INFORMATION ABOUT DART

DART is a subregional transportation authority and governmental agency of the State of Texas, created and confirmed by a referendum passed on August 13, 1983, pursuant to Article 1118y of Vernon's Annotated Texas Civil Statutes, as amended and recodified into the Act. The Act authorizes us to provide public transportation and complementary services within the corporate limits of those cities and towns in which the voters have confirmed the creation of or joinder with DART and approved the imposition of the Sales Tax under the Act.

DART's Boundaries, Additions, Withdrawal Rights

Our current boundaries include the following Participating Municipalities: the Cities of Carrollton, Cockrell Hill, Dallas, Farmers Branch, Garland, Glenn Heights, Irving, Plano, Richardson, Rowlett, and University Park and the Towns of Addison and Highland Park, Texas. Our boundaries encompass approximately 700 square miles and contain an estimated population of 2.15 million persons as of the January 2000 census.

If a municipality that we do not currently serve is located at least in part in a county that we serve, the municipality may become a Participating Municipality by holding an election in accordance with the Act at which its joinder with DART and the imposition of the Sales Tax is approved by its voters.

Under the Act, a Participating Municipality has the right to call an election at which its voters may vote to withdraw as a Participating Municipality every sixth calendar year after 1996. This process can be initiated by either official action of the Participating Municipality's governing body or by citizen petition. In 1989, eight Participating Municipalities held withdrawal elections. The voters in six of the eight cities voted against withdrawal, but the voters in two cities, Coppell and Flower Mound, voted in favor of withdrawal. In 1996, withdrawal elections were held in five Participating Municipalities. In each case, a majority of the voters voted against withdrawal. No additional withdrawal elections were held in 2002. Withdrawal elections may not be held again until 2008.

If a withdrawal election is held and voters approve withdrawal from DART, all of our public transportation services to and within the withdrawing municipality must cease on the day following the canvass of the election returns. The Comptroller must continue to collect the Sales Tax within that municipality, however, until we have collected an amount equal to the withdrawing municipality's pro-rata share of our financial obligations that existed at the time of withdrawal. Accordingly, the Act limits the impact a municipality's withdrawal might have on our ability to repay our indebtedness, including any Obligations.

Under the Act, our Board must calculate a withdrawing municipality's financial obligation to us as of the date of withdrawal. This financial obligation shall equal such municipality's portion of the total amount of the following:

- Our outstanding obligations under contract and authorized in our current budget;
- Our outstanding contractual obligations for capital and other expenditures payable from sources other than proceeds of notes, bonds or other obligations;
- Payments due or to become due in all subsequent years on notes, bonds or other securities or obligations for debt issued by us;
- Our required reserves for all years to comply with financial covenants made with lenders, note or bond holders or other creditors or contractors; and

- The amount necessary for the full and timely payment of our existing obligations, to avoid a default or impairment of those obligations, including contingent liabilities.

Any of our financial obligations that specifically relate to such withdrawing municipality will be allocated completely to it.

DART's General Powers and Purposes

We exercise public and essential governmental functions under the Act, and the Act grants us certain powers to carry out these functions. The Act authorizes us to acquire, construct, develop, plan, own, operate, and maintain all real and personal property needed by us for public transportation or complementary transportation purposes. Complementary transportation services include the following services:

- Special transportation services for elderly or disabled persons;
- Medical transportation services;
- Assistance in street modifications to accommodate our public transportation system;
- The purchase, construction, or renovation of general aviation facilities that are not served by certificated air carriers in order to relieve air traffic congestion at existing facilities; and
- Any other service that complements our public transportation system, such as parking garages.

The Act grants to us the right to acquire property by eminent domain for our public transportation system, so long as the governing body (in a city or town) or the commissioners court of the county (in unincorporated areas) having jurisdiction over the property approves the acquisition. The Act also authorizes us to lease to or contract with a private operator to operate a public transportation system or any part thereof, and to contract with any non-participating city, county or other political subdivision to provide public transportation services to any area outside our boundaries.

The Board of Directors

We are governed by a 15-member Subregional Board of Directors. The governing bodies of the Participating Municipalities appoint members to our Board according to the ratio of the population of each Participating Municipality to the total population within our boundaries. A Participating Municipality having a population which entitles it to make a fraction of an appointment may combine that fraction with one or more other Participating Municipalities to make one appointment, but no Participating Municipality may appoint more than 65% of the members of the Board. The Board is restructured whenever there is a change in the member municipalities, or every fifth year after the date census data or population estimates become available.

Each Board member serves at the pleasure of the governing municipal unit that appoints the member. Board members serve staggered two-year terms. Eight of the member terms begin on July 1 of odd-numbered years and seven of the member terms begin July 1 of even-numbered years. Each member is entitled to receive $50 for each Board meeting attended and is reimbursed for necessary and reasonable expenses incurred in the discharge the member's duties.

The following table sets forth information regarding our current Board of Directors. The Board appoints from its members a chair, vice chair, secretary, and assistant secretary as indicated below.

CURRENT MEMBERS AND OFFICERS OF THE BOARD OF DIRECTORS			
NAME	REPRESENTS	YEAR OF APPOINTMENT TO BOARD	OCCUPATION
Robert W. Pope, ***Chairman***	Plano	1996	Real Estate Investor/Developer
Huelon Harrison, ***Vice Chair***	Dallas	1998	Bank Executive
Mark C. Enoch, ***Secretary***	Farmers Branch, Garland and Rowlett	1997	Attorney
Terri A.G. Adkisson, ***Assistant Secretary***	Dallas	1998	Consultant
Randall Chrisman	Carrollton and Irving	2002	President of Consulting Business
Joyce B. Foreman	Dallas	2002	Office Products Business Owner
Linda Koop	Dallas	1999	Community Volunteer
Angie Chen Button	Garland	2002	Marketing Executive
Raymond Noah	Addison, Highland Park, Richardson and University Park	1984	Attorney
Jesse D. Oliver	Dallas	1993	Attorney
Beatrice Alba Martinez	Dallas	2002	Independent Realtor
Norma Stanton	Irving	1990	Independent Appraiser
William M. Velasco	Dallas	2001	Tax and Insurance Business Owner
W. Richard Watkins	Dallas	1997	Oil & Gas Consulting Executive
Faye Wilkins	Dallas, Plano, Glenn Heights, and Cockrell Hill	1999	Telecommunications & Systems Integration Consultant

DART's Management

The Board appoints our President/Executive Director, who also serves as our Chief Executive Officer. The Chief Executive Officer's duties include:

- Administering our daily operations, including the hiring, compensation and removal of employees;
- Awarding contracts for services, supplies, capital acquisitions, real estate, and construction without Board approval if the amount of any such contract does not exceed $100,000; and
- Awarding contracts of up to $250,000 without Board approval for standard off-the-shelf commercial products.

Additional staff positions that report directly to the Board include the General Counsel, an Internal Auditor, and a Director of Board Support.

A summary of our executive management team is shown in the following table:

DART'S EXECUTIVE MANAGEMENT		
NAME	POSITION	TENURE WITH DART
Gary C. Thomas	President/Executive Director	1998 – Present
Douglas A. Allen	Executive Vice President, Program Development	1984-85 and 1986 – Present
Victor H. Burke	Executive Vice President, Operations	1991 – Present
Ben Gomez	Executive Vice President, Administration	1994 – Present
Sharon Leary	Chief Financial Officer	1998 – Present
Albert Bazis	Director of Internal Audit	2001 – Present
Swanson W. Angle	Interim General Counsel	2000 - Present
Sue Bauman	Vice President, Marketing and Communications	1984 - Present
Kathryn Waters	Vice President, Commuter Rail and Railroad Management	2002 – Present
Gloria Dixon	Vice President, Diversity and Economic Opportunities	2001 – Present
Doug Douglas	Vice President, Paratransit Service	1990 – Present
Kenneth W. Mercer	Vice President, Procurement	1997- Present
Michael C. Hubbell	Vice President, Maintenance	1995 – Present
Frank E. Jennings	Vice President, Transportation	1987 – Present
Timothy H. McKay, P.E.	Senior Vice President, Project Management	2001 – Present
Juan Rodriguez	Vice President, Chief of Police	1988 - Present
Nancy Johnson	Director of the Office of Board Support	1999 – Present

Employees and Employee Relations

As of September 30, 2002, we employed 2,940 employees of whom approximately 1,654 were hourly bus operators and mechanics. Many of our hourly employees are represented by three different organizations.

The Amalgamated Transit Union, Local 1338, represents the majority of our bus operators, mechanics and call center personnel. The Rail Employees Association represents operators and mechanics who work primarily with the rail mode of transportation. We also recognize the United Transit Police of Dallas, Local 96, as the employee representative for sworn Transit Police Personnel in connection with their dispute resolution process.

As a Texas governmental agency, we do not collectively bargain or sign labor contracts with these employee representatives. We do, however, meet and confer with these representatives on hourly employee issues, compensation and benefits.

Significant Contract Services

We use contracted services extensively, including the following:

- We contract with First Transit, Inc. (formerly ATE Management & Service Company, Inc.) for approximately one-third of our bus operations;

- We contract with ATC/Vancom of Texas for all of our paratransit operations;

- We contract with Herzog Transit Services, Inc. for our commuter rail services; and

- We contract with ACT21 (a joint venture of Carter Burgess, STV Inc; Jacobs Sverdrup and KAI-Alliance), our general engineering consultant, for our light rail construction program and major bus facilities.

We also utilize contracts for a major portion of the planning, design, and construction of major capital programs.

Insurance

We maintain a comprehensive insurance program, including the following:

- We self-insure for auto liability, general liability and workers' compensation claims arising out of transit operations. Segregated cash reserves are maintained for these programs;

- We carry all-risk property insurance for full repair or replacement in the event of loss with a $500 million limit for any one loss or any one location;

- We carry $125 million liability coverage for the Trinity Railway Express commuter rail service with a $3 million self-insured retention;

- We provide an Owner Controlled Insurance Program ("OCIP") that covers eligible contractors working on construction of the light rail system for workers' compensation, employers' liability, general liability, excess liability and builder's risk insurance;

- We self-insure the first $500,000 of any OCIP workers' compensation claim and the first $1 million of any OCIP liability claim. Total workers' compensation claims are subject to a stop-loss of $3.5 million, after which insurance takes over; and

- We provide a $20 million project-specific professional liability insurance policy for architects and engineers working on the first phase of the light rail build-out project. For the second phase of the build-out, we provide a $50 million project-specific professional liability insurance policy that covers all consultants providing professional services, including environmental consulting services and construction management.

As a public entity, we are protected in many instances by governmental immunity. In cases where our governmental immunity does not apply, our liability is often limited by the Texas Tort Claims Act to $100,000 per person or $300,000 per occurrence for bodily injury and $100,000 per occurrence for property damage. Workers' compensation payments are statutory and regulated by the Texas Workers' Compensation Commission.

Significant Board Policies

Our Board has adopted a mission statement, goals, an approved System Plan for long-range capital development, financial and business planning policies (our Financial Standards), and general policies that provide management a framework within which it must operate. The Board has also adopted Bylaws and Rules of Procedure to ensure that it acts consistently.

—Annual Budget

The Act requires our Board to develop, recommend and approve an annual budget. The Board must make its proposed annual budget available to the governing bodies of the Participating Municipalities for comment at least 30 days prior to final annual budget adoption. The Participating Municipalities are not required to approve the annual budget, however, in order for it to become effective.

—Financial Standards

The Board's Financial Standards establish limits for capital expansion, the issuance of debt, and the maintenance of cash reserves. These standards are the basis for our Financial Plan projections. The Board has also approved Business Planning Parameters that establish operating service levels, management performance objectives, and policy limitations for projecting major sources and uses of cash. The Financial Standards and Business Planning Parameters are included in the Fiscal Year 2003 Budget.

—Investment Policy

We utilize investment strategies and procedures that we believe most effectively accomplish the following goals in order of priority: (1) preservation of capital; (2) liquidity to meet all obligations in a timely manner; and (3) maximization of earnings from the full investment of all available funds. We invest and manage our funds in compliance with Section 452.102 of the Act and the Public Funds Investment Act, Chapter 2256, Texas Government Code.

DART'S FINANCIAL PRACTICES AND RESOURCES

Audits of Financial Information

DART's Fiscal Year is from October 1 through September 30. We maintain our records of accounts in accordance with generally accepted accounting principles. We employ an Internal Auditor who supervises a staff of 11 employees. The Internal Auditor reports directly to our Board. Our financial accounts and records are audited at the close of each Fiscal Year by an independent, outside auditing and accounting firm approved by the Board. The audits are usually presented to us not later than 120 days after the close of a fiscal year.

Our Independent Auditors' Report, including our audited annual financial statements for the Fiscal Year ended September 30, 2002, is presented as a part of this 2003 Annual Disclosure Statement as Appendix A. Each subsequent annual revision of this 2003 Annual Disclosure Statement will include our most recent audited annual financial statements and our analysis of the financial results for the year.

Principal Source of Revenue—The Sales Tax

Our principal revenue source is the Sales Tax that is levied on taxable items that are sold, rented or purchased, or acquired for use, within the boundaries of our Participating Municipalities. The Act and the Limited Sales, Use, and Excise Tax Act, Chapter 151, Texas Tax Code, as amended, contain a full description of the items and services subject to and exempted from the sales and use tax.

The Texas Legislature has modified the sales and use tax base from time to time to add or subtract certain items to or from our taxable base, and even to exempt from taxes certain items purchased during a defined time window.

In 1999, the Legislature created an annual three-day "sales tax holiday" just prior to the opening of each new school year which exempts from State and local sales taxes the purchase of certain clothing and footwear. The sales tax holiday exempts these purchases from the Sales Tax as well. While the law establishing the sales tax holiday currently permits us to repeal the temporary exemption from our Sales Tax, we do not intend to repeal this exemption unless it will adversely impact our ability to repay any outstanding Obligations. While we cannot with certainty estimate the impact that sales tax holidays in August 1999-2002 have had on our Gross Sales Tax Revenues, they have not materially adversely affected our financial condition or results of operation.

The Gross Sales Tax Revenues that we have actually received from the Sales Tax in each of the most recent 10 fiscal years are shown in the following table:

Gross Sales Tax Revenues (in millions)	
Fiscal Year ended 9/30*	Actual Receipts
1993	$218.5
1994	$238.8
1995	$252.1
1996	$281.4
1997	$292.6
1998	$314.8
1999	$332.7
2000	$373.8
2001	$357.9
2002	$325.5

*Gross Sales Tax Revenues received in a specified fiscal year may relate to Sales Tax collections in a prior fiscal year. For additional information, see "DART OPERATIONS AND PERFORMANCE RESULTS -- Gross Sales Tax Revenues and the Net Operating Subsidy."

Secondary Revenues—Farebox Collections

We collect fares from our bus, rail, and paratransit users. The Act permits us to set fares based upon a zone system or by another classification that we determine to be reasonable and nondiscriminatory.

The Act requires us to use our farebox collections first to pay for our operating expenses. Since farebox revenues have never exceeded operating expenses in the past, and are not expected to exceed operating expenses in the future, we have not pledged our farebox revenues to the repayment of any Obligations under the Master Debt Resolution.

We receive other miscellaneous revenues, primarily from advertising and leases. We refer to these and the farebox revenues as "Operating Revenues." The following table lists our operating revenues and expenses for the past 10 fiscal years.

Operating Revenues & Expenses (in millions)		
Fiscal Year ended 9/30	Operating Revenues	Operating Expenses
1993	$25.8	$144.5
1994	$25.1	$152.9
1995	$29.0	$175.2
1996	$30.8	$177.6
1997	$32.7	$205.2
1998	$35.1	$215.1
1999	$36.8	$237.9
2000	$37.7	$242.4
2001	$42.2	$ 267.0
2002	$42.6	$304.5

Federal Grant Funds

We receive federal grant funds primarily from the Federal Transit Administration ("FTA"). We utilize these proceeds to fund a portion of our capital programs. The FTA receives approximately 85% of its grant money from the Federal Gasoline Tax Trust Fund, and Congress allocates transit funds on both a formula basis and a discretionary basis. We are eligible to receive both types of funds.

Congress appropriated $33.4 million of formula funds for us during fiscal year 2002. Most discretionary funds, however, are received through Full Funding Grant Agreements with the FTA. In 1998, we signed a $333 million Full Funding Grant Agreement for our North Central Light Rail Project. This represents the total amount of funds that the Federal government will pay during the life of this project. Congress appropriates this funding annually, and we are anticipating a $70 million appropriation under this Full Funding Grant Agreement in fiscal year 2003.

The following table reflects capital provided by federal grants by fiscal year for the past ten years.

Federal Capital Provided (in millions)	
Fiscal Year	**Receipts**
1993	$ 13.3
1994	$ 68.1
1995	$ 49.7
1996	$ 46.9
1997	$ 30.7
1998	$ 89.2
1999	$ 76.4
2000	$180.9
2001	$ 98.6
2002	$120.0

Lease/Leaseback Transactions

We are authorized by the Act to enter into economically defeased financing transactions which, in general, involve our lease and leaseback of specified, depreciable property to a trustee, acting on behalf of a private investor. Although we retain legal title to the leased property, these transactions may be structured so as to result in a sale of the subject property to the private investor for federal income tax purposes. A lease may be for a term that extends throughout or beyond the leased property's expected useful life or it may be for a shorter term. The rent due for the full term of the lease is prepaid to us and the trustee has no further obligation to pay us any rent under the lease. The trustee then subleases the property back to us for a sublease term that is shorter than the term of the lease. At a specified date on or before the end of the sublease term, we have the right to purchase the trustee's interest in the lease.

We pay a portion of the advance rental payment received by us from the trustee to purchase contractual undertakings from financial institutions, rated "AA" or better by recognized rating agencies, pursuant to which the financial institutions assume and agree to pay to the trustee the sublease rental payments due and owing by us through our purchase option date, together with the purchase option price owed by us if we determine to exercise our purchase option rights. Alternatively, we deposit a portion of such advance rental payment with a custodian, whom we instruct to purchase direct obligations of the United States Government that will mature on the dates and in the amounts required to pay sublease rental payments and the purchase option price.

Notwithstanding such contractual undertakings and custodial deposits, we remain obligated to pay all amounts owed by us under the sublease, including sublease rent and the purchase option price should we exercise it, in the event of the insolvency of or other failure to pay by the financial institutions or a failure of the custodial deposits. Our contingent liabilities under such transactions are subordinate to our obligations to pay the Obligations with Pledged Revenues when due.

The excess amount of the advance rental payments received by us over the costs of the contractual undertakings and the amount of the custodial deposit, after paying for certain other costs in connection with the transaction, belongs to us and is available for our use for any lawful purpose. After closing the transaction, we continue to have the right to uninterrupted use and possession of the leased property so long as we are not otherwise in default.

We have entered into five lease transactions. Three of them were for the lease and leaseback of 105 rail cars used as a part of our light rail and commuter rail systems. The fourth lease was for the lease and leaseback of our headquarters building and certain vehicle maintenance facilities included as a part of our public transportation system. Our most recent lease was for the lease and leaseback of 341 buses used for our fixed route bus system. These transactions are summarized in the footnotes to the Independent Auditors' Report attached hereto as Appendix A.

INFORMATION ABOUT DART'S TRANSPORTATION SYSTEM

The Current System

Our current mass transit services include:

- Regular route bus service;
- Special events service;
- Light rail transit service;
- Commuter rail service;
- Paratransit service for the mobility impaired;
- High Occupancy Vehicle Lanes; and
- RideShare matching services for carpools and vanpools.

To provide the current services, as of December 1, 2002, we operated a fleet of 857 buses, 170 paratransit vans and sedans, 95 light rail vehicles, and 13 rail diesel cars. During fiscal year 2002, we moved 93.9 million passengers, with an average weekday ridership for all modes of 300,135. The following table highlights total system ridership by mode for the last ten years.

Ridership by Mode
(in millions)

Fiscal Year	Bus	LRT	Commuter Rail	HOV	Paratransit	Vanpool	Total
1993	45.7	-	-	4.0	0.9	-	50.6
1994	45.4	-	-	3.5	0.9	-	49.8
1995	44.7	-	-	3.3	0.8	-	48.8
1996	43.4	1.4	-	3.0	0.7	-	48.5
1997	43.9	8.0	0.2	17.2	0.7	-	69.9
1998	45.9	10.9	0.5	27.5	0.7	0.2	85.7
1999	47.4	11.3	0.6	30.9	0.6	0.3	91.2
2000	48.6	11.4	0.8	33.1	0.6	0.3	94.7
2001	47.9	11.5	1.4	34.0	0.6	0.3	95.7
2002	42.8	13.7	2.2	34.2	0.6	0.4	93.9

We contract for approximately one-third of our bus service (primarily in the suburban cities) and all of our paratransit and commuter rail services. While we remain responsible for these programs, our contracts establish operating performance standards which the contractors are expected to meet. We maintain an aggressive program to monitor and audit contractor compliance.

We generally operate the bus service inside the City of Dallas out of three facilities: East Dallas, South Oak Cliff, and Northwest. The East Dallas facility houses maintenance, support, and inventory activities which support all bus service, as well as the administrative offices for the Transportation, Maintenance, and Paratransit Departments. Light rail service is operated from the Service & Inspection Facility located in the Fair Park area of Dallas. This facility houses all maintenance activities for the light rail vehicles. Commuter rail service and maintenance is handled at the Irving Yard facility located just south of Dallas-Fort Worth International Airport.

— Bus Transit (45.6% of total system ridership in fiscal year 2002)

Our bus system provides local, express, crosstown and feeder bus routes. Local routes are focused on the Dallas Central Business District (the "CBD"), and serve the largest and most dense concentration of employment in the service area. The routes are characterized by stops at one to two block intervals along their stop segments. Service is provided six to seven days a week, 16 to 20 hours a day.

Express routes offer point-to-point service, and operate non-stop between outlying park and ride lots and the CBD. These routes typically serve suburban communities, and depend on a mode change at transit center or park and ride facilities. These routes generally do not stop between the terminus and the CBD, and local stops are made within the CBD for distribution and collection of passengers. Service is provided five days a week, approximately 16 hours per day.

Crosstown routes connect the rest of our network together. These routes do not serve the CBD, but rather serve inter- and intracommunity travel. These service areas are generally not densely populated, nor are travel patterns as clearly focused as are CBD trips. Service is provided five to seven days a week, 15 to 20 hours a day.

Feeder/distributor routes operate in a local service mode, accommodating trips in areas of relatively low-density population. These routes focus on transit centers and rail stations to facilitate transfers, and to feed and distribute riders to and from other routes. These routes generally operate five days a week, 12 to 15 hours a day.

We operate 16 transit centers where passengers can park their cars in a security-patrolled, lighted lot and wait for buses in an enclosed area. The centers serve as meeting points for buses from various routes and provide free parking, customer shelters, benches, windscreens, bike racks, restrooms, and information displays. Decór for the interior of the buildings at the transit centers is designed with the help of local artists and residents, which we believe reduces vandalism.

The following table highlights total bus revenue miles and hours for the past ten years, and includes both DART and contractor-operated information for the past five years.

Bus Revenue Miles and Hours
(in millions)

	Revenue Miles			Revenue Hours		
Fiscal Year	DART	Contractor	Total	DART	Contractor	Total
1993	-	-	26.25	-	-	1.73
1994	-	-	26.44	-	-	1.74
1995	-	-	27.54	-	-	1.83
1996	18.51	8.73	27.24	1.35	0.51	1.86
1997	18.06	8.99	27.06	1.39	0.51	1.90
1998	17.98	9.07	27.05	1.40	0.53	1.94
1999	18.10	9.76	27.86	1.41	0.57	1.97
2000	18.65	10.10	28.75	1.43	0.61	2.04
2001	19.50	10.81	30.31	1.46	0.64	2.10
2002	20.18	11.04	31.22	1.49	0.66	2.15

— Light Rail Transit (14.6% of total system ridership in fiscal year 2002)

Light Rail Transit is an electrically powered rail system that generally operates at street level. It currently serves 28 stations spaced approximately 0.5 to 1.5 miles apart with trains departing every five to ten minutes during peak periods. A 20-mile "Starter System," opened in phases from June 1996 through May 1997, connects South and

West Oak Cliff, downtown Dallas, and the North Central Expressway corridor as far north as Park Lane in Dallas. Our first underground station was opened in December 2000.

The following table highlights total rail revenue car miles and total train hours since LRT inception.

Light Rail Transit (in millions)		
Fiscal Year	Car Miles	Train Hours
1996	0.33	0.02
1997	1.78	0.07
1998	2.06	0.09
1999	2.14	0.08
2000	2.41	0.11
2001	2.57	0.09
2002	3.91	0.13

Construction is complete on a 23-mile extension to Garland, Richardson, and Plano as a part of the current system. Our first station, White Rock, on our Garland extension opened in September 2001. In July 2002, seven stations were opened providing service to Richardson. In November and December 2002, the remaining light rail extension to Garland and Plano were completed and opened for revenue service. Our System Plan calls for the construction of an additional 50 miles of light rail to Southeast Dallas, Farmers Branch, Carrollton, Rowlett, North Irving, and Dallas-Fort Worth International Airport by 2013.

— Commuter Rail (2.3% of total system ridership in fiscal year 2002)

Our commuter rail system, commonly referred to as the Trinity Railway Express (the “TRE”), provides diesel powered passenger railroad services that operate on freight railroad lines. On December 30, 1996, we opened the first 10-mile segment of the commuter rail system from Union Station in Dallas to the South Irving Transit Center. On September 18, 2000, TRE service was extended 17 miles to serve DFW Airport, the mid-cities, and Richland Hills. Service was extended to downtown Fort Worth in December 2001.

TRE service is provided in partnership with the Fort Worth Transportation Authority (the “T”) pursuant to a 1994 Interlocal Agreement. The commuter rail service operates on a line formerly owned by the cities of both Dallas and Fort Worth and transferred to us and the T in December 1999.

Pursuant to Trackage Rights Agreements, the Burlington Northern Santa Fe and the Union Pacific Railroad pay a fee for the right to operate freight services on the Dallas/Fort Worth corridor. TRE has assumed dispatch and corridor maintenance responsibilities from BNSF. TRE contracts with Herzog Transit Services. Inc., for dispatching, operations and maintenance of the vehicles. TRE also contracts with Herzog Contracting Corporation for maintenance of the corridor.

— Paratransit (0.6% of total system ridership in fiscal year 2002)

We are responsible for providing complementary paratransit service in accordance with the Americans with Disabilities Act of 1990 (the “ADA”). The ADA requires that “public entities which provide fixed route public transportation service also must offer comparable paratransit service to individuals with disabilities who are unable to use the fixed route system.” We provide curb-to-curb service to those individuals certified for the program in accordance with guidelines established in the ADA. We use approximately 100 full-size, lift-equipped vans and 70 sedans. ATC/Vancom of Texas, Inc. provides our paratransit services.

— High Occupancy Vehicle ("HOV") Lanes (36.4% of total system ridership in fiscal year 2002)

HOV lanes are constructed within the right-of-way of existing freeways to provide access for multi-passenger vehicles to relieve moderate to heavy levels of congestion. Buses, vanpools, motorcycles, and carpools with two or more occupants may use the HOV lanes. Our System Plan calls for implementation of HOV lanes along highways and DART-owned former railroad rights-of-way. The plan identifies 110 miles of permanent HOV lanes.

We currently operate the following interim HOV lanes:

- on I-30 east of the Dallas CBD (since 1991);
- on Stemmons Freeway north of LBJ (since 1996);
- on LBJ Freeway (since 1997); and
- on I-35E/US 67 south of the Dallas CBD (since 2000).

Additional interim and permanent HOV lanes are under design and construction.

HOV lanes are jointly planned and designed by us and the Texas Department of Transportation ("TxDOT") and are constructed by TxDOT. We are responsible for operation and enforcement, and we and TxDOT jointly maintain the HOV lanes.

— Transportation Demand Management (Vanpool is 0.4% of total system ridership in fiscal year 2002)

We also work with area employers to develop strategies for reducing employee trips, such as carpools, vanpools, and flexible work schedules. We provide vans for our vanpool program. As of September 30, 2002, 72 vanpools were in service.

We also assist customers in forming carpools. Prospective carpoolers can call in and provide us with information for our RideShare database. We then work to link-up customers with common trip origins and destinations.

— Special Events Service

In accordance with FTA guidelines, our buses, commuter rail cars, and vans are available for charter up to 50 miles beyond our 700 square mile service area. In addition, we operate a flyer bus service to special events such as sports events, concerts, and the State Fair of Texas.

Planned Expansions to Current System

The Board periodically updates our Transit System Plan. The most recent amendment includes 93 miles of light rail, 35 miles of commuter rail and 110 miles of HOV lanes. With 44 miles of LRT already in operation, the planned expansion is approximately 50 miles of light rail by 2013, at a cost of more than $3 billion. The current scheduled opening dates are subject to a two-year delay due to reduced sales tax receipts.

DART OPERATIONS AND PERFORMANCE RESULTS

Our Independent Auditors' Report for the fiscal year ended September 30, 2002, is attached as Appendix A. The information contained under this heading presents the comments, observations, and interpretations of financial and other facts and practices by our management and its opinions as to those facts, practices, and circumstances affecting DART. We do not warrant or guarantee that the conclusions we have drawn therefrom are accurate or complete or provide any assurances as to future financial and/or operating results of DART.

Gross Sales Tax Revenues and the Net Operating Subsidy

Gross Sales Tax Revenues contributed 85.1% and 85.3% of total revenues in fiscal year 2002 and fiscal year 2001, respectively (excluding Federal funds and debt issuances). Sales tax collections in fiscal year 2002 were $325.5 million, a $32.4 million (9.1%) decrease over fiscal year 2001. Sales tax revenues for the year ended September 30, 2002 were $76.0 million (18.9%) below our Budget. Our sales taxes highly correlate with personal income and retail sales in the region. In order to mitigate the declines in sales tax receipts, Management has: (i) recommended, and the Board has approved, a fare increase to take effect in March 2003; (ii) eliminated a number of vacant positions; (iii) reduced the number of hours in which staff are available at bus transfer centers in certain locations; and (iv) delayed certain capital projects.

Our principal revenue source is the sales tax. Gross Sales Tax Revenues received by us from the State Comptroller reflect sales transactions that occur approximately two months prior to receipt by us. Management believes the decline in Sales Tax Revenues is the result of the overall decline in business and economic conditions.

The Fiscal Year 2003 Budget projects Sales Tax Revenues of $324.1 million for Fiscal Year 2003. We maintain 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 September 30, 2002, the balance in the Financial Reserve Account was $28.9 million. No withdrawals were made from the Financial Reserve Account during Fiscal Year 2002. In addition, we maintain a working cash balance equal to at least two months of expenses that are projected to be paid from sales tax collections. As of September 30, 2002, the balance in this fund was $162.3 million.

Operating results for Fiscal Year 2002 reflect an increase in our operating losses of 16.2% over Fiscal Year 2001. This increase in net operating losses reflects an increase in health care costs, costs associated with purchased transportation contracts, and a flattening of ridership growth.

Net operating subsidy measures the amount of sales tax dollars required to subsidize the operating costs of our public transit system. We calculate "net operating subsidy" in the following manner: operating expenses minus depreciation minus operating revenues. Our goal is for the Gross Sales Tax Revenues to increase by a higher percentage than net operating subsidy. When this happens, the sales tax to operations ratio improves. In fiscal year 2002, the Gross Sales Tax Revenues decreased 9.1% and net subsidy increased 16.5%. Net subsidy increased primarily due to the addition of bus service, increased health care costs, increases in vehicle parts costs, and increased costs associated with purchased transportation contracts.

Gross Sales Tax Revenues to Operations

Gross Sales Tax Revenues to Operations measures the percentage of Gross Sales Tax Revenues required to subsidize net operating costs. Conversely, this ratio also measures the amount of funding available for future capital expenditures and debt service. Our goal is to keep this ratio between 50% and 60% to ensure that we have the funding capacity to meet DART's long-range commitments. The sales taxes to operations calculation is as follows: net operating subsidy (see above) less interest income divided by sales taxes. This ratio moves lower if sales taxes grow by a higher percentage than net subsidy less interest income. The ratio increased from 59.3% in fiscal year 2001 to 78.5% in fiscal year 2002 due to the decrease in sales tax receipts combined with the increase in operating expenses discussed above.

Ridership

The system ridership and fixed route ridership numbers are highlighted in the analysis given above. Fixed route service includes bus, light rail, and commuter rail operations. Total system ridership includes fixed route, paratransit, HOV transitways, and vanpools. Ridership figures are based on the number of unlinked passenger boardings (i.e., a person who transfers is counted as two trips). In 1996, our former president/executive director publicly challenged the Agency to double total system ridership in five years. We have come very close to accomplishing that goal despite the 2002 economic downturn.

Total system ridership in fiscal year 2002 was 93.9 million, a decrease of 1.8 million (1.9%) over fiscal year 2001, while average weekday ridership decreased 4.4% to 300,135 in fiscal year 2002 as compared to fiscal year 2001.

Management projects that total system ridership will improve between 3% to 4% in FY 2003 due to expansion of the light rail system; continued expansion of the bus system in accordance with the Agency's Five Year Action Plan; and management's commitment to improving service quality.

Fixed Route Revenue Miles

Revenue miles are generated while providing fixed route bus and rail service to passengers. Revenue miles do not include the miles generated “deadheading” to the beginning of the route or the miles operated while maintaining the fleets. We operated 36.7 million fixed route revenue miles in fiscal year 2002, an 8.5% increase over fiscal year 2001. The increase is due primarily to the implementation of the Agency’s Five Year Action Plan as well as the implementation of a new scheduling system that more accurately calculates revenue mileage. Bus accounted for approximately 85% of our revenue miles in fiscal year 2002, with light rail comprising 11% and commuter rail 4%.

Fixed Route Passengers per Revenue Mile

Passengers per scheduled revenue mile is a standard transit industry metric that measures the effectiveness of our fixed route service. Our goal has been to increase this ratio each year; however, with the implementation of long distance services such as the commuter rail line linking Dallas and Fort Worth, mileage will increase faster than ridership, driving this measurement down. Additionally, part of this decrease can be attributed to the implementation of the new scheduling system referenced above that more accurately calculates revenue mileage. Bus service decreased for fiscal year 2002 to 1.37 passengers per mile, light rail service has decreased from 4.54 to 3.51 and commuter rail service has decreased from 1.43 to 1.40 passengers per mile. Management will be examining alternative methods to assess the effectiveness of service given the implementation of more long distance service.

Subsidy Per Passenger

Subsidy per passenger measures the efficiency of our services. Specifically, it measures the amount of tax subsidy required each time a passenger uses our services. It is calculated as follows: operating expenses minus depreciation minus extraordinary items minus operating revenues divided by passenger boardings. Our goal is to lower subsidy per passenger each year. For this to happen, ridership must grow at a higher percentage than net subsidy. Total system subsidy per passenger in fiscal year 2002 was $2.76, a $0.42 increase over fiscal year 2001. Ridership decreased by 1.9%, but net subsidy increased by 18.4% primarily due to increased health care costs, increases in vehicle parts costs, and costs associated with purchased transportation contracts. Fixed route subsidy per passenger in fiscal year 2002 was $3.93, a $0.69 (21.3%) increase from fiscal year 2001. Fixed route ridership decreased by 3.31%, while net subsidy for fixed route service increased 21.3% for the same reasons mentioned above.

Subsidy per passenger for fiscal year 2002 ranged from a high of $41.17 for paratransit service to a low of $0.13 for HOV service. Subsidy per passenger increased in fiscal year 2002 for all modes except commuter rail and vanpool. Paratransit subsidy per passenger increased $0.50 (1.2%) due to the implementation of a zero denial policy and a 7.1% increase in ridership. We attribute the ridership increase to implementation of the zero denial policy.

Administrative Ratio

The administrative ratio compares the amount expended on administrative functions with the amount spent on direct operating functions. Administrative costs include functions such as finance, human resources, legal, executive, marketing, information technology, and procurement. Our goal is to reduce this ratio each year. The ratio is calculated by dividing total administrative costs less administrative revenues by total direct costs which include start-up costs for new services. The administrative ratio has decreased in recent years with the exception of fiscal year 2000, when significant investments were made in information technology and training.

In total, the administrative ratio has been reduced more than 25% since fiscal year 1997 because we have kept administrative costs low while adding more bus, rail, and HOV service. The administrative ratio decreased to

10.40% in fiscal year 2002 from 11.5% in fiscal year 2001. Management expects this ratio to remain at approximately the same level in FY 2003.

LITIGATION

In Ordinary Course of Business

A number of claims and lawsuits arise from individuals in the ordinary course of our business that seek compensation for personal injury, death, and/or property damage resulting from accidents occurring in the operation of our public transportation system. In addition, we have been named as a defendant in a number of lawsuits relating to personnel and contractual matters. We do not believe that the outcome of these claims will have a material adverse effect on our financial condition. We have accrued an estimate of losses on such claims and have included this accrual in accounts payable and accrued liabilities in our consolidated balance sheets.

Extraordinary Litigation and Claims

In 1995, certain owners of an office building in downtown Dallas filed suit against us for alleged damages of up to approximately $60 million related to flooding while our light rail line was under construction. We do not believe loss to be probable in this lawsuit at this time and we intend to defend it vigorously.

INVESTMENT CONSIDERATIONS

Source of payment is limited.

The Obligations will be special obligations of DART, and will be secured by a lien on the Pledged Revenues.

The Obligations are not debts or obligations of the State of Texas. Nor are they the debt or obligation of any Participating Municipality. The holders of Obligations will never have the right to demand payment out of any of our funds other than the Pledged Revenues, unless we, in the case of Subordinate Lien Obligations, expressly and specifically pledge Special Revenues to such payment. We do have the right, however, but are not obligated, to enter into Credit Agreements with respect to any issue of Bond Obligations having any lien ranking as to Pledged Revenues. If we do so, the Holders of the issue of Bond Obligations to which a Credit Agreement relates will have such additional security as the Credit Agreement may provide, such as municipal bond insurance policies, bank-issued letters of credit, or other forms of credit enhancement.

Our ability to make payments on Obligations is dependent upon the amount of Gross Sales Tax Revenues actually generated.

Except for Bond Obligations that may be supported by a Credit Agreement, as discussed above, the only source of security for the Obligations will be the Gross Sales Tax Revenues collected by the Comptroller and remitted to the Trustee and the investments thereof**.** Sales Tax receipts are impacted by changes in the economic activity and conditions of a municipality or geographic area, and the amount of Gross Sales Tax Revenues generated in any future year is not certain.

The collection of the Sales Tax is beyond our control.

Generally, the seller of taxable items and services collects the Sales Tax from the consumer at the point of a taxable transaction and remits these taxes to the Comptroller. We do not control the Comptroller's collection efforts, and the Comptroller's collection efforts against a private seller of goods and services are subject to applicable State law and to federal bankruptcy code provisions with respect to the protection of debtors.

We may receive payment of Gross Sales Tax Revenues less frequently.

State law requires the Comptroller to remit Gross Sales Tax Revenues to us only on a quarterly basis. As a matter of convenience and accommodation to local taxing entities, the Comptroller remits Gross Sales Tax Revenues to us and other taxing entities on a monthly basis. While we have no reason to believe that the Comptroller's current practice will be discontinued, there is no assurance that the Comptroller will continue to remit Gross Sales Tax Revenues to us on a monthly basis. Thus, temporary cash flow irregularities could occur.

We may experience variations in our Gross Sales Tax Revenues.

Variations in the amount of receipts can be adversely affected by a number of variables, including (1) changes in State laws and administrative practices governing the remittance and allocation of Sales Tax receipts, (2) changes in the tax base against which the Sales Tax is assessed, (3) changes in the economic activity and conditions of a municipality or geographic area, and (4) the withdrawal from DART of one or more of the Participating Municipalities. See, "DART'S FINANCIAL PRACTICES AND RESOURCES."

Ratings of the Obligations do not assure their payment.

The Bond Obligations may be rated by one or more nationally recognized rating agencies. Each Supplemental Disclosure Statement and Offering Memorandum and each Supplemental Official Statement will describe any rating(s) that may be applicable to a series of Bond Obligations. A rating reflects the rating agency's assessment of how likely it is that holders of a class of securities will receive the payments to which they are entitled. A rating may not remain in effect for any given period of time, and a rating agency may lower or withdraw a rating entirely. A rating is not a recommendation to purchase, hold, or sell securities because it does not address the market price of the securities or the suitability of the securities for any particular investor.

CONTINUING DISCLOSURE OF INFORMATION

We have agreed voluntarily to replace this 2003 Annual Disclosure Statement annually, beginning in January 2004 to update it quarterly beginning in March 2003, and to prepare a Supplemental Disclosure Statement in connection with each issue of Bond Obligations. These disclosure documents will be filed with the Central Repositories identified below, and will be posted on the Internet at our website, ***www.dart.org.*** We reserve the right to suspend or stop postings on the Internet and the annual and quarterly updates at any time.

However, we intend to comply fully with the terms of our agreement in the Master Debt Resolution undertaken pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") for the benefit of the Holders and beneficial owners of Bond Obligations that are subject to the Rule. Under this agreement, so long as any covered Bond Obligations remain outstanding we will provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Central Repositories, all as described by category below.

We have complied in all material respects with all continuing disclosure agreements made by us in accordance with the Rule.

Annual Reports Required by the Rule

We will provide certain updated financial information and operating data with respect to us and the System to the Central Repositories annually. This information includes all quantitative financial information and operating data with respect to us and our transportation system of the general type included in this 2003 Annual Disclosure Statement and in each Supplemental Disclosure Statement, if any, that is approved by a Supplemental Resolution with respect to Bond Obligations subject to the Rule.

We will update and provide this information within six months after the end of each fiscal year. We will provide the updated information to the Central Repositories. We may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule.

The updated information will include audited financial statements if it is completed by the required time. If audited financial statements are not available by the required time, we will provide unaudited financial statements by the required time, and will provide audited financial statements when and if an audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as we may be required to employ from time to time pursuant to state law or regulation.

Our current fiscal year ends on September 30. Accordingly, we must provide updated information by the last day of March in each year, unless we change our fiscal year. If we change our fiscal year, we will notify each Central Repository of the change.

Material Event Notices Required by the Rule

We will also provide timely notices of certain events to the Central Repositories. We will provide notice of any of the following events with respect to Bond Obligations, if such event is material within the meaning of the federal securities laws:

· Principal and interest payment delinquencies;

· Nonpayment related defaults;

· Unscheduled draws on debt service reserves, if any, reflecting financial difficulties;

· Unscheduled draws on credit enhancements reflecting financial difficulties;

· Substitution of credit or liquidity providers, or their failure to perform;

· Adverse tax opinions or events affecting the tax-exempt status of Tax Exempt Bond Obligations;

· Modifications to rights of Holders of Bond Obligations;

· Bond Obligation calls;

· Defeasances;

· Release, substitution, or sale of property securing repayment of Bond Obligations; or

· Rating changes.

In addition, we will provide timely notice of any failure by us to provide information, data, or financial statements in accordance with our agreement under the Rule.

Identification of Central Repositories

All of the foregoing information, including this 2003 Annual Disclosure Statement, its quarterly updates, and annual replacements, together with any additional filings required by the Rule, will be filed with the following Central Repositories: each Nationally Recognized Municipal Securities Information Repository (the "NRMSIRs"), the State of Texas State Information Depository (the "SID"), and, at our option, the Municipal Securities Rulemaking Board and other financial information vendors as we may choose. The information may be available to Holders of Bond Obligations at these sources only if the Holders comply with the procedures and pay the charges established by such information vendors. Holders may obtain the information on our website at ***www.dart.org*** or directly from us at the address given on page 1 without cost.

The addresses and telephone numbers for the NRMSIRs, as of the date of this 2003 Annual Disclosure Statement, are as follows:

Bloomberg Municipal Repositories
P.O. Box 840
Princeton, NJ 08542-0840
(609) 279-3225

DPC Data, Inc.
One Executive Drive
Fort Lee, NJ 07024
(201) 346-0701

Interactive Data
Attention: Repository
100 Williams Street
New York, NY 10038
(212) 771-6899

Standard & Poor's J.J. Kenny Repository
55 Water Street, 45th Floor
New York, NY 10041
(212) 438-4595

The address and telephone number for the State of Texas SID is:

Municipal Advisory Council of Texas
600 West 8th Street
P.O. Box 2177
Austin, TX 78768-2177
(512) 476-6947

OBLIGATIONS AS LEGAL INVESTMENTS

Under the Act, the Bond Obligations are authorized investments for banks, savings banks, trust companies, savings and loan associations, and insurance companies, and are eligible to secure the deposit of public funds of the State, a political subdivision of the State and any other political corporation of the State. For political subdivisions in Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, a rating of "A" or better as to investment quality of the Bond Obligations by a national rating agency may be required before such obligations are eligible for investments for sinking funds and other public funds. We have not reviewed the laws in other states to determine whether our obligations are legal investments for various institutions in those states.

TRUSTEE AND PAYING AGENTS

The Trustee under the Master Debt Resolution is Bank One Texas, N.A. and its successors. A Paying Agent for each series of Bond Obligations issued under the Master Debt Resolution will be specified in the Supplemental Resolution creating such series.

LEGAL COUNSEL

Our Interim General Counsel, Mr. Swanson Angle, reports directly to the Board, and heads an office of 9 in-house attorneys.

The law firms of Vinson & Elkins, L.L.P., 2001 Ross Avenue, Dallas, Texas 75201, and Robinson, West & Gooden P.C., 400 S. Zang Blvd., Suite 600, Dallas, Texas 75208, serve as our Co-Finance Counsel and as our Co-Bond Counsel with respect to the Obligations and other financial matters.

This 2003 Annual Disclosure Statement, in substantially the form and content presented above, was approved by the Board of Directors of DART on January 28, 2003.

/s/ Robert W. Pope
Chairman, Board of Directors

ATTEST:

/s/ Mark C. Enoch
Secretary, Board of Directors

/s/ Gary C. Thomas
President/Executive Director,
Dallas Area Rapid Transit

APPENDIX A

Independent Auditors' Report Containing Audited Financial Statements for the Fiscal Year ended September 30, 2002

DALLAS AREA RAPID TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2002

The management of Dallas Area Rapid Transit (DART) offers the users of DART financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2002. It is intended to be read in conjunction with the financial statements which follow this section. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

As of September 30, 2002, total assets of DART exceeded total liabilities by $1,924,595. Of this amount, $190,162 may be used to meet DART's on-going obligations.

The net assets of DART decreased by $1,147 during the current fiscal year. This decrease is a result of the increase in expenses and decrease in revenues.

DART's total debt increased by $114,102 (12%) during the current fiscal year. This increase is mainly because of the additional capital lease/leaseback obligation entered into in July 2002 ($95.2 million) and sales tax revenue bonds issued in September 2002 ($98.7 million), net of the payments made on commercial paper notes and capital lease/lease back obligations during the year.

Capital contributions from federal and local governments were $68,003 in 2002. Such contributions were used to finance the construction of the light rail projects and to purchase buses and non-revenue vehicles.

For fiscal year 2002, total expenses exceeded total revenues before capital contributions resulting in a loss before capital contribution of $69,150. This is mainly due to an increase in operating expenses (14%) and the decline in sales tax revenues (9%) as a result of economic slow-down. In 2001, total revenues before capital contributions exceeded total expenses by $25,390.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis is intended to serve as an introduction to DART's basic financial statements. DART's basic financial statements comprise 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 can be found on page 7.

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 will only result 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 can be found on page 8 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 can be found on pages 9 - 10 of this report. The statements of cash flows, along with related notes and information in other financial statements, can be useful in assessing the following:

- DART's ability to generate future cash flows,
- DART's ability to pay its debt as the debt matures,
- reasons for the difference between DART's operating cash flows and operating income (loss), and
- the effect on DART's financial position of cash and non-cash transactions from investing, capital and financing activities.

Notes to the financial statements provide additional information that is essential to a full understanding of 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 can be found on pages 11-23.

The basic financial statements briefly discussed above provide information on all functions of DART as business type activities. The activities of DART are supported by the 1% sales and use tax within the member jurisdictions, fare collections from passengers and federal and local financial assistance.

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 $1,924,595 as of September 30, 2002. The largest portion of this excess (90%) is invested in capital assets less any related debt that is still outstanding. DART uses these capital assets to provide public transit services to customers and member jurisdictions; consequently, these assets are not available for future spending. Although DART's investment in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources such as sales tax, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Assets

	2002	2001
Current and other assets	$ 858,154	$ 843,965
Capital assets	2,273,486	2,155,514
Total assets	3,131,640	2,999,479
Current liabilities	234,782	290,258
Long-term liabilities	972,263	783,479
Total liabilities	1,207,045	1,073,737
Net assets		
Invested in capital assets, net of related debt	1,725,940	1,637,559
Restricted for:		
Debt service	8,493	3,216
System expansion and acquisition	9,481	77,863
Unrestricted	180,681	207,104
Total net assets	$1,924,595	$1,925,742

About 0.9% ($17,974) of DART's net assets represent resources that are restricted. The remaining balance of unrestricted net assets ($180,681) may be used to meet DART's on-going obligations. The DART Board has designated $35,855 of this amount for specific purposes.

The decrease in unrestricted net assets of $26,423 (13%) is due to light rail construction cost, the purchase of buses and non-revenue vehicles, and other operating activities during 2002.

Statements of Revenues, Expenses and Changes in Net Assets - During fiscal year 2002, the activities of DART resulted in a decrease in net assets of $1,147. This decrease is attributable to the decline in the sales tax revenues and the increase in expenses. The key elements of the changes in net assets are shown in the following table.

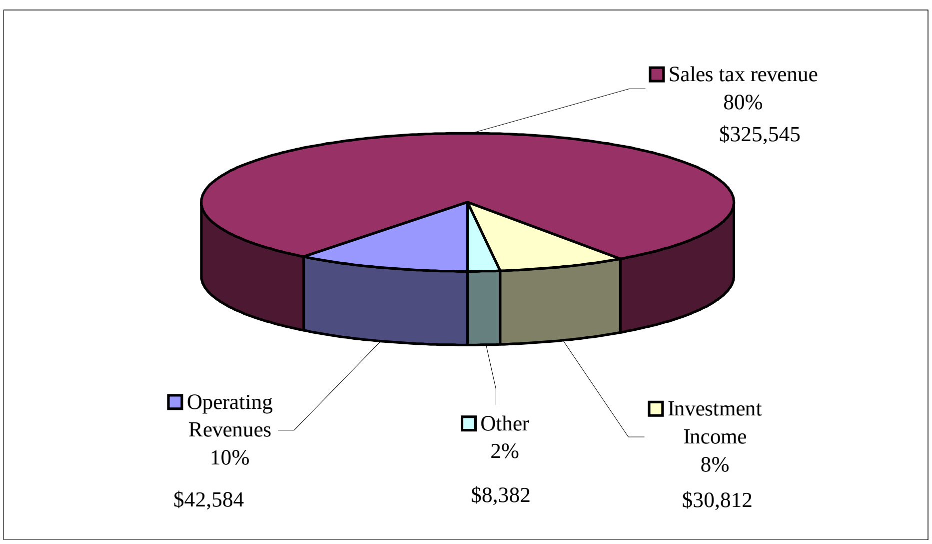
Change in net assets

	2002	2001
Revenues		
Operating revenues	$42,584	$42,206
Sales tax	325,545	357,883
Investment income	30,812	35,508
Other non-operating revenues	8,382	7,717
Total revenues	407,323	443,314
Expenses		
Operating expenses	391,053	342,029
Interest expense	47,469	39,143
Other non-operating expenses	37,951	36,752
Total expenses	476,473	417,924
Income (loss) before capital contribution	(69,150)	25,390
Capital contributions	68,003	98,557
Increase (decrease) in net assets	(1,147)	123,947
Net assets, beginning	1,925,742	1,801,795
Net assets, ending	$1,924,595	$1,925,742

The increase in operating revenues of $378 (1%) was due to an increase in passenger revenues of $1,284 (4%), which was offset by a decrease in advertising revenues by $906 (9%). Factors contributing to the increase in passenger revenues include a change in fare structure and services added during the year. The decrease in advertising revenue is because of the decline in advertising business during 2002 compared to 2001. Sales tax revenue decreased by $32,338 (9%) because of the economic slow down.

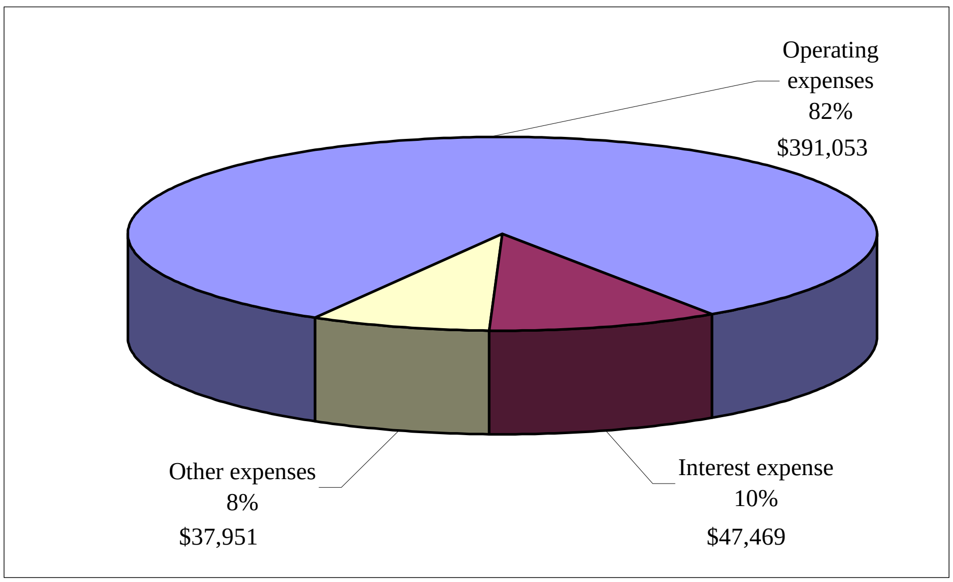
Investment income is lower than that of the previous fiscal year by $4,696 (13%) because of lower market interest rates during 2002. The following chart shows revenues by source for the fiscal year ended September 30, 2002.

Revenue by source, fiscal year 2002



Total expenses increased by $58,549 (14%) because of increases in the following items. Salaries and wages increased by $9,274 (7.9%) because of a salary increase for operators and hourly employees and a merit-raise for salaried employees. The 100 positions added to the payroll in 2002 also contributed to the increase in salaries and wages. These positions were added to hire additional train and bus operators and transit police officers in connection with the services added during the year. Benefits increased by $15,711 (39%) because of an increase in health care costs, increased contribution requirement of DART employees Defined Benefit retirement plan and increased workers compensation costs. Materials and supplies expenses increased by $1,809 (7%) due to reduction in warranty credits received from vendors, and parts that became obsolete due to the replacement of old buses by a new fleet of buses and rail vehicles. Casualty and liability claims and insurance increased by $2,890 (92%) because of an increase in insurance rates and total value of insured assets on the property and liability policy. Purchased transportation costs increased by $8,881 (13%) because of the increase in hours of contracted transportation services. The zero denials policy on the paratransit services also resulted in increased hours and costs. Depreciation expense increased by $11,552 (15%) because of additional capital assets put into service during the current fiscal year. Interest expenses increased by $8,326 (21%) because of the restructuring of debts from primarily short-term commercial paper notes to primarily long-term sales tax revenue bonds. The following chart shows expenses for the fiscal year ended September 30, 2002.

Expenses - fiscal year 2002



CAPITAL ASSETS AND DEBT ADMINISTRATION

<u>Capital assets</u> - DART's investment in capital assets as of September 30, 2002, amounts to $2,273,486 (net of accumulated depreciation). This investment in capital assets includes land and rights-of-way, transit ways, buildings and improvements, buses, equipment, furniture, fixtures and leasehold improvements. The total increase in investment in capital assets during the current year was $117,972 (5%).

Major capital asset events during the current fiscal year included the following:

- Lake June Transit Center was completed and opened for revenue service on February 25, 2002.
- The LBJ/Skillman Station, the second light rail station on the Northeast Corridor, was completed and opened for revenue service on May 6, 2002.
- Seven other light rail stations (Park Lane, Walnut Hill, Forest Lane, LBJ/Central, Spring Valley, Arapaho Center and Galatyn Park) were completed and opened for revenue service on July 1, 2002.
- The construction of five additional light rail stations is underway and they will be opened for revenue service in November and December 2002.

The following table summarizes capital assets net of depreciation**.**

Capital Assets (net of depreciation)

	2002	2001
Land and rights-of-way	$415,158	$375,619
Transit ways	901,855	568,897
Buildings and improvements	239,403	201,947
Buses and equipment	400,889	410,402
Furniture, fixtures, and leasehold improvements	13,918	15,208
Projects in progress	302,263	583,441
Total	$2,273,486	$2,155,514

DART has entered into capital expenditure commitments of $879.8 million for the design and construction of light rail tracks and stations. Approximately $825.5 million of the committed amount has been spent as of September 30, 2002.

Additional information on DART's capital assets can be found in note 5 on pages 16 - 17.

Outstanding debt - At the end of the fiscal year DART had total debt outstanding of $1,036,560. This is an increase of $114,102 (12%) from last year due to capital lease/leaseback obligations entered into in July 2002 and sales tax revenue bonds issued in September 2002. Capital lease/leaseback liability in the amount of $507,868 is essentially defeased by a long-term investment held to pay off the same debt. Sales Tax Revenue Bonds of $495,047 are senior lien bonds secured by and payable from the 1% sales and use tax receipts. The remaining $33,645 consists of commercial paper notes, also payable from sales tax receipts. The commercial paper notes were issued as a subordinate lien to sales tax revenues. The table below summarizes DART's total outstanding debt.

	2002	2001
Sales tax revenue commercial paper notes	$ 33,645	$110,000
Sales tax revenue bonds, net of unamortized discount/premium	495,047	395,501
Capital lease/leaseback liabilities	507,868	416,957
Total debt	$1,036,560	$922,458

In September 2002, DART issued sales tax revenue bonds for $98,735 to pay-off a portion of the outstanding commercial paper notes. DART maintains the AAA credit rating from Fitch, and S&P and Aaa from Moody's for its insured bonds and AA credit rating from Fitch and S&P and Aa3 from Moody's for its uninsured bonds.

Additional information on DART's outstanding debt can be found on pages 17 - 20.

OTHER SIGNIFICANT ITEMS

Sales tax is the largest revenue item for DART (about 80%). The continued economic slowdown has negatively affected sales tax receipts throughout the fiscal year 2002. The national and local economy has not shown any sign of improvement. This economic condition was taken into account by DART management and the Board when adopting the budget for fiscal year 2003. The sales tax budget for 2003 is $357.4 million compared to $401.5 million for 2002. This represents an 11% decrease from 2002 budget. Actual sales tax receipts in 2002 were $325.5 million.

REQUESTS FOR INFORMATION

This financial report is designed to provide our member jurisdictions, customers, and 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, 2002 and 2001 (In Thousands)

ASSETS	2002	2001
CURRENT ASSETS		
Cash and cash equivalents	$118,760	$87,696
Investments	79,744	86,699
Current portion of restricted assets	8,493	
Sales tax receivable	54,348	58,426
Transit revenue receivable, net	3,768	3,291
Due from federal and other governments	40,089	85,130
Materials and supplies inventory	24,849	22,919
Prepaid transit expense and other	2,867	2,653
TOTAL CURRENT ASSETS	332,918	346,814
NONCURRENT ASSETS		
Restricted assets	9,481	73,203
Capital assets		
Land and rights of way	415,158	375,619
Depreciable capital assets, net of depreciation	1,858,328	1,779,895
Long-term investments held to pay capital lease/leaseback liabilities	507,868	416,957
Net pension asset	3,385	3,866
Unamortized long-term debt issuance costs	4,502	3,125
TOTAL NONCURRENT ASSETS	2,798,722	2,652,665
TOTAL ASSETS	$3,131,640	$2,999,479
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$100,321	$92,808
Commercial paper notes payable	33,645	110,000
Current portion of senior lien sales tax revenue bonds payable	855	
Current portion of capital lease/leaseback liabilities	29,797	28,979
Local assistance program payable	42,941	42,838
Retainage payable	18,854	12,454
Other liabilities	8,369	3,179
TOTAL CURRENT LIABILITIES	232,782	290,258
NONCURRENT LIABILITIES		
Senior lien sales tax revenue bonds payable	494,192	395,501
Capital lease/leaseback liabilities	478,071	387,978
TOTAL NONCURRENT LIABILITIES	972,263	783,479
TOTAL LIABILITIES	1,207,045	1,073,737
NET ASSETS		
Invested in capital assets, net of related debt	1,725,940	1,637,559
Restricted:		
Debt service	8,493	3,216
System expansion and acquisition	9,481	77,863
Unrestricted	180,681	207,104
TOTAL NET ASSETS	1,924,595	1,925,742
TOTAL LIABILITIES AND NET ASSETS	$3,131,640	$2,999,479

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, 2002 and 2001 (In Thousands)

	2002	**2001**
OPERATING REVENUES		
Passenger revenues	$33,060	$31,776
Advertising, rent and other	9,524	10,430
TOTAL OPERATING REVENUES	42,584	42,206
OPERATING EXPENSES		
Labor	126,141	116,867
Benefits	55,630	39,919
Services	27,540	27,467
Materials and supplies	27,667	25,858
Purchased transportation	75,347	66,466
Depreciation and amortization	86,581	75,029
Utilities	7,303	7,604
Taxes, leases, and other	6,120	5,900
Casualty and liability	6,045	3,155
Transit system planning, development, and start-up costs	(27,321)	(26,236)
TOTAL OPERATING EXPENSES	391,053	342,029
NET OPERATING LOSS	(348,469)	(299,823)
NON-OPERATING REVENUES (EXPENSES)		
Sales tax revenue	325,545	357,883
Investment income	6,175	11,639
Interest income from investments held to pay capital lease/leaseback	24,637	23,869
Interest expense on capital lease/leaseback	(24,637)	(23,869)
Local Assistance Program and street improvements	(10,630)	(10,516)
Transit system planning, development, and start-up costs	(27,321)	(26,236)
Interest and financing expenses	(22,832)	(15,274)
Net gain on capital lease/leaseback transaction	2,444	6,199
Other revenue	5,938	1,518
TOTAL NON-OPERATING REVENUES (EXPENSES)	279,319	325,213
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(69,150)	25,390
CAPITAL CONTRIBUTIONS		
Federal financial assistance	64,290	95,490
Other capital contributions	3,713	3,067
TOTAL CAPITAL CONTRIBUTIONS	68,003	98,557
CHANGE IN NET ASSETS	(1,147)	123,947
TOTAL NET ASSETS – BEGINNING OF YEAR	1,925,742	1,801,795
TOTAL NET ASSETS – ENDING OF YEAR	$1,924,595	$1,925,742

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, 2002 and 2001 (In Thousands)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$40,092	$41,131
Receipts for operating grants	1,410	1,210
Payments to suppliers of goods and services	(78,213)	(83,872)
Payments to purchased transportation service providers	(73,692)	(65,567)
Payments to employees	(124,105)	(115,546)
Benefit payments on behalf of employees	(49,233)	(39,950)
Less: payments allocated to planning, development and start-up costs	27,321	26,236
NET CASH USED BY OPERATING ACTIVITIES	(256,420)	(236,358)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Sales tax proceeds	329,623	363,652
Other non-capital non-operating revenues (expenses)	5,879	1,447
Local Assistance Program and street improvements	(10,527)	(9,748)
Planning, development, and rail start-up costs	(27,321)	(26,236)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	297,654	329,115
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments for payment of capital lease/leaseback obligations	(95,253)	(74,753)
Interest on investments	6,247	11,065
Proceeds from sales and maturity of investments	751,051	794,189
Purchase of investments	(744,097)	(719,320)
(Increase) decrease in restricted assets	55,229	(73,203)
NET CASH USED BY INVESTING ACTIVITIES	(26,823)	(62,022)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(198,182)	(268,027)
Proceeds from capital lease/leaseback transactions	97,697	80,952
Proceeds from the issuance of commercial paper notes	80,000	643,595
Payment on commercial paper notes	(156,355)	(833,595)
Payment on North Central Project notes payable		(150,000)
Proceeds from issuance of sales tax revenue bonds	99,399	395,919
Interest and financing expenses	(19,750)	(13,002)
Capital provided by federal and other governments	113,744	116,193
Net proceeds from the sale of capital assets	100	114
NET CASH (USED) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	16,653	(27,851)
NET INCREASE IN CASH AND CASH EQUIVALENTS	31,064	2,884
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	87,696	84,812
CASH AND CASH EQUIVALENTS, END OF YEAR	$118,760	$87,696
NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Recapture of safe harbor lease depreciation		$5
Interest income from investments held to pay capital lease/leaseback	$24,637	23,869
Interest expense on capital lease/leaseback	(24,637)	(23,869)
Payment of capital lease/leaseback obligation by trustee	(28,979)	(14,175)
NET NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES	$(28,979)	$(14,170)

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, 2002 and 2001 (In Thousands)

RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating loss	$(348,469)	$(299,823)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation and amortization	86,581	75,029
Changes in assets and liabilities		
(Increase) decrease in transit receivable	(1,176)	134
(Increase) in materials and supplies inventory	(1,931)	(5,031)
Increase in prepaid expenses and other current assets	(1,664)	(2,912)
(Increase) decrease in pension assets	481	1,852
Increase (decrease) in accounts payable and accrued liabilities	4,568	(4,902)
Increase (decrease) in other current liabilities	5,190	(705)
NET CASH USED BY OPERATING ACTIVITIES	$(256,420)	$(236,358)

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

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, and University Park and the towns of Addison and Highland Park. Fifteen Board members represent the 13 member cities. Board members are appointed according to the ratio of the population of a member city 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 defeased debt transactions (see note 7), 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 for January 2003.

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 an additional $98.7 million of the authorized bonds were issued. (see note 10).

DART received approximately $326 million in fiscal year 2002 from a 1% sales and use tax imposed on certain retail sales within its member jurisdictions compared to $358 million in 2001. These revenues constituted approximately 80% and 81% of DART's total revenues for fiscal years 2002 and 2001 respectively. In 2002, approximately 53%, 13%, and 10% of these sales tax revenues are collected from sales in the cities of Dallas, Plano, and Irving, respectively.

Under the Code, member jurisdictions can hold a referendum to withdraw from DART every six years. The City of Dallas has never called a withdrawal referendum. The next potential withdrawal referendum year is 2008.

Basis of Accounting - The activities of DART are similar to those of proprietary funds of local cities 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), in addition to all GASB standards.

New Accounting Standards Adopted - In fiscal year 2001, DART adopted GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which requires recipients of resources from nonexchange transactions to recognize revenues in the period when all eligibility requirements are met and the resources are available. The effect of this standard on DART's financial statements is that capital contributions of approximately $68 million and $98.6 million were recognized as revenues in 2002 and 2001, respectively. Prior to the adoption of GASB 33, such contributions were reported as contributed capital on the statements of net assets.

In fiscal year 2002, DART adopted the following new statements of financial accounting standards issued by GASB: Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Disclosures.*

In addition to other presentation changes, Statement No. 34 (as amended by Statement No. 37) requires government-wide financial statements to be prepared using the economic resources measurement focus and the accrual basis of accounting. This requirement did not have effect on DART financial statements because DART has been preparing its financial statements using the accrual basis of accounting and the economic resources measurement focus even before Statement No. 34 was issued. In order to comply with the presentation requirements of Statement No. 34, the amounts that were reported as contributed capital and retained earnings in prior years are now reported as net assets in the statement of net assets. Certain other reclassifications were made to prior year amounts to conform to current year presentation.

Statement No. 34 also requires that the basic financial statements be preceded by a Management's Discussion and Analysis (MD&A), which is required supplementary information. DART's basic financial statements are preceded by the MD&A, which provides an analytical overview of the financial activities of DART.

Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34. This statement did not affect the amounts reported in the financial statements of DART. However, certain note disclosures have been added and or amended.

Presentation - All dollar amounts, unless otherwise noted, are in thousands. Years 2002 and 2001 are fiscal years unless otherwise noted.

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 rights-of-way. The accompanying financial statements include the accounts and operations of RRRC. All significant intercompany balances have been eliminated.

Cash and Cash Equivalents - DART considers investments with original maturities of less than 90 days to be cash equivalents. Cash and cash equivalents consist of the following at September 30:

Description	2002	2001
Investments classified as cash equivalents	$118,760	$79,820
Restricted assets included in cash equivalents		7,876
Total	$118,760	$87,696

Investments - The investment balances at September 30, 2002 and 2001 are stated at fair value. Fair value is the amount at which an investment may be exchanged in a current transaction between willing parties. DART considers quoted market prices at September 30, 2002 and 2001, 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 $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 on page 17. 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 fixed 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.

Federal Grants – Grant funds used to acquire or construct capital assets are recorded as revenues when the associated capital costs are incurred. Grant funds for fare subsidies on shared-ride programs are recorded as revenues when the associated costs are incurred.

Vacation and Sick Leave - Salaried exempt and non-exempt employees are supported by a "Paid Time Off" benefits program that has no cash value for accrued, but not taken. Hourly employees earn vacation and sick leave, which may be taken or accumulated up to certain levels, until paid upon retirement or termination. As of September 30, 2002 and 2001, the liability for accrued vacation and sick leave was approximately $8.3 million and $7.2 million, respectively. This liability has been calculated in accordance with GASB Statement No. 16, *Accounting for Compensated Absences,* and is included in accounts payable and accrued liabilities in the accompanying statements of net assets.

Operating Revenues and Expenses - Operating revenues are generated from activities related to providing public transportation services (bus, light rail, commuter rail, HOV lanes, paratransit, and vanpool) to our customers. DART's operating revenues include passenger fare revenues, advertising revenues, rental income and operating grants from federal and local governments. Non-operating revenues are revenues not associated with the operations of DART's transit service. Sales tax revenues, investment income and gain from capital lease/leaseback transactions are classified as non-operating revenues.

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

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 other current liabilities in the accompanying statements of net assets.

Self-Insurance Liabilities - DART administers and maintains self-insured reserves for employee medical, auto, and general liability (including bus/rail accidents), and engineering and construction 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. Changes in the liabilities in 2002 and 2001 for all of DART's self-insured programs are detailed below:

Description	2002	2001
Beginning balance	$7,428	$7,434
Current year claims and changes in estimates	16,442	8,023
Payments	(9,819)	(8,029)
Ending balance	$14,051	$7,428

The increase in self-insurance liabilities is because of significant increases in health care costs and workers compensation claims.

2. SERVICE AGREEMENTS

DART has entered into several long-term agreements with contractors to provide fixed route bus, paratransit van, and commuter rail services. Payments to these contractors 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 by these contractors in 2002 and 2001 and the current contract terms, including option periods, is as follows:

Contractor Name	Service Type	Annual Payments to Contractors 2002	2001	Current Contract Terms Began	Expires
First Transit	Fixed Route Bus	$33,122	$38,653	9/00	12/06
First Transit	Paratransit – Van	0	2,802	5/95	12/00
E.C. Corp./Crawford Tech. Srv.	Paratransit – Van	0	716	9/95	09/00
Herzog Transit Services, Inc.	Commuter Rail	15,868	10,717	10/96	09/03
ATC VANCOM	Paratransit – Van	16,860	11,656	5/00	12/05
Other	Various	9,497	1,922	Various	Various
Total		$75,347	$66,466		

On August 27, 1996, the Board approved an amendment to the Interlocal Agreement with the Fort Worth Transportation Authority ("the T"), to enter into a five-year contract with Herzog Transit Services, Inc. for operation and maintenance of commuter rail services beginning in October 1996 through September 2001. On May 6, 2001, the Board authorized extension of the contract with Herzog Transit Services, Inc. until September 30, 2003, with two options of one year each. Cost sharing between the two authorities is based on respective ridership.

3. CASH AND INVESTMENTS

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, 2002 and 2001, the carrying amount of DART's deposits was a deficit of approximately $1.6 million and $4.5 million, respectively, with an overall bank balance of approximately zero for each year. The entire bank balance was covered either by Federal Depository Insurance or by collateral held by DART's agent in DART's name. The cash deficits are included in accounts payable and accrued liabilities in the accompanying statements of net assets.

Investments - 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.

DART's investments are categorized in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* to give an indication of the level of custodial risk assumed by DART at September 30, 2002. Category 1 includes investments that are insured or registered or for which the securities are held by DART or its agent in DART's name.

All of DART's investments are categorized in Category 1 except for the money market mutual funds, which consist of United States Government Agencies and Securities, and other investments. These investments are not categorized because they represent an interest in a group of securities and have no specific security subject to custodial risk.

Investments at September 30, 2002 and 2001 consist of the following:

Investment Type	2002 Fair Value	2001 Fair Value
U.S. Government Agencies	$70,928	$95,846
U.S. Government Securities	0	3,016
Commercial Paper	4,997	15,812
Money Market Mutual Funds	131,904	129,029
DART Investments	207,829	243,703
Trustee Debt Service Investments	8,493	3,216
Total Investments	$216,322	$246,919

The contractual maturities for these investments are as follows:

Contractual Maturity	2002 Fair Value	2001 Fair Value
Less than 1 year	$164,961	$204,989
1 to less than 2 years	20,752	10,521
2 to less than 3 years	22,733	20,083
3 to less than 4 years	7,876	8,212
Greater than 4 years	0	3,114
Total Investments	$216,322	$246,919

The investments are classified as follows on the accompanying statements of net assets. The amounts shown are reported at fair value for 2002 and 2001.

Investment Classification	2002	2001
Cash Equivalents	$118,760	$87,696
Investments	79,744	86,699
Restricted Assets	17,974	73,203
Total Investments, net of discount / premium	$216,478	$247,598

Board designated assets - The DART Board has designated that certain cash and investment balances be maintained for specific purposes. 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 reimburse the general operating account in future years: if sales tax collections fall below projections, to fund costs that exceed the budget for major capital projects, to fund transportation system management (street improvement) projects, and to reduce debt outstanding or future borrowing requirements. An affirmative vote of two-thirds of the appointed and qualified Board members is required before these funds may be used. Sales taxes received in excess of the prior year's budget are to be placed in the reserve prior to January 1 of the subsequent year. Sales tax collections were $75.9 million and $32.1 million less than budget for fiscal years 2002 and 2001 respectively. Although sales tax collections were less than budget for the fiscal years 2002 and 2001, expenditures for both fiscal years did not require use of the financial reserve fund.

As of September 30, 2002 and 2001, assets designated by the DART Board for specific purposes, including investments and accrued interest, consisted of the following:

Designated for	2002	2001
Self-Insurance	$7,065	$8,006
Financial Reserve	28,790	27,670
Total	$35,855	$35,676

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 a trust account created for this purpose. The money maintained in the trust account is reported as assets restricted 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.

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, 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. .

As of September 30, 2002 and 2001, assets restricted for specific purposes consisted of the following:

Restricted for	2002	2001
Debt Service	$8,493	$3,216
System Expansion and Acquisition	9,481	77,863
Total	$17,974	$81,079

5. CAPITAL ASSETS

Changes in capital assets for the years ended September 30, 2002 and 2001 are shown in the following tables.

	Beginning Sept 30, 2001	Additions	Disposals	Net Transfers	Ending Sept 30, 2002
Land and rights-of-way	$375,619			$39,539	$415,158
Transit-ways	673,206			362,187	1,035,393
Buildings and improvements	285,650		$(311)	52,086	337,425
Buses and equipment, net of safe harbor lease proceeds	599,852		(34,357)	28,250	593,745
Furniture, fixtures, and leasehold improvements	29,675		(543)	3,710	32,842
	1,964,002		(35,211)	485,772	2,414,563
Less accumulated depreciation and amortization					
Transit ways	104,309	29,229			133,538
Buildings and improvements	83,703	14,630	(311)		98,022
Buses and equipment, net of safe harbor lease proceeds	189,450	37,722	(34,316)		192,856
Furniture, fixtures, and leasehold improvements	14,467	5,000	(543)		18,924
	391,929	$86,581	(35,170)		443,340
	1,572,073	(86,581)	(41)	485,772	1,971,223
Projects in progress - transit system development	583,441	204,594		(485,772)	302,263
	$2,155,514	$118,013	$(41)	$0	$2,273,486

	Beginning, Oct 1, 2000	Additions	Disposals	Net Transfers	Ending, Sept 30, 2001
Land and rights-of-way	$372,901			$2,718	$375,619
Transit-ways	659,026			14,180	673,206
Buildings and improvements	258,595			27,055	285,650
Buses and equipment, net of safe harbor lease proceeds	527,489	$5	$(23,632)	95,990	599,852
Furniture, fixtures, and leasehold improvements	23,306		(792)	7,161	29,675
	1,841,317	5	(24,424)	147,104	1,964,002
Less accumulated depreciation and amortization					
Transit ways	79,229	25,080			104,309
Buildings and improvements	71,033	12,670			83,703
Buses and equipment, net of safe harbor lease proceeds	179,706	33,332	(23,588)		189,450
Furniture, fixtures, and leasehold improvements	11,307	3,952	(792)		14,467
	341,275	75,034	(24,380)		391,929
	1,500,042	(75,029)	(44)	147,104	1,572,073
Projects in progress – transit system development	460,368	270,177		(147,104)	583,441
	$1,960,410	$195,148	$(44)	$0	$2,155,514

Certain rights-of-way 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.

Capital assets are depreciated using 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

6. LOCAL ASSISTANCE PROGRAM PAYABLE

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 distribution of these funds. According to the terms of interlocal agreements, DART allocates a percentage of its annual sales tax collections for the LAP program. Eligible member jurisdictions receive 15% of the estimated sales taxes collected within that jurisdiction, except Irving, which receives 7.5%. Dallas, University Park, and Highland Park, are not eligible. DART allocated $9.4 million and $9.2 million in LAP funds in fiscal years 2002 and 2001, respectively. Accrued but unpaid funds may be carried over to succeeding years and are recorded as a liability on the accompanying statements of net assets.

The Board has agreed to continue LAP funding for eligible member cities until a contract is awarded for rail construction in that city. In any event, the program ends in 2004. LAP funds for Plano, Richardson and Garland were ended in fiscal year 2000. Member cities that elect to withdraw from DART forfeit any future allocations and any previously earned allocations, unless the city has an executed construction contract for the approved project.

7. FINANCE OBLIGATIONS UNDER CAPITAL LEASE/LEASEBACK

DART has entered into lease transactions in which assets are leased to investors (headlease) and simultaneously leased back (the 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.

Lease date	Property	Fair market value at closing	Book value at closing	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	Head quarters, 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 a 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 following table highlights pertinent information on the subleases:

Lease Date	Property	Sublease balance 9/30/01	New Lease	Interest Accrued 2002	Payment 2002	Sublease balance 9/30/02	Repurchase option date	Sublease termination date
7/25/97	40 Light rail cars	$107,433		$7,981	$8,453	$106,961	01/01/13	03/01/25
	12 Rail diesel cars	20,619		1,532	1,885	20,266	01/01/08	01/01/19
5/26/98	Headquarters facility	28,691		1,712	2,011	28,392	11/01/13	10/27/27
	Northwest facility	12,760		731	1,933	11,558	11/01/08	01/02/24
	East Dallas facility	18,102		1,081	1,247	17,936	11/01/10	12/03/25
	Service & inspection facility	63,763		3,888	3,793	63,858	01/01/14	02/15/29
9/28/00	28 Light rail cars	87,462		3,397	5,215	85,644	01/02/23	01/02/23
10/26/00	25 Light rail cars	78,127		3,646	4,442	77,331	01/02/25	01/02/25
7/10/02	Buses, Group 1		45,108	240		45,348	01/01/12	01/01/12
	Buses, Group 2		35,444	295		35,739	01/01/13	01/01/13
	Buses, Group 3		14,701	134		14,835	01/01/14	01/01/14
	Total	$416,957	$95,253	$24,637	$28,979	$507,868		

The capital lease/leaseback liabilities are reported as follows on the statements of net assets.

	2002	2001
Amounts due within one year	$29,797	$28,979
Amounts due in more than one year	478,071	387,978
Total	$507,868	$416,957

The following is a schedule of future minimum sublease payments under capital lease/leaseback as of September 30, 2002.

Year Ending September 30	Minimum Sublease Payments
2003	$29,797
2004	32,225
2005	33,069
2006	51,618
2007	36,560
2008 - 2012	240,099
2013 - 2017	219,624
2018 - 2022	54,693
2023 - 2027	5,852
Total minimum sublease payments under capital lease/leaseback	703,537
Less: amount representing interest	195,669
Present value of minimum sublease payments	$507,868

8. SENIOR SUBORDINATE LIEN SALES TAX REVENUE COMMERCIAL PAPER NOTES PAYABLE

At September 30, 2000, DART had commercial paper outstanding of $130 million, $100 million, and $70 million for Series B, C and D respectively. The average interest rate on these notes was 3.95% during 2000. Series B, C and D were retired in fiscal year 2001.

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 were used to refund the Series B, C and D commercial papers ($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. A Revolving Credit Agreement has been 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 February 6, 2003. It can be renewed, at the mutual consent of all parties, for four one-year terms. The Revolving Credit Agreement contains certain covenants. The authorized amount of Commercial Paper Notes and Revolving Credit Agreement was reduced to $450 million when the Senior Lien Sales Tax Revenue Bonds (see note 10) were issued. 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.

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 letters of credit are 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, 2002 was 1.28%.

Changes in the Commercial Paper Notes for the years ended September 30, 2002 and 2001 are as follows:

	Series B	Series C	Series D	Series 2001	Total
Balance Sept 30, 2000	$130,000	$100,000	$70,000		$300,000
Additions	38,250		30,000	$575,345	643,595
Retirement	(168,250)	(100,000)	(100,000)	(465,345)	(833,595)
Balance Sept 30, 2001	0	0	0	110,000	110,000
Additions				80,000	80,000
Retirement				(156,355)	(156,355)
Balance Sept 30, 2002	$0	$0	$0	$33,645	$33,645

9. NORTH CENTRAL LIGHT RAIL TRANSIT (NCLRT) PROJECT NOTES

The North Central Light Rail Transit Project Notes were fully retired on March 22, 2001, using the proceeds of the commercial papers notes (see note 8 above).

10. 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 our existing light rail system and other improvements to our public transportation system.

Subsequently, in July 2001, the Board approved the first issuance of $400 million 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. A portion of the Bonds matures on December 1 of each year. 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, $98.7 million of Series 2002, 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, 2033. The 2002 Bonds maturing on or after December 1, 2013 are subject to optional redemption 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 collection. Changes in sales tax revenue bonds for the years ended September 30, 2002 and 2001 are as follows.

	Sales tax revenue bonds
Balance Sept 30, 2000	$0
Additions	400,000
Retirements	0
Balance Sept 30, 2001	400,000
Additions	98,735
Retirements	0
Balance Sept 30, 2001	$498,735

The following is a summary of debt service requirements of the Senior Lien Sales Tax Revenue Bonds as of September 30, 2002.

Year ended September 30	Principal	Interest	Total
2003	$855	$23,385	$24,240
2004	1,945	24,656	26,601
2005	6,815	24,513	31,328
2006	10,470	24,187	34,657
2007	10,820	23,779	34,599
2008 – 2012	50,645	112,264	162,909
2013 - 2017	67,110	97,525	164,635
2018 – 2022	87,625	77,333	164,958
2023 – 2027	112,360	52,132	164,492
2028 – 2032	143,600	20,276	163,876
2033	6,490	162	6,652
TOTAL	$498,735	$480,212	$978,947

11. 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 plans), DART Retirement Plan and DART Capital Accumulation Plan and Trust.

Defined Benefit Plan - Under the Purchase and Sale Agreement for the purchase of the assets and liabilities of DTS from the City of Dallas, DART agreed to continue operating the DTS pension plans in accordance with existing plan provisions and subsequent amendments. The plans consisted of "Original Plan A," "Amended Plan A," and "Plan B." These plans were merged into a single consolidated plan entitled the DART Employees' Defined Benefit Plan and Trust (DB Plan). The plan is a single-employer defined benefit plan and uses the projected-unit-credit actuarial cost method. DART's covered payroll for the DB Plan as of October 1, 2001 (actuarial valuation date), was approximately $28.5 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 elected to remain under the provisions of the Original Plan A contribute 3% of covered wages to the plan. Plan B has no active participants and there are only two actively employed participants covered under the Original Plan A. Amended Plan A participants do not contribute to the plan.

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.

In 1998, DART adopted GASB Statement No. 27, "*Accounting for Pensions by State and Local Governmental Employers.*" This statement establishes standardized measures of recording and reporting pension expense and the related asset or liability. As a result, DART recognized a cumulative effect of $3.4 million, which is recorded as a net pension asset in the accompanying statements of net assets at September 30, 2002.

In accordance with GASB Statement No. 27, 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.

The net pension asset for fiscal year 2002 was computed as part of an actuarial valuation performed and dated as of the first day of the fiscal period, October 1, 2001. The significant actuarial assumptions as of October 1, 2001 are as follows:

	October 1, 2001
Investment Return	8% compounded annually, net of expenses
Discount Rate	8%
Salary Scales	4.5 % per annum
Mortality	1984 Unisex Mortality Table; set back 4 years for females, set forward 1year for males
Disability Mortality	1965 Railroad Retirement Board Disabled Life Mortality Table
Retirement Age	Age 60
Cost-of-Living Factors	3.5% per annum
Actuarial Cost Method	Projected unit credit for participants in Plans A and B

For plan years 2002, 2001, and 2000, the net pension asset was as follows:

	2002	2001	2000
Annual Required Contribution	$4,195	$1,657	$1,732
Interest on net pension asset	(309)	(514)	(498)
Adjustment to annual required contribution	452	709	687
Annual Pension Cost	4,338	1,852	1,921
Employer Contributions	3,857		2,100
Increase/(Decrease) in net pension asset	(481)	(1,852)	179
Net Pension asset, beginning of year	3,866	5,718	5,539
Net Pension asset, end of year	$3,385	$3,866	$5,718

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.

	2002	2001	2000
Annual Pension costs	$4,338	$1,852	$1,921
Employer Contribution made	$3,857	$0	$2,100
Percentage of annual pension cost contributed	89%	0%	109.3%
Net pension asset	$3,385	$3,866	$5,718

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, and thereafter increasing 25% for each year of additional service until 100% vested. Total expense to DART to fully fund this plan was approximately $7.0 million and $6.5 million for the years ended September 30, 2002 and 2001, 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 compensation to the plan. DART matches 50% of the employee's contribution up to a maximum of 3% of the employee's annual compensation. After two years of service, employees are vested in 25% of DART's contributions, graduating to 100% vesting after five years. Total expense to DART to fully fund this plan was approximately $2.1 million for each of the years ended September 30, 2002 and 2001.

12. POSTRETIREMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits (see note 11), 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, 2002 and 2001, were approximately $1.8 million and $1.5 million, respectively, with DART funding approximately $1.1 million in 2002 and $0.6 million in 2001, and the retirees funding the remainder. DART has 353 retirees eligible to receive these benefits.

13. 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.

Certain owners of an office building in downtown Dallas have filed suit against DART for alleged damages of up to approximately $60 million related to flooding in 1995 when DART's light rail line was under construction. At this point of the litigation, management does not believe loss to be probable under this lawsuit and intends to defend it vigorously.

14. COMMITMENTS AND CONTINGENCIES

The Board has approved a Transit System Plan that includes the design and construction of a 23-mile LRT extension from Dallas to Garland, Richardson, and Plano, which is budgeted at $1 billion at September 30, 2002. DART has entered into contract commitments for a total of $879.8 million and expended approximately $825.5 million of the committed amount as of September 30, 2002, on these projects. These current expenditures, current contract commitments, and any future commitments will be funded by DART out of available cash and investments, future sales tax collections, federal grants, and debt financing.

DART participates in several federal 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 $1.9 million and $1.4 million in 2002 and 2001 respectively. Future minimum lease payments for all non-cancelable operating leases are as follows.

Fiscal year	Minimum lease payments
2003	$1,200
2004	900
2005	900
2006	900
2007	650

* * * * * * * * * *

APPENDIX B

A Table of Contents and brief descriptions of certain provisions of the Master Debt Resolution are included on the following pages of this Appendix B. The descriptions are not intended to be comprehensive or complete but are to be used as a guide to the full provisions of the Master Debt Resolution. The full and complete text of the Master Debt Resolution may be obtained directly from us without cost at the address given in the text of this document, and it may be viewed on the Internet at our website, ***www.dart.org***. See, “IMPORTANT NOTICES.” Specific Article and Section numbers are identified in “*italics*” throughout this Summary.

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SUMMARY OF CERTAIN TERMS OF THE MASTER DEBT RESOLUTION

DEFINITIONS
{*Article I*}

The following are definitions of certain terms used in this Summary.

Accrued Aggregate Debt Service - means, for any specified Debt Service Accrual Period, and with respect to a specified series of Obligations, an amount equal to the sum of the Debt Service accruing during that Debt Service Accrual Period with respect to all of such Obligations that are Outstanding at the beginning of such Debt Service Accrual Period.

Accrued Aggregate Interest - means, for any Debt Service Accrual Period, that portion of the Accrued Aggregate Debt Service that is attributable to interest on Obligations for the Debt Service Accrual Period.

Act - means Chapter 452, Transportation Code, as amended.

Additional Senior Lien Obligations - means bonds, notes, commercial paper, or other evidences of indebtedness issued by DART on a parity as to the Pledged Revenues with the Initial Senior Lien Obligations pursuant to Section 3.2 of the Master Debt Resolution.

Administrative Expenses - means amounts owed to the Trustee under Section 8.4 of the Master Debt Resolution and, to the extent specified in a Supplemental Resolution, the fees, expenses, and indemnification liabilities payable to the Paying Agent, the Credit Providers, any Bondholder Representative, and others. Said term does not include Credit Agreement Obligations.

Applicable Law - means the Act and all other laws or statutes, rules or regulations, and any amendments thereto, of the State or of the United States by which DART and its powers, securities, bonds, notes, and other obligations, and its operations and procedures are, or may be, governed or from which such powers may be derived.

Authorized Officer - means the President and Executive Director, the Chief Financial Officer, the Treasurer, the Assistant Treasurer, and such other officers or employees of DART as may be authorized to perform duties under the Master Debt Resolution.

Available Remaining Revenues - means the amount of the Gross Sales Tax Revenues, plus the Special Revenues that are available to DART for spending for lawful purposes and the uses of which are not restricted by Applicable Law, grant condition, or contract (i) after complying with the requirements of Article V of the Master Debt Resolution, and (ii) after applying all of the revenues received from the operation of the System to the purpose of operating and maintaining the System, as required by Section 452.357 of the Act.

Board - means the governing subregional board of directors of DART as authorized and required by, and selected in the manner provided in, Section 452.571 of the Act.

Bondholder Representative - means each Person appointed pursuant to Section 11.8 of the Master Debt Resolution.

Bond Obligation - means any Obligation that is issued in the form of bonds, notes, or other securities or other forms of indebtedness other than a Credit Agreement Obligation.

Business Day - means, unless another definition is provided in a Supplemental Resolution with respect to a series of Obligations, any day other than a Saturday, Sunday or legal holiday or other day on which banking institutions in the city where the designated payment/transfer office of the Paying Agent and/or Registrar is located, or where the principal office of the Trustee is located, are generally authorized or obligated by law or executive order to close.

Code - means the Internal Revenue Code of 1986, as amended, the regulations and published rulings promulgated or published pursuant thereto, and the provisions of any applicable section of a successor federal income tax law.

Comptroller - means the Constitutional Officer of the State of Texas known as the "Comptroller of Public Accounts" and any successor official or officer that may be charged by law with the duty of collecting the Sales Tax for the account of, and remitting Gross Sales Tax Revenues to, DART.

Costs of Acquisition and Construction - means all costs and expenses of planning, designing, acquiring, constructing, installing, extending, equipping, improving, repairing, replacing and financing any part or all of the System, placing the System in operation, and obtaining governmental approvals, certificates, permits and licenses with respect thereto, including acquisition of land and interests in land, working capital and reserves during construction periods, capitalized interest, and financing costs.

Credit Agreement - means any agreement between DART and a Credit Provider permitted by Applicable Law that is entered into for the purpose of providing credit enhancement or liquidity support for all or a part of a series of Bond Obligations.

Credit Agreement Obligations - means any liability of DART to pay principal, interest, or other payment on any debt or liability created under a Credit Agreement in favor of a Credit Provider that is declared by the terms of the Master Debt Resolution or a Supplemental Resolution to be a Senior Lien Obligation or a Subordinate Lien Obligation.

Credit Provider - means each party named in the Master Debt Resolution or a Supplemental Resolution that provides credit or liquidity support for a series of Bond Obligations, or other financial undertakings in a Credit Agreement.

Debt Service - means, for any specified Debt Service Accrual Period or other period with respect to a specified series of Obligations, an amount equal to:

(i) the sum of (A) all interest that is due and payable (but unpaid) on the commencement of such Debt Service Accrual Period or other period, plus (B) interest accruing on such Obligations, including as to Interim Obligations, and as to Variable Interest Rate Obligations, if any, the amount estimated to accrue during such Debt Service Accrual Period or other period, but excluding interest that will be paid from the proceeds of Obligations or from Credit Agreements; and

(ii) the sum of (A) all Principal Installments that are due and payable (but unpaid) on the commencement of such Debt Service Accrual Period or other period, plus (B) that portion of next maturing Principal Installment on such Obligations which will accrue during such Debt Service Accrual Period or other period, other than a Principal Installment with respect to Interim Obligations and Credit Agreement Obligations that are to be paid either with the proceeds of Bond Obligations or with funds provided by a Credit Provider, and other than amounts scheduled to be paid by a counter party to a Swap

Agreement that is not in default, all as determined as provided in the Master Debt Resolution.

Debt Service Accrual Period - means the period commencing on, as applicable, the date of issuance or execution of any Obligation under the Master Debt Resolution, or the most recent date on which the Trustee has transferred Gross Sales Tax Revenues from the Gross Sales Tax Revenue Fund in accordance with Section 5.3(a) the Master Debt Resolution, whichever is later, and ending on, but excluding, the next date on which the Trustee is expected to transfer Gross Sales Tax Revenues to the Gross Sales Tax Revenue Fund, as such period is specified by the Trustee in its request to each Paying Agent as required by Section 5.3(i) of the Master Debt Resolution.

Event of Default - means the occurrence of any of the events or circumstances described as such in Section 7.1 of the Master Debt Resolution.

First Supplemental Debt Resolution - means the Supplemental Resolution approved by the Board authorizing the issuance and setting forth the terms of the Senior Subordinate Lien Obligations authorized by Section 3.3(a) of the Master Debt Resolution.

Fiscal Year - means the twelve consecutive month period established from time to time by the Board as DART's fiscal year. Until changed by resolution of the Board, the fiscal year shall be the period commencing October 1 and ending on the following September 30.

Force Majeure - means any act of God or the public enemy; strike, lockout, work slowdown or stoppage or other labor dispute; insurrection, riot or other civil disturbance; order of the government of the United States or of any state thereof or order of any other civil or military authority; failure of a public utility; or other condition or event beyond the reasonable control of DART, other than a financial condition, business condition or condition or event constituting frustration of purpose.

General Operating Fund - means the fund by that name reestablished and confirmed in Section 5.1 of the Master Debt Resolution.

Gross Sales Tax Revenue Fund - means the special trust fund by that name reestablished and confirmed in Section 5.1 of the Master Debt Resolution.

Gross Sales Tax Revenues - means all of the revenues due or owing to, or collected or received by or on behalf of, DART, or by the Trustee pursuant to the Master Debt Resolution, from or by reason of the levy of the Sales Tax, less any amounts due or owing to the Comptroller as charges for collection or retention by the Comptroller for refunds and to redeem dishonored checks and drafts, to the extent such charges and retentions are authorized or required by law. Such term expressly does not include any Special Revenues.

Holder - means, with respect to Bond Obligations, the registered owner of a Bond Obligation according to the Obligation Register relating to such Bond Obligation, and, with respect to each Credit Agreement Obligation, the related Credit Provider.

Initial Senior Lien Obligations - mean the Senior Lien Obligations that are authorized in Section 3.1(a) of the Master Debt Resolution.

Interest Payment Date(s) - means the date or dates on which interest on Obligations is payable (including a prepayment or redemption date), as said date or dates are specified in a Supplemental Resolution or in Credit Agreements, as appropriate.

Interim Obligations - mean Obligations, including commercial paper, notes, and similar Obligations (i) for or with respect to which no Principal Installments are required to be made other than on the Stated Maturity Date thereof, which date shall be no later than five (5) years from the date of their delivery to their initial purchasers, and (ii) which are authorized by a Supplemental Resolution in which they are designated as "Interim Obligations" that DART intends to refund, reissue, or refinance in whole or in part prior to or on such Stated Maturity Date.

Investment Securities - mean any and all of the investments permitted by Applicable Law for the investment of the public funds of DART, provided that such investments are at the time made included in and authorized by the official investment policy of DART as approved by the Board from time to time and are not prohibited by a Supplemental Resolution.

Junior Subordinate Lien Debt Service Fund - means the special trust fund so designated and established in Section 5.1 of the Master Debt Resolution.

Junior Subordinate Lien Obligations - means (i) bonds, notes, or other forms of indebtedness and obligations of DART that are by their terms made payable from the Junior Subordinate Lien Debt Service Fund and are secured by a lien on and pledge of Pledged Revenues that is junior and subordinate to the liens on and pledges of Pledged Revenues created in the Master Debt Resolution for the benefit of the Senior Lien Obligations and the Senior Subordinate Lien Obligations, and (ii) each Credit Agreement Obligation that is declared in a Supplemental Resolution to be a "Junior Subordinate Lien Obligation."

Market Value - means the fair market value of Investment Securities calculated as set forth in the Master Debt Resolution.

Maximum Interest Rate - means, with respect to particular Variable Interest Rate Obligations, a numerical or other statement of the rate of interest, which shall be set forth in a Supplemental Resolution or in a Credit Agreement, authorizing such Obligations as appropriate, in each case as being the maximum rate of interest such Obligations may bear at a single time or over the period during which they are Outstanding or unpaid, but in no event exceeding the maximum amount or rate of interest permitted by Applicable Law.

Minimum Interest Rate - means, with respect to any particular Variable Interest Rate Obligations, a numerical rate of interest which may (but need not) be set forth in the Supplemental Resolution, or Credit Agreement, as appropriate, authorizing such Obligations that shall be the minimum rate of interest such Obligations will at any time bear.

Obligation Register - means, as to each series of Bond Obligations, the register or registers maintained pursuant to Section 4.5 of the Master Debt Resolution.

Obligations - mean the Senior Lien Obligations and the Subordinate Lien Obligations.

Outstanding - when used with reference to Bond Obligations, means, as of any date, Bond Obligations theretofore or thereupon being authenticated and delivered under the Master Debt Resolution or a Supplemental Resolution, except:

> (i) Bond Obligations which have been fully paid at or prior to their maturity or on or prior to a redemption date;
>
> (ii) Bond Obligations (or portions thereof) for the payment of which moneys equal to the principal amount or redemption price thereof, as the case may be, with interest to the date of maturity or redemption, shall be held by a paying agent or a trustee in cash in trust and set aside for payment at maturity

or redemption on a redemption date and for which notice of redemption has been given or provision has been made therefor;

(iii) Bond Obligations in lieu of or in substitution for which other Obligations have been authenticated and delivered pursuant to the Master Debt Resolution or a Supplemental Resolution; and

(iv) Bond Obligations for which payment has been provided by defeasance in accordance with Section 10.2 of the Master Debt Resolution.

When used with reference to Credit Agreement Obligations, the term “Outstanding” shall mean all principal amounts due and payable by DART under the applicable Credit Agreement until the later of the due or maturity date thereof, and the payment thereof in full, but only to the extent, and solely to the extent, that moneys (A) have been actually advanced or loaned to or for the account of DART (and have not been repaid) for the purpose of providing funds for the payment of the interest on or principal or Redemption Price of any Obligations on their maturity, due, or redemption date, or (B) have been paid (and have not been repaid) to or for the account of the Holder of an Obligation in order to honor such Holder’s right to tender Obligations for purchase prior to maturity in accordance with the terms and provisions of the applicable Supplemental Resolution or Credit Agreement.

Outstanding Obligations - means any Obligations while, when, after, to the extent, and for so long as any of the same are Outstanding.

Outstanding Resolutions - means the Master Debt Resolution, the First Supplemental Debt Resolution and all other Supplemental Resolutions when and as adopted by the Board.

Paying Agent - means any paying agent for a series or issue of Obligations appointed pursuant to a Supplemental Resolution as described in Section 4.6 of the Master Debt Resolution and its successor or successors.

Person - means any individual, corporation, partnership, (including a limited partnership) limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof, or any other legal entity.

Pledged Revenues - means collectively (a) the Gross Sales Tax Revenues at the point where they are required to be first collected in accordance with the Act and other Applicable Law, and for so long as they are owed, but unpaid, to, or on behalf of DART, (b) the Gross Sales Tax Revenues upon and after receipt by DART or by the Trustee under the Master Debt Resolution and while they are required to be or are on deposit in the Gross Sales Tax Revenue Fund, (c) Investment Securities or other investments or earnings, if any, credited to the Gross Sales Tax Revenue Fund that are not required by the Code to be rebated to the United States of America, and (d) any additional revenues or money of DART which may be, by a Supplemental Resolution, expressly and specifically pledged to the payment of any and or all of the Obligations.

Principal Installment - means any amounts, other than interest payments, including any Sinking Fund Installments, which are stated to be due or required to be made on or with respect to an Obligation which, when made, would reduce the amount of such Obligation that remains Outstanding or would retire and pay the same in full.

Rebate Fund - means any fund established by a Supplemental Resolution in connection with the issuance of any Bond Obligation that is a Tax-Exempt Obligation, to ensure compliance with the provisions of Section 148 of the Code.

Required Percentage of Holders of Bond Obligations - means the Holders of: (i) 51% of the principal amount of Outstanding Bond Obligations that are Senior Lien Obligations; (ii) 51% of the principal amount of Outstanding Bond Obligations that are Senior Subordinate Lien Obligations; and (iii) 51% of the principal amount of Outstanding Bond Obligations that are Junior Subordinate Lien Obligations.

Resolution - means Master Debt Resolution as it may from time to time be amended, modified or supplemented by Supplemental Resolutions or by amendment in accordance with Article IX of the Master Debt Resolution.

Sales Tax - means the one-percent (1%) local sales and use tax authorized by the Act and other Applicable Law and heretofore approved at an election and then levied on taxable items and transactions, and confirmed and levied in the Master Debt Resolution, by DART within its boundaries, and hereafter required to be levied within any expanded areas included within DART pursuant to the Act, together with any increases in the rate thereof if provided and authorized by amendment to the Act, but subject to the requirements of the Voted Tax and Debt Limits.

Senior Lien Debt Service Fund - means the special trust fund so designated and established in Section 5.1 of the Master Debt Resolution.

Senior Lien Obligations - means (i) the Initial Senior Lien Obligations, (ii) any Additional Senior Lien Obligations, and (iii) each Credit Agreement Obligation that is declared in the Master Debt Resolution or a Supplemental Resolution to be a "Senior Lien Obligation."

Senior Subordinate Lien Debt Service Fund - means the special fund so designated and established in Section 5.1 of the Master Debt Resolution.

Senior Subordinate Lien Obligations - means (i) the Senior Subordinate Lien Obligations authorized and named in Section 3.3(a) of the Master Debt Resolution, (ii) any other bonds, notes, or other forms of indebtedness and obligations of DART that are, by their terms, made payable from the Senior Subordinate Lien Debt Service Fund and that are secured by a lien on and pledge of Pledged Revenues that are junior and subordinate to the lien on and pledge of Pledged Revenues created in the Master Debt Resolution for the benefit of Senior Lien Obligations, but that are senior in right to the lien on and pledge of Pledged Revenues and Pledged Funds created in the Master Debt Resolution for the benefit of Junior Subordinate Lien Obligations, and (iii) each Credit Agreement Obligation that is declared in the Master Debt Resolution, or in a Supplemental Resolution to be a "Senior Subordinate Lien Obligation."

Sinking Fund Installment - means, with respect to any Bond Obligations, the portion of the Accrued Aggregate Debt Service required by a Supplemental Resolution to be deposited to the Senior Lien Debt Service Fund, the Senior Subordinate Lien Debt Service Fund, or the Senior Subordinate Lien Debt Service Fund in all events on a future date to be held on deposit or applied, in either case, for the mandatory redemption or retirement, in whole or in part, of any of such Bond Obligations having a stated maturity after said future date. Said future date is deemed to be the date when such Sinking Fund Installment is due and payable.

Special Revenue Bonds - mean bonds, notes or other obligations issued for lawful purposes that (i) are made payable from Special Revenues pursuant to the right to issue the same reserved in Section 3.6 of the Master Debt Resolution, and (ii) are not payable from or secured by any part or portion of the Pledged Revenues.

Special Revenues - mean any and all revenues of DART, other than the Sales Tax, including, but not limited to, all of (i) any taxes or special charges, other than the Sales Tax, that DART is authorized by Applicable Law to impose and collect for its public purposes, (ii) fare-box revenues, rents, tolls, rates and charges imposed by DART for the use of any part or all of the

System, as it exists from time to time, and (iii) the proceeds from grants for the purposes of the System made to DART by the State or by the United States of America.

Standard Assumptions - means the assumptions that are applicable to Interim Obligations and to Variable Interest Rate Obligations, as set forth and described in subsections (e) and (f), respectively, of Section 1.4 of the Master Debt Resolution.

State - means the State of Texas.

Stated Maturity Date - means the date on which an Obligation matures and the full amount owed thereon is in all events due and payable, as specified in a Supplemental Resolution or in a Credit Agreement, as appropriate.

Subordinate Lien Obligations - mean any and all Senior Subordinate Lien Obligations and any and all Junior Subordinate Lien Obligations.

Supplemental Resolution - means any resolution of the Board adopted concurrently with or subsequent to the adoption of this Resolution that supplements this Resolution for (i) the purpose of authorizing and providing the terms and provisions of Obligations, or (ii) any of the other purposes permitted by Article IX of the Master Debt Resolution.

Swap Agreement - means a Credit Agreement with respect to a series of Bond Obligations pursuant to which DART agrees to pay to a qualified counterparty an amount of money in exchange for the counterparty's promise to pay an amount equal to all or a portion of the actual amount of interest due and payable on such series according to its terms as it becomes due. For the purposes of this definition, a counterparty is not qualified unless it holds a current rating for claims-paying ability by at least two nationally recognized rating agencies at least equal to the rating of each such rating agency assigned to the Initial Senior Lien Obligations without reference to any Credit Agreement.

System - means the public transportation system of DART, including complementary transportation services, and all of the properties and assets of DART that are defined in and permitted by the Act, whether owned or operated by DART directly or provided for or on behalf of DART by others pursuant to contracts executed for such purposes as provided in the Act.

System Expansion and Acquisition Fund - means the fund so designated and established in Section 5.1 of the Master Debt Resolution.

Tax-Exempt Obligation - means any Bond Obligation the interest on which is excludable from the gross income of the Holder for federal income tax purposes under Section 103 of the Code.

Trustee - means Bank One, Texas, N.A., as the trustee under the Master Debt Resolution, and any successor to or replacement of such trustee appointed in accordance with the Master Debt Resolution.

Variable Interest Rate - means a variable or adjustable interest rate that varies from time to time based on a formula or reference to specified financial indicators, or by negotiation, auction, or revisions through another method from time to time and to be borne by all or a part of any Obligations, all as specified in a Supplemental Resolution or Credit Agreement, as applicable.

Variable Interest Rate Obligations - mean Obligations which bear a Variable Interest Rate.

<u>Voted Tax and Debt Limits</u> - means the limitations on (i) the maximum rate of the Sales Tax that DART may levy and collect, and (ii) the maximum amount of indebtedness that DART may incur that has a maturity longer than five (5) years, in either case without further elections in conformity with the Election Order as summarized in the preambles to the Master Debt Resolution.

Interpretations - Standard Assumptions *{Sections 1.4(e) and (f)}*

Wherever a calculation of Debt Service with respect to Interim Obligations is required by application of the Standard Assumptions, the Debt Service shall be computed by assuming (A) that the Outstanding principal amount of the series of Interim Obligations are bonds secured by a lien on Pledged Revenues on a parity with the Interim Obligations which will amortize over a period of not to exceed 25 years following the date of initial issuance of such Interim Obligations in such manner as will cause the maximum Debt Service for such series in any 12 month period not exceeding 110% of the minimum Debt Service for such series for any other 12 month period, and (B) such series will bear interest at a fixed interest rate reasonably estimated to be the interest rate such series would bear if issued on the date of such estimate.

Wherever a calculation of Debt Service with respect to Variable Interest Rate Obligations that are not Interim Obligations is required by application of the Standard Assumptions, the Debt Service shall be computed by assuming that such Obligations will bear interest at the highest of (i) the actual rate on the date of calculation, or, if such Obligations are not yet Outstanding, the initial rate, if established and binding, (ii) if the Obligations have been Outstanding for at least 12 months, the average rate over the 12 months immediately preceding the date of calculation, or (iii) (A) if the Obligations are Tax Exempt Obligations, the most recently published "Revenue Bond Index," published by the financial news publication presently known as <u>The Bond Buyer</u>, or by a comparable index if no longer published, plus fifty basis points, or (B) if the Obligations are not Tax Exempt Obligations, the interest rate on direct obligations of the United States with comparable maturities, plus fifty basis points or (C) if the Obligations are Credit Agreement Obligations, such rate as is specified in the Supplemental Resolution creating such Credit Agreement Obligations.

PURPOSES, PLEDGE AND SECURITY
{*Article II*}

Purposes of Resolution, Contract with Holders *{Section 2.1}*

The Master Debt Resolution establishes a lien and the security for, and prescribes minimum standards for issuing, Obligations; authorizes the issuance of the Initial Senior Lien Obligations, an initial series of Senior Subordinate Lien Obligations and permits the issuance of Additional Senior Lien Obligations and other Subordinate Lien Obligations; reserves the right to issue Special Revenue Bonds; and prescribes other matters and the general rights of the Holders, DART, Credit Providers, any Bondholder Representative and the Trustee in relation to such Obligations. The provisions of the Master Debt Resolution constitute a contract of DART to and with the Holders and the Trustee.

Confirmation and Levy of Sales Tax *{Section 2.2}*

The levy and collection of the Sales Tax, at the rate voted at the election at which DART was created, is confirmed, and DART covenants that, as long as any Obligations are Outstanding, or any Administrative Expenses unpaid, it will levy and collect the Sales Tax to the extent it may legally do so at the highest rate permitted by Applicable Law, subject to requirements for an election under the Voted Tax and Debt Limits, and to take all action permitted to cause the Sales Tax to be collected and remitted to DART at the earliest permissible date.

Pledge and Security for Obligations *{Section 2.3}*

The Pledged Revenues are irrevocably pledged: (i) <u>first</u>, with respect to Outstanding Senior Lien Obligations, to the payment of Debt Service, to the maintenance of any reserve funds or accounts, and to the payment of Administrative Expenses; (ii) <u>second</u>, subject to the rights of the Holders of Senior Lien Obligations and the payment of related Administrative Expenses, with respect to Outstanding Senior Subordinate Lien Obligations, to the payment of Debt Service, to the maintenance of any reserve funds or accounts, and to the payment of Administrative Expenses; and (iii) third, subject to the rights of the Holders of Senior Lien Obligations and the Holders of Senior Subordinate Lien Obligations and the payment of related Administrative Expenses, with respect to Outstanding Junior Subordinate Lien Obligations, to the payment of Debt Service, to the maintenance of any reserve funds or accounts and to the payment of Administrative Expenses.

All moneys and investments on deposit in the Senior Lien Debt Service Fund, the Senior Subordinate Lien Debt Service Fund and the Junior Subordinate Lien Debt Service Fund are irrevocably pledged to the payment of Debt Service on and Administrative Expenses with respect to the Senior Lien Obligations, the Senior Subordinate Lien Obligations and the Junior Subordinate Lien Obligations, respectively.

The Obligations and Administrative Expenses are special obligations of DART, and, unless otherwise provided in a Supplemental Resolution, are secured solely by a pledge of and a lien on the Pledged Revenues and the money on deposit, respectively, in the Senior Lien Debt Service Fund, the Senior Subordinate Lien Debt Service Fund and the Junior Subordinate Lien Debt Service Fund, that is exclusive, senior and superior to the rights of all other creditors of DART. Neither the Obligations nor the Administrative Expenses shall constitute a debt or obligation of the State, or of any city, town or county having appointment or other powers with respect to DART or the Board. The Holders of Obligations and payees of Administrative Expenses shall never have the right to demand payment out of any funds raised or to be raised by any system of ad valorem taxation or, unless otherwise provided in a Supplemental Resolution, from any other funds or revenues of DART.

Collection of Pledged Revenues, Assignment to Trustee *{Section 2.4}*

DART assigns to the Trustee all of the Pledged Revenues, in trust, for the benefit and security of Holders and the Credit Providers. DART appoints the Trustee as its agent and attorney-in-fact for the purpose of performing those duties of its treasurer which consist of collecting and receiving the Gross Sales Tax Revenues from the Comptroller and taking such steps as may be necessary to perfect and maintain the liens granted under the Master Debt Resolution. DART is required to cause the Comptroller to pay all Gross Sales Tax Revenues directly to the Trustee for deposit to the Gross Sales Tax Revenue Fund. If the Comptroller refuses or is not legally obligated to make transfers as directed by DART, the DART is required to cause the Gross Sales Tax Revenues to be transferred to the Trustee as received. All Gross Sales Tax Revenues received by the Trustee are required to be deposited to the Gross Sales Tax Revenue Fund and applied in accordance with the Master Debt Resolution. A specific series of Bond Obligations may be additionally payable from or secured by Credit Agreements and any Supplemental Resolution may provide that the security provided thereby not extend to other series of Obligations.

Security Agreement *{Section 2.5}*

The Master Debt Resolution constitutes a security agreement with the Trustee as the secured party. The grants, assignments, liens, pledges and security interests of the Trustee created in the Master Debt Resolution shall become effective upon the delivery of Obligations under the Master Debt Resolution, and shall be continuously effective for so long as any Obligations or Administrative Expenses are Outstanding.

PERMITTED DART INDEBTEDNESS
{*Article III*}

Initial Senior Lien Obligations *{Section 3.1}*

The Master Debt Resolution authorizes DART to issue up to $500 Million of Initial Senior Lien Obligations, which amount may be increased, pursuant to the terms of one or more Supplemental Resolutions. DART may issue Additional Senior Lien Obligations upon compliance with the requirements set forth in the Master Debt Resolution. No obligations having a first lien on the Pledged Revenues, other than Senior Lien Obligations, may be issued by DART.

Additional Senior Lien Obligations *{Section 3.2}*

Subject to the Voted Tax and Debt Limits, DART reserves the right to issue Additional Senior Lien Obligations on a parity with Outstanding Senior Lien Obligations, pursuant to one or more Supplemental Resolutions. Prior to the issuance of Additional Senior Lien Obligations, either (A) Gross Sales Tax Revenues must be estimated to be, for each of the three consecutive Fiscal Years beginning with the First Fiscal Year in which Debt Service with respect to the proposed Additional Senior Lien Obligations is due, equal to at least 200% of the Debt Service that will be due on Senior Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations) during each of such 3 consecutive Fiscal Years after taking into consideration any additional Debt Service to be paid during such period with respect to the Additional Senior Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations) then proposed to be issued and any reduction in Debt Service that may result from the issuance thereof, determined in accordance with the requirements of the Master Debt Resolution; or (B) for either the most recent complete Fiscal Year, or for any consecutive 12 of the most recent 18 months, the Gross Sales Tax Revenues must have been equal to at least 200% of the maximum Debt Service with respect to all Outstanding Senior Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations) including maximum Debt Service on the proposed Additional Senior Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations) then proposed to be issued, determined in accordance with the requirements of the Master Debt Resolution, provided however, this requirement does not apply to the issuance of Interim Obligations. In addition, estimated Gross Sales Tax Revenues for each of the 3 consecutive Fiscal Years beginning with the first Fiscal Year in which Debt Service on the proposed Additional Senior Lien Obligations is due must equal at least (A) 100% (or such higher percentage required by a Supplemental Resolution) of the Debt Service on Senior Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations) plus (B) 100% (or such higher percentage required by a Supplemental Resolution) of the Debt Service on Outstanding Subordinate Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations) during each of such 3 consecutive Fiscal Years, determined in accordance with the requirements of the Master Debt Resolution.

Senior Subordinate Lien Obligations *{Section 3.3}*

The Master Debt Resolution authorizes DART to issue up to $650 Million of commercial paper notes as Senior Subordinate Lien Obligations pursuant to the terms of one or more Supplemental Resolutions for the purposes of refunding all outstanding indebtedness of DART, paying Costs of Acquisition and Construction, and other purposes permitted by Applicable Law.

<u>Additional Senior Subordinate Lien Obligations</u>. Subject to the limitations and requirements set forth in the Master Debt Resolution, DART reserves the right to issue additional Senior Subordinate Lien Obligations pursuant to one or more Supplemental Resolutions for any purpose permitted by Applicable Law secured by and payable from a senior subordinate pledge of the Pledged Revenues and, at the option of DART, a pledge of Special Revenues. Additional Senior Subordinate Lien Obligations may only be issued if estimated Gross Sales Tax Revenues for each of the three consecutive Fiscal Years beginning with the first Fiscal Year in which Debt Service is due on the proposed Senior Subordinate Lien Obligations, plus the amount of the Special Revenues, if any, that are projected to be available and pledged to the Senior Subordinate Lien Obligations, are equal to at least (A) 100% (or such higher percentage required by a Supplemental Resolution) of the Debt Service on Senior Subordinate Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations), plus (B) 100% of the Debt Service on all Outstanding Senior Lien Obligations and Junior Subordinate Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations), in each case during each of such three consecutive Fiscal Years, computed as required under the Master Debt Resolution.

Junior Subordinate Lien Obligations *{Section 3.4}*

Subject to the limitations and requirements set forth in the Master Debt Resolution, DART reserves the right to issue Junior Subordinate Lien Obligations pursuant to one or more Supplemental Resolutions for any purpose permitted by Applicable Law, payable from and secured by a junior subordinate pledge of the Pledged Revenues and, at the option of DART, a pledge of Special Revenues. Junior Subordinate Lien Obligations may only be issued if estimated Gross Sales Tax Revenues for each of 3 consecutive Fiscal Years beginning with the first Fiscal Year in which Debt Service is due on the proposed Junior Subordinate Lien Obligations, plus the amount of the Special Revenues, if any, that are projected to be available and pledged to the Junior Subordinate Lien

Obligations, are equal to at least (A) 100% (or such higher percentage required by a Supplemental Resolution) of the Debt Service on Junior Subordinate Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations), plus (B) 100% of the Debt Service on all Outstanding Senior Lien Obligations and Senior Subordinate Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations), in each case during each of such three consecutive Fiscal Years, computed as required under the Master Debt Resolution.

Credit Agreement Obligations *{Section 3.5}*

DART is authorized to enter into Credit Agreements, pursuant to Supplemental Resolutions, that create Credit Agreement Obligations that are secured and payable on a parity with other Outstanding Obligations. Credit Agreements may include rights and remedies which are in addition to the rights and remedies contained in the Master Debt Resolution and which may be enforced apart from the Master Debt Resolution.

Special Revenue Bonds *{Section 3.6}*

DART reserves the right to issue Special Revenue Obligations and to enter into related credit agreements without complying with the requirements of the Master Debt Resolution regarding the issuance of Obligations.

Other Encumbrances Prohibited *{Section 3.8}*

Except for the Pledge of the Pledged Revenues as security for the Obligations and Administrative Expenses in the order of priority established in Article II of the Master Debt Resolution, the Pledged Revenues may not be pledged or encumbered to or for the payment of any other obligation or liability of DART.

TERMS, PROVISIONS AND AUTHENTICATION OF BOND OBLIGATIONS
{*Article IV*}

Bond Obligations may be issued in any form and manner permitted by Applicable Law, subject to the provisions of the Master Debt Resolution and any applicable Supplemental Resolution. Bond Obligations are to be issued pursuant to a Supplemental Resolution setting forth all of the terms, provisions and conditions pertaining to such Bond Obligations.

SPECIAL FUNDS, USES OF MONEYS
{*Article IV*}

Creation of Funds and Accounts *{Section 5.1}*

The Master Debt Resolution establishes the System Expansion and Acquisition Fund, the Senior Lien Debt Service Fund, consisting of an Interest Account and a Principal Installment Account; the Senior Subordinate Lien Debt Service Fund, consisting of an Interest Account and a Principal Installment Account; and the Junior Subordinate Lien Debt Service Fund, consisting of an Interest Account and a Principal Installment Account. The Master Debt Resolution reestablishes and reconfirms the Gross Sales Tax Revenue Fund and the General Operating Fund.

The Gross Sales Tax Revenue Fund is a special trust fund held by the Trustee for the benefit of the Holders of the Obligations and the payees of Administrative Expenses. The Senior Lien Debt Service Fund, the Senior Subordinate Lien Debt Service Fund and the Junior Lien Debt Service Fund are special trust funds held by the Trustee for the benefit of the Holders of the Senior Lien Obligations, the Senior Subordinate Lien Obligations and the Junior Subordinate Lien Obligations, respectively, and the payees of Administrative Expenses.

The System Expansion and Acquisition Fund, the General Operating Fund and all other funds or accounts of DART not expressly required by the Master Debt Resolution or by a Supplemental Resolution to be held by the Trustee, may be held in any bank or lawful depository and said funds and accounts and all moneys on deposit therein, including the Available Remaining Revenues, shall be free of any lien, pledge or trust created by the Master Debt Resolution.

System Expansion and Acquisition Fund *{Section 5.2}*

Money on deposit in the System Expansion and Acquisition Fund is to be used to pay Costs of Acquisition and Construction and will be funded as directed in Supplemental Resolutions. In the event of a default in the payment of Obligations the Board may, but is not be required to, use moneys on deposit in the System Expansion and Acquisition Fund to cure such default. Amounts remaining after payment of Costs of Acquisition and Construction for which a series of Obligations was issued may, at the discretion of DART, be used to redeem such Obligations in advance of maturity or used to pay other Costs of Acquisition and Construction.

Gross Sales Tax Revenue Fund *{Section 5.3}*

The Trustee is required to deposit to the Gross Sales Tax Revenue Fund all Gross Sales Tax Revenues (and no other moneys) as received and, on the day received, to transfer all amounts deposited to the Gross Sales Tax Revenue Fund, first, to the Senior Lien Debt Service Fund (for the Debt Service Accrual Period that begins on the date of such deposit) and any reserve fund pertaining to Senior Lien Obligations, the amounts required to be deposited therein, and to pay Administrative Expenses pertaining to Senior Lien Obligations; second, to the Senior Subordinate Lien Debt Service Fund (for the Debt Service Accrual Period that begins on the date of such deposit) and any reserve fund pertaining Senior Subordinate Lien Obligations, the amounts required to be deposited therein, and to pay Administrative Expenses pertaining to Senior Subordinate Lien Obligations; and, third, to the Junior Subordinate Lien Debt Service Fund (for the Debt Service Accrual Period that begins on the date of such deposit) and any reserve fund pertaining to Junior Subordinate Lien Obligations, the amounts required to be deposited therein, and to pay Administrative Expenses pertaining to Junior Subordinate Lien Obligations. The amounts required to be deposited to each of the Senior Lien Debt Service Fund, the Senior Subordinate Lien Debt Service Fund and the Junior Subordinate Lien Debt Service Fund, respectively, is equal to the Accrued Aggregate Debt Service for the current Debt Service Accrual Period less any amounts required to be credited against the amounts transferred pursuant to Section 5.3(d) of the Master Debt Resolution, and are required to be allocated first to the respective Interest Account and then to the respective Principal Installment Account. If the amounts on deposit in the Gross Sales Tax Revenue Fund are not sufficient to make the full amount of a transfer or payment required to be made, the Trustee is required to transfer the amount to the fund or account where the deficiency occurs with the highest priority and is prohibited from making transfers to any fund or account with a lower priority. Any balance remaining in the Gross Sales Tax Revenue Fund after making the foregoing transfers and payments is to be deposited to the General Operating Fund.

The Trustee is required to notify each Paying Agent of the anticipated date of commencement of each Debt Service Accrual Period not less than 2 Business Days prior to the date the Trustee expects such Debt Service Accrual Period to begin. Each Paying Agent is required to certify to the Trustee the amount of Accrued Aggregate Debt Service for Obligations for the Debt Service Accrual Period specified by the Trustee which has not been paid from other sources.

Senior Lien Debt Service Fund, Senior Subordinate Lien Debt Service Fund and Junior Subordinate Lien Debt Service Fund *{Sections 5.4, 5.5 and 5.6}*

The Trustee is required to pay from the Senior Lien Debt Service Fund, the Senior Subordinate Lien Debt Service Fund and the Junior Subordinate Lien Debt Service Fund, respectively, to the respective Paying Agents and Credit Providers for Outstanding Senior Lien Obligations, Outstanding Senior Subordinate Lien Obligations and Outstanding Junior Subordinate Lien Obligations, respectively, the amounts required to pay Debt Service on such Obligations when due, whether at the stated maturity or prior redemption; provided, however, that if less than the total amount required to pay such Obligations is on deposit in the Senior Subordinate Lien Debt Service Fund, the Senior Subordinate Lien Debt Service Fund or the Junior Subordinate Lien Debt Service Fund, respectively, Trustee is required to allocate to each Paying Agent and each Credit Provider, in order of priority, pro rata in proportion to the respective unpaid amounts.

If an Event of Default has occurred and is continuing, moneys in such funds are required to be applied as provided in Section 7.4 of the Master Debt Resolution.

General Provisions Applicable to Payments on Obligations *{Section 5.7}*

If a payment date is not a Business Day, then such payment date will be deemed to be the next succeeding Business Day of the Trustee or Paying Agent, as the case may be, and no interest will accrue between the stated day and the applicable succeeding Business Day.

Uses of General Operating Fund and of Available Remaining Revenues *{Section 5.8}*

Gross Sales Tax Revenues deposited in the General Operating Fund may be transferred to other funds and accounts of DART, free and clear of the lien of the Master Debt Resolution, and may be used for any purpose permitted or required by Applicable Law. In addition to contractual and other obligations incurred in the ordinary course of its business, DART may incur obligations payable from or secured by the Available Remaining Revenues.

Investment of Trust Funds and Accounts *{Section 5.9}*

Amounts in funds and accounts held by the Trustee may, to the extent permitted by Applicable Law, be invested in Investment Securities upon written instructions of DART. Investment Securities must mature in such amounts and at such times as is necessary to provide for timely payment from such fund or account. Investment Securities may be exchanged among funds and accounts, if required to meet payment obligations, and the Trustee may cause the liquidation prior to their maturities of Investment Securities; the Trustee is not be liable for any resulting loss or penalty. Generally, Investment Securities and the earnings or losses thereon are part of the fund or account from which they were purchased except that transfers of earnings may be made in order to avoid investment in any manner that would cause any of the Obligations intended to be tax-exempt to be or become "arbitrage bonds" within the meaning of the Code. Investments are required to be valued at least annually at the lower of original cost or the then market value thereof.

Effect of Deposits With Paying Agents *{Section 5.10}*

Upon the deposit with the applicable Paying Agent of moneys sufficient to pay the amounts due on Obligations, DART is released from further obligation with respect to the payment of such amounts or interest thereon and such Obligations will no longer be Outstanding. Moneys deposited with Paying Agents are held uninvested in trust for the benefit of the Holders or payees of such Obligations. Unclaimed moneys are required to be distributed in accordance with any applicable escheat laws.

Arbitrage *{Section 5.11}*

DART covenants that it will take no action or fail to take any action which would cause any Tax-Exempt Obligations to be "arbitrage bonds" within the meaning of the Code.

Deposits of Special Revenues *{Section 5.12}*

Special Revenues may be deposited to such funds and accounts of DART as may be required by Applicable Law, grant condition or contract, or as directed in the documents relating to the issuance of Special Revenue Bonds or to Subordinate Lien Obligations if Special Revenues are pledged to the payment thereof.

GENERAL COVENANTS AND REPRESENTATIONS

{*Article VI*}

Representations as to Pledged Revenues *{Section 6.1}*

DART represents and warrants that it is authorized to issue the Obligations, to adopt the Master Debt Resolution and to pledge the Pledged Revenues as provided in the Master Debt Resolution, and that the Pledged Revenues are and will remain free and clear of any pledge, lien, charge or encumbrance except as expressly permitted by Article II of the Master Debt Resolution. The Obligations and provisions of the Master Debt Resolution are valid and legally enforceable obligations of DART in accordance with their terms, subject only to any applicable bankruptcy or insolvency laws or to any Applicable Law affecting creditors rights generally. DART and the Trustee will defend, preserve and protect the pledge of the Pledged Revenues and all of the rights of the Holders against all claims and will take appropriate steps for the collection of delinquencies in the collection of the Sales Tax.

Accounts, Periodic Reports and Certificates *{Section 6.2}*

DART covenants to keep proper books of record and account relating to the System and the funds and accounts established by the Master Debt Resolution which will be subject to inspection by Holders of not less than 5% in principal amount of Bond Obligations, each Bondholder Representative and each Credit Provider. DART will provide annually, within 180 days after the close of each fiscal year, to any requesting Holder of at least 25% of a single series of Outstanding Obligations, a copy of an annual report containing certain financial information for the fiscal year just ended and the preceding fiscal year.

DART will notify the Trustee and each Credit Provider immediately if it becomes aware of the occurrence of any Event of Default or of any fact, condition or event that, with the giving of notice or passage of time or both, could become an Event of Default, or of the failure of DART to observe any of its undertakings under the Master Debt Resolution or under any Supplemental Resolution or Credit Agreement.

Withdrawals of Units of Election *{Section 6.4}*

If any "unit of election," as defined in the Act, having once become a part of DART, withdraws from DART, the Board will take all lawful steps necessary to assure that all amounts due and owing on all Obligations allocated to such unit of election will continue to be collected from within the withdrawing unit of election until such amounts are paid in full. Gross Sales Tax Revenues collected from within a withdrawn unit of election is required to be set aside by the Trustee in a special trust account and to be expended in such a manner as will permit the continued, timely payment when due of all amounts payable on Outstanding Obligations.

DEFAULTS AND REMEDIES

{*Article VII*}

Events of Default *{Section 7.1}*

Each of the following occurrences or events constitutes an "Event of Default" under the Master Debt Resolution:

(i) failure to timely pay any Debt Service on Bond Obligations;

(ii) failure to timely pay any Credit Agreement Obligations;

(iii) default by DART in the performance of any of the covenants, conditions, agreements and provisions contained in the Obligations or in any of the Outstanding Resolutions, the failure of which materially and adversely affects the rights of the Holders, and the continuation thereof for a period of 30 days after written notice of such default;

(iv) issuing of an order by the Bankruptcy Court or a United States District Court or other court having jurisdiction, granting DART, in an involuntary proceeding, any relief under any applicable law relating to bankruptcy or providing for the appointment of a receiver or other similar official for DART or any substantial part of its property, affairs or assets, and the continuance of any such order unstayed and in effect for a period of 90 consecutive days; or

(v) DART institutes or consents to the institution of insolvency or bankruptcy proceedings against it under any federal or state insolvency laws, or files or consents to the filing of any petition, application or complaint seeking the appointment of a receiver or other similar official for DART or of any substantial part of its property, affairs or assets.

Remedies for Default *{Section 7.2}*

Upon the happening and continuance of any of the Events of Default the Trustee is required to transfer future Gross Sales Tax Revenues in the order and priority set forth in Section 5.3(a) of the Master Debt Resolution as described above under *"SPECIAL FUNDS, USES OF MONEY—Gross Sales Tax Revenue Fund."* Subject to certain restrictions on Holder's actions set forth in Section 7.3 of the Master Debt Resolution, a Credit Provider, a Bondholder Representative and/or a trustee representing not less than 25% in principal amount of Outstanding Bond Obligations, may proceed against DART to protect and enforce the rights of the Holders. No Holder has the right to seek appointment of a receiver or administrator of the affairs and assets of DART. There is no right to accelerate the maturity of any Obligation under the Master Debt Resolution.

Thirty days after a default is cured DART will be restored to its former position under the Master Debt Resolution and any proceedings are required to be abandoned or dismissed.

Application of Revenues and Other Moneys After Default *{Section 7.4}*

During the continuance of an Event of Default, the Trustee shall apply all amounts on deposit in the Senior Lien Debt Service Fund, the Senior Subordinate Lien Debt Service Fund, and the Junior Subordinate Lien Debt Service Fund at the time of the default or deposited to such funds after the default, respectively, as follows: (i) to the payment of Administrative Expenses with respect to the Senior Lien Obligations, the Senior Subordinate Lien Obligations, or the Junior Subordinate Lien Obligations, respectively, as applicable; and (ii) to the payment of Debt Service due on the Obligations, based on the foregoing priority and in the following order:

- Unless the principal of all applicable Outstanding Obligations is due, first, to the payment to the payment of interest then due in the order of maturity of such interest installments, and, if the amount available is not sufficient to pay all interest amounts then due, then to the payment of interest ratably, according to the amounts due on such installment, without any discrimination or preference; and second, to the payment of principal or redemption price then due, whether at maturity or by call for redemption, in the order of their due dates and, if the amount available is not sufficient to pay all of the applicable Obligations due on any date, then to the payment of principal or redemption price ratably, according to the amounts of principal due, without any discrimination or preference.

- If the principal of all of the applicable Outstanding Obligations is due, to the payment of the principal and interest then due and unpaid upon such Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any such Obligation over any other Obligation, ratably, according to the amounts due respectively for principal and interest, without any discrimination or preference.

Notice of Event of Default *{Section 7.6}*

The Trustee shall promptly give each Holder, by first class mail, notice of each Event of Default of which it has knowledge, unless such Event of Default has been remedied or cured before the giving of such notice, except in the case of an Event of Default specified in paragraph (i) or (ii) of "Events of Default" above, the Trustee may withhold such notice if it determines that the withholding of such notice is in the best interests of the Holders.

THE TRUSTEE

{*Article VIII*}

Bank One, Texas, N.A., Dallas, Texas, is appointed as the Trustee under the Master Debt Resolution. The duties, rights and responsibilities of the Trustee, appointment of successor and co-trustees, and matters pertaining to the administration of the trust created in the Master Debt Resolution, are set forth in Article VIII.

AMENDMENTS TO RESOLUTION

{*Article IX*}

Supplemental Resolution Without Holders' Consent *{Section 9.2}*

Subject to any limitations contained in a Supplemental Resolution or a Credit Agreement, DART may adopt Supplemental Resolutions without the consent of Holders of Obligations for the following purposes: (i) to cure any formal defect, omission or ambiguity in the Master Debt Resolution; (ii) to grant to the Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security; (iii) to add covenants and agreements of DART; (iv) to add limitations and restrictions to be observed by DART; (v) to confirm any pledge or lien of the Pledged Revenues or to subject to the lien or pledge of the Master Debt Resolution additional revenues, properties or collateral; (vi) to authorize the issuance and prescribe the terms of the Initial Senior Lien Obligations, Additional Senior Lien Obligations, Subordinate Lien Obligations, and Special Revenue Bonds, and to create such additional funds and accounts as may be necessary in connection with the issuance of such Obligations; (vii) to make modifications in the Master Debt Resolution or in a Supplemental Resolution that are necessary to comply with the requirements of federal tax or securities law or other Applicable Law and that do not materially adversely affect the rights and security of the Holders to be paid in full when due; or (viii) to make any other change to the Master Debt Resolution or any Supplemental Resolution that does not materially adversely affect the right of the Holders to be paid the full amounts due and payable on the Obligations when due.

Powers of Amendment *{Section 9.3}*

The Master Debt Resolution or any Supplemental Resolution and the rights and obligations of DART and of the Holders may be amended pursuant to a Supplemental Resolution with the written consent (i) of the Holders of a Required Percentage of Bond Obligations, or (ii) if less than all of the series of Obligations then Outstanding are affected by such amendment, of the Holders of a Required Percentage of the Bond Obligations so affected; provided, however, no amendment shall permit a change in the terms of payment of principal or redemption price of or interest of any Outstanding Bond Obligation without the consent of the Holder of such Obligation; and provided further that no such amendment may be made without the consent of such Credit Providers having the right of such consent.

Consent of Holders, Credit Providers or Bondholder Representatives *{Section 9.4}*

A Supplemental Resolution making amendments permitted by the Master Debt Resolution may take effect upon receipt of the required consents of the applicable Holders in accordance with the terms and provisions of the Master Debt Resolution. Any consent will be binding upon the Holder giving such consent and upon any subsequent Holder thereof unless such consent is revoked. DART will give notice of the effective date of any such Supplemental Resolution to the affected Holders. Unless such right is limited by a Supplemental Resolution, DART reserves the right to amend the Master Debt Resolution without the consent of or notice to the Holders of Bond Obligations if such amendment is approved by each Credit Provider and Bondholder Representative which is granted the right to give such consent by a Supplemental Resolution.

DISCHARGE OF RESOLUTION
{*Article X*}

Discharge by Payment *{Section 10.1}*

The pledge and lien of the Outstanding Resolutions will be released when all Bond Obligations, Credit Agreement Obligations, and Administrative Expenses have been paid or provided for.

Discharge by Defeasance *{Section 10.2}*

DART may discharge its obligations to pay Debt Service on all or any portion of the Obligations and related Administrative Expenses, and thereby obtain a release of the pledge and lien of the Master Debt Resolution and any applicable Supplemental Resolution as to such Obligations, by depositing irrevocably with a trustee or escrow agent moneys which, together with earnings thereon from investment in "Government Securities," as verified by a nationally recognized firm of independent certified public accountants or accounting firm, will be sufficient to pay such amounts on such Obligations to maturity or prior redemption, in all cases in accordance with the terms and provisions set forth in the Master Debt Resolution.

MISCELLANEOUS PROVISIONS
{*Article XI*}

Secondary Market Disclosure, Annual Reports *{Section 11.1}*

DART will provide such financial information and operating data necessary to comply with SEC Rule 15c2-12 relating to secondary market reporting requirements.

Meeting of Holders of Bond Obligations *{Section 11.4}*

Meetings of Holders of Bond Obligations may be called in the manner provided in the Master Debt Resolution to give any notice to DART or to the Trustee, to waive or consent to the waiving of any Event of Default, to remove or appoint a successor Trustee, to consent to the execution of a Supplemental Resolution or to take any other action authorized to be taken by or on behalf of the Holders of Bond Obligations.

Appointment of Bondholder Representative *{Section 11.8}*

Each Supplemental Resolution my designate a Bondholder Representative or establish for the means by which Holders of a series of Bond Obligations may appoint a Bondholder Representative.