

DALLAS AREA RAPID TRANSIT



**Quarterly Disclosure Update
for the six-month period ended March 31, 2007**

This Quarterly Disclosure Update supplements the information contained in our 2007 Annual Disclosure Statement dated January 23, 2007 (the 2007 Annual Disclosure Statement) and Quarterly Disclosure Update dated April 24, 2007. The 2007 Annual Disclosure Statement, has been filed as a public record with the Central Repositories and is posted on the Internet at our website, www.dart.org. You may also obtain a free copy of this Quarterly Disclosure Update by contacting us at the following address or telephone number: Chief Financial Officer, DART, 1401 Pacific Avenue, Dallas, Texas 75202, (214) 749-3148.

GENERAL

We are posting and filing this Quarterly Disclosure Update to supplement our 2007 Annual Disclosure Statement dated January 23, 2007 and Quarterly Disclosure Update dated April 24, 2007. We continue to reserve the right to suspend or stop the postings on the Internet and the quarterly updates at any time. However, we will always provide the annual and periodic information called for under any undertaking made in compliance with Rule 15c2-12 under the Securities Exchange Act of 1934.

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

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

The information in this Quarterly Disclosure Update is as of the date stated below, except for the unaudited financial information included herein as Exhibit A which is for the six-month period ended March 31, 2007.

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

FORWARD-LOOKING STATEMENTS

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

Dated: May 22, 2007

QUARTERLY DISCLOSURE UPDATE

The 2007 Annual Disclosure Statement dated January 23, 2007 and Quarterly Disclosure Update dated April 24, 2007, are updated by the following supplemental information:

Unaudited Financial Information

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

We believe that the unaudited financial information for the six-month period ended March 31, 2007, fairly represents the financial position and operating results of DART and is complete as of, but no later than such date. However, you are cautioned that such financial information has not been audited or reviewed by any independent accountants. We do not warrant or guarantee that subsequent audited information for these accounts for this six-month period will not differ from the unaudited financial information presented herein and in Exhibit A.

Management's Comment

DART's unaudited financial statements for the six-month period ended March 31, 2007, and March 31, 2006, show sales tax revenues as \$193.2 million and \$181.7 million, respectively, which indicates an increase of 6.3 percent. Our operating results for the six-month period ended March 31, 2007 reflect a net operating loss of \$4.8 million, compared to a net operating loss of \$20.1 million for the six-month period ended March 31, 2006. The overall result for the six-month period ended March 31, 2007 shows an increase in net assets of \$5.3 million, an increase of 0.3 percent.

DART maintains various cash reserves including a Financial Reserve Account that is funded with sales tax collections, if any, that exceed budget during a given year. An affirmative vote of two-thirds of the Board is required to draw upon the Financial Reserve, and the funds may be used for any purpose approved by the Board. As of March 31, 2007, the balance in the Financial Reserve Account was \$48.5 million. In addition, we maintain a working cash balance in the Operating Fund equal to at least two months of expenses that are projected to be paid from sales tax collections. As of March 31, 2007, the Operating Fund balance was \$357.2 million. We are making a repayment to the Comptroller's Office of \$13.1 million over a sixteen-year period as an adjustment to our Sales Tax Receipts. This \$206,000 quarterly repayment began in December 2006.

On April 24, 2007, the DART Board of Directors approved our first fare increase since 2003. Our local and premium fares will increase by \$0.25. Local and premium day passes will increase by \$0.50. Monthly and premium passes will increase by \$10.00 per month. Employer passes will see price increases tied to the Consumer Price Index (CPI). These fare changes will take effect on October 1, 2007, with the exception of Employer passes which will go into effect January 2008.

The Obligations and our Financing Plans—Outstanding Bond Obligations

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

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

Lease/Leaseback Transactions Update

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

Litigation

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

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

RULE 15c2-12 DISCLOSURES

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

This Quarterly Disclosure Update, in the form and content presented above and in its Exhibit, was approved by the Board of Directors of DART on May 22, 2007.

ATTEST:

/s/ Mark Enoch
Chairman, Board of Directors

/s/ Angie Chen Button
Secretary, Board of Directors

/s/ Gary C. Thomas
DART, President/Executive Director

Exhibit A

**Unaudited Statement of Principal Accounts
for the six-month period ended March 31, 2007**

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

March 31, 2007 and September 30, 2006 (Dollars in Thousands)

	<u>3/31/2007</u>	<u>9/30/2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 34,472	\$ 77,249
Investments	384,488	347,526
Current portion of restricted assets	10,254	19,344
Investments held to pay capital lease/leaseback liabilities	49,411	36,525
Sales tax receivable	64,100	64,768
Transit revenue receivable, net	2,175	2,070
Due from federal and other governments	1,229	1,956
Materials and supplies inventory	22,441	22,773
Prepaid transit expense and other	7,172	4,354
TOTAL CURRENT ASSETS	<u>575,742</u>	<u>576,565</u>
NONCURRENT ASSETS		
Note receivable	3,160	3,112
Restricted assets	24,124	29,460
Investment in joint venture	9,396	9,654
Capital assets:		
Land and rights-of-way	387,009	387,009
Depreciable capital assets, net of depreciation	1,606,196	1,599,253
Projects in progress	550,445	469,652
Long-term investments held to pay capital lease/leaseback liabilities	372,318	410,600
Net pension asset	3,964	3,716
Unamortized long-term debt issuance costs	7,116	3,811
TOTAL NONCURRENT ASSETS	<u>2,963,728</u>	<u>2,916,267</u>
TOTAL ASSETS	<u>3,539,470</u>	<u>3,492,832</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	94,747	107,089
Commercial paper notes payable	30,000	415,645
Current portion of capital lease/leaseback liabilities	49,411	36,525
Current portion of amount due to State Comptroller	824	824
Local Assistance Program payable	19,789	21,684
Retainage payable	17,285	15,773
Other liabilities	11,276	10,213
Payable from restricted assets:		
Interest Payable	5,161	9,678
Current portion of senior lien sales tax revenue bonds payable	13,680	10,820
TOTAL CURRENT LIABILITIES	<u>242,173</u>	<u>628,251</u>
NONCURRENT LIABILITIES		
Repayment due to State Comptroller	11,948	12,360
Senior lien sales tax revenue bonds payable	930,975	464,899
Capital lease/leaseback liabilities	372,318	410,600
TOTAL NONCURRENT LIABILITIES	<u>1,315,241</u>	<u>887,859</u>
TOTAL LIABILITIES	<u>1,557,414</u>	<u>1,516,110</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,584,211	1,582,230
Restricted for:		
Debt service		9,666
Unrestricted	397,846	384,826
TOTAL NET ASSETS	<u>\$1,982,057</u>	<u>\$1,976,722</u>

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

For the six month ended March 31, 2007 and 2006 (In Thousands)

	2007	2006
OPERATING REVENUES		
Passenger revenues	\$20,402	\$19,765
Advertising, rent, and other	4,677	4,394
TOTAL OPERATING REVENUES	25,079	24,159
OPERATING EXPENSES		
Labor	78,832	75,885
Benefits	28,824	32,745
Services	11,871	10,541
Materials and supplies	21,634	22,595
Purchased transportation	20,707	19,625
Depreciation	52,936	52,212
Utilities	5,172	5,191
Taxes, leases, and other	2,017	1,891
Casualty and liability	1,508	1,699
TOTAL OPERATING EXPENSES	223,501	222,384
OPERATING LOSS	(198,422)	(198,225)
NON-OPERATING REVENUES (EXPENSES)		
Sales tax revenue	193,218	181,715
Investment income	11,885	7,653
Interest income from investments held to pay capital lease/leaseback	11,130	12,401
Interest expense on capital lease/leaseback	(11,130)	(12,401)
Local Assistance Program and street improvements	(222)	(1,035)
Interest and financing expenses	(14,722)	(14,191)
Other non-operating revenues	5,303	4,474
Other non-operating expenses	(1,878)	(471)
TOTAL NON-OPERATING REVENUES (EXPENSES)	193,584	178,145
(LOSS) BEFORE CAPITAL CONTRIBUTIONS, GRANTS AND REIMBURSEMENTS	(4,838)	(20,080)
CAPITAL CONTRIBUTIONS, GRANTS AND REIMBURSEMENTS		
Federal capital contributions	9,535	13,098
Local capital contributions		2,000
Federal grants and reimbursements	638	424
TOTAL CAPITAL CONTRIBUTIONS, GRANTS AND REIMBURSEMENTS	10,173	15,522
CHANGE IN NET ASSETS	5,335	(4,558)
TOTAL NET ASSETS – BEGINNING OF THE YEAR	1,976,722	1,958,508
TOTAL NET ASSETS – END OF THE SIX MONTHS PERIOD	\$1,982,057	\$1,953,950

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

For the six months ended March 31, 2007 and 2006 (Dollars in Thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$24,973	\$24,384
Payments to suppliers of goods and services	(47,837)	(59,172)
Payments to purchased transportation service providers	(20,595)	(19,573)
Payments to employees	(78,225)	(75,279)
Benefit payments	(28,213)	(32,403)
NET CASH USED BY OPERATING ACTIVITIES	(149,897)	(162,043)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Sales tax receipts	193,474	181,779
Federal grants and reimbursements	638	424
Other non-capital non-operating receipts	4,296	3,957
Other non-capital non-operating payments	(359)	
Payment for Local Assistance Program and street improvements	(2,117)	(2,522)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	195,932	183,638
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	11,955	7,727
Proceeds from sales and maturity of investments	418,303	353,953
Purchase of investments	(454,281)	(278,416)
Decrease in restricted assets	14,426	6,704
NET CASH USED BY INVESTING ACTIVITIES	(9,597)	89,968
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(149,204)	(71,046)
Proceeds from the issuance of commercial paper notes	90,000	50,000
Payment on commercial paper notes	(475,645)	(11,600)
Proceeds from the issuance of sales tax revenue bonds	822,514	
Principal payment on sales tax revenue bonds	(10,820)	(10,470)
Payment for advance refunding of sales tax revenue bonds	(344,547)	
Interest and financing expenses	(14,634)	(14,054)
Payments of debt issuance costs	(6,417)	
Federal capital contributions	9,539	12,250
Net proceeds from sale of capital assets		466
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(79,214)	(44,454)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(42,776)	67,109
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	77,248	36,787
CASH AND CASH EQUIVALENTS, END OF THE QUARTER	\$34,472	\$103,896

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

For the six months ended March 31, 2007 and 2006 (Dollars in Thousands)

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating loss	\$(198,422)	\$(198,225)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation and amortization	52,936	52,212
Changes in assets and liabilities:		
(Increase) decrease in transit receivable	(105)	226
(Increase) decrease in materials and supplies inventory	332	(1,324)
Increase in prepaid expenses and other current assets	(3,413)	(4,622)
Increase in pension assets	(249)	(166)
Decrease in accounts payable and accrued liabilities	(2,328)	(11,356)
Increase in other current liabilities	1,352	1,212
NET CASH USED BY OPERATING ACTIVITIES	<u>\$(149,897)</u>	<u>\$(162,043)</u>
NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Interest income from investments held to pay capital lease/leaseback	\$11,130	\$12,401
Interest expense on capital lease/leaseback	(11,130)	(12,401)
Payment of capital lease/leaseback obligation by trustee	(36,525)	(52,346)
Toll credits received from the State of Texas	1,518	100
Increase in the fair value of investments	887	516
NET NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES	<u>\$(34,120)</u>	<u>\$(51,730)</u>