

DALLAS AREA RAPID TRANSIT



**Quarterly Disclosure Update
for the nine-month period ended June 30, 2004**

This Quarterly Disclosure Update supplements the information contained in our 2004 Annual Disclosure Statement dated February 24, 2004 (the 2004 Annual Disclosure Statement) and our Quarterly Disclosure Updates dated April 27, 2004 and June 22, 2004. The 2004 Annual Disclosure Statement and each Quarterly Disclosure Update have been filed as public records with the Central Repositories named in the 2004 Annual Disclosure Statement and are 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 2004 Annual Disclosure Statement dated June 22, 2004. 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 into the 2004 Annual Disclosure Statement. See, 2004 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 nine-month period ended June 30, 2004.

YOU SHOULD CAREFULLY CONSIDER THE INVESTMENT CONSIDERATIONS IN THE 2004 ANNUAL DISCLOSURE STATEMENT.

FORWARD-LOOKING STATEMENTS

We make "forward-looking statements" in the 2004 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: September 28, 2004

QUARTERLY DISCLOSURE UPDATE

The 2004 Annual Disclosure Statement, dated February 24, 2004, and Quarterly Disclosure Updates dated April 27, 2004 and June 22, 2004, are updated by the following supplemental information:

Unaudited Financial Information

Audited financial statements for our fiscal year ended September 30, 2003, are attached as Appendix A to the 2004 Annual Disclosure Statement. An unaudited statement of our principal accounts for the nine-month period ended June 30, 2004, is attached to this Quarterly Disclosure Update as Exhibit A. Such quarterly financial statements should be read in conjunction with our annual financial statements. This information is taken from our internal books and records that are 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 nine-month period ended June 30, 2004, 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, and we do not warrant or guarantee that subsequent audited information for these accounts for this nine-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 nine-month period ended June 30, 2004, and 2003, show sales tax revenues as \$250.6 million and \$234.3 million, respectively, which indicates an increase of 7.0 percent. The actual sales tax collections were \$250.3 million and \$234.8 million for the nine-months ended June 30, 2004, and 2003. The June 2004 receipts are \$2.3 million or 7.4 percent above June 30, 2003, actual receipts and 2.49 percent better than budget. Our operating results for the nine-month period ended June 30, 2004, reflect a net operating loss of \$245.7 million, compared to \$264.0 million for the nine-month period ended June 30, 2003, a decrease of 6.9 percent. The overall result for the nine-month period ended June 30, 2004 shows a net income (an increase in net assets) of \$19.6 million compared to \$49.2 million net loss (decrease in net assets) for the nine-month period ended June 30, 2003. On August 10, 2004, the DART Board approved a Budget and Financial Plan Amendment to show FY 2003 final sales tax receipts of \$311.8 million (an increase from \$300.4 million); and to adjust the FY 2004 projected sales tax receipts from \$304.3 million to \$329.4 million. This amendment also included provision for a one-time, lump-sum payment to employees equal to 4% of annual base pay. This resulted in an increase to the Operating Budget of \$67.3 million, for a new Operating Budget of \$314.8 million (excluding Capital Planning and Development and Start-Up). This amendment did not have any impact on the FY 2003 audited financial statements.

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 June 30, 2004, the balance in the Financial Reserve Account was \$22.7 million. We are making a \$76,000 monthly withdrawal from the Financial Reserve to offset an adjustment being made to our Sales Tax Receipts by the Comptroller's Office. 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 June 30, 2004, the Operating Fund balance was \$233.9 million.

The Obligations and our Financing Plans—Outstanding Bond Obligations

We do not plan to issue any Senior Lien Obligations in 2004.

We plan to issue additional commercial paper Notes periodically during the year to finance our capital acquisitions. We do not anticipate having more than \$315 million outstanding at year-end. As of June 30, 2004, DART had \$209,245,000 in outstanding commercial paper Notes, including \$13,600,000 of taxable Notes.

We have no current plans, but we reserve the right, to issue other Bond Obligations during 2004.

Litigation

No significant changes have occurred in the status of pending litigation involving DART since the date of the 2004 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 2004 Annual Disclosure Statement. See, 2004 Annual Disclosure Statement, "LITIGATION."

RULE 15c2-12 DISCLOSURES

Since June 22, 2004, the date of the most recent Quarterly Disclosure Update, 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 September 28, 2004.

ATTEST:

/s/ Linda Koop
Secretary, Board of Directors

/s/ Huelon Harrison
Chairman, Board of Directors

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

Exhibit A

**Unaudited Statement of Principal Accounts
for the nine-month period ended June 30, 2004**

**DALLAS AREA RAPID TRANSIT AND SUBSIDIARY
STATEMENT OF NET ASSETS**

June 30, 2004 and September 30, 2003 (In Thousands)

	6/30/2004 Unaudited	9/30/2003
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$27,184	\$68,351
Investments	240,807	134,982
Current portion of restricted assets	7,165	11,016
Investments held to pay capital lease/leaseback liabilities	29,075	46,864
Sales tax receivable	57,745	53,625
Transit revenue receivable, net	3,412	2,186
Due from federal and other governments	9,808	42,879
Materials and supplies inventory	21,222	21,215
Prepaid transit expense and other	2,442	2,034
TOTAL CURRENT ASSETS	398,860	383,152
NONCURRENT ASSETS		
Restricted assets	9,373	10,184
Investment in joint venture	11,172	11,702
Capital assets		
Land and rights-of-way	384,185	384,185
Depreciable capital assets, net of depreciation	1,625,826	1,685,344
Projects in progress	336,263	247,941
Long-term investments held to pay capital lease/leaseback liabilities	446,849	456,787
Net pension asset	3,294	3,277
Unamortized long-term debt issuance costs	4,170	4,345
TOTAL NONCURRENT ASSETS	2,821,132	2,803,765
TOTAL ASSETS	\$3,219,992	\$3,186,917
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$69,404	\$98,184
Commercial paper notes payable	209,245	135,670
Current portion of capital lease/leaseback liabilities	29,075	46,864
Current portion of amount due to State Comptroller	913	913
Local Assistance Program payable	38,873	32,860
Retainage payable	18,260	17,537
Other liabilities	4,921	6,679
Payable from restricted assets:		
Interest Payable	2,336	8,389
Current portion of senior lien sales tax revenue bonds payable	6,815	1,945
TOTAL CURRENT LIABILITIES	379,842	349,041
NONCURRENT LIABILITIES		
Repayment due to State Comptroller	1,141	1,826
Senior lien sales tax revenue bonds payable	485,655	492,374
Capital lease/leaseback liabilities	446,849	456,787
TOTAL NONCURRENT LIABILITIES	933,645	950,987
TOTAL LIABILITIES	1,313,487	1,300,028
NET ASSETS		
Invested in capital assets, net of related debt	1,626,299	1,669,943
Restricted for:		
Debt service	7,165	11,016
System expansion and acquisition	9,373	10,184
Unrestricted	263,668	195,746
TOTAL NET ASSETS	1,906,505	1,886,889
TOTAL LIABILITIES AND NET ASSETS	\$3,219,992	\$3,186,917

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

For the nine months ended June 30, 2004 and 2003 (In Thousands)

	2004 Unaudited	2003 Unaudited
OPERATING REVENUES		
Passenger revenues	\$27,444	\$26,425
Advertising and other	7,330	6,034
TOTAL OPERATING REVENUES	<u>34,774</u>	<u>32,459</u>
OPERATING EXPENSES		
Labor	101,979	97,928
Benefits	43,347	38,854
Services	13,695	18,093
Materials and supplies	23,856	18,987
Purchased transportation	26,319	52,887
Depreciation and amortization	72,431	71,755
Utilities	6,093	6,013
Taxes, leases, and other	3,621	3,577
Casualty and liability	2,917	3,070
Transit system planning, development, and start-up costs	(13,767)	(14,698)
TOTAL OPERATING EXPENSES	<u>280,491</u>	<u>296,466</u>
NET OPERATING LOSS	<u>(245,717)</u>	<u>(264,007)</u>
NON-OPERATING REVENUES (EXPENSES)		
Sales tax revenue	250,554	234,299
Investment income	1,654	3,247
Interest income from investments held to pay capital lease/leasebacks	19,137	19,732
Interest expense on capital lease/leasebacks	(19,137)	(19,732)
Local Assistance Program and street improvements	(8,668)	(8,897)
Transit system planning, development, and start-up costs	(13,767)	(14,698)
Interest and financing expenses	(17,655)	(20,149)
Other revenues	8,668	4,810
TOTAL NET NON-OPERATING REVENUES (EXPENSES)	<u>220,786</u>	<u>198,612</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS AND OTHER GRANTS	<u>(24,931)</u>	<u>(65,395)</u>
CONTRIBUTIONS, AND OTHER GRANTS		
Federal capital contribution	24,308	14,772
Other capital contributions		36
Other grants	20,239	1,395
TOTAL CAPITAL CONTRIBUTIONS	<u>44,547</u>	<u>16,203</u>
CHANGE IN NET ASSETS	19,616	(49,192)
TOTAL NET ASSETS – BEGINNING OF THE YEAR	<u>1,886,889</u>	<u>1,924,595</u>
TOTAL NET ASSETS – END OF NINE MONTH PERIOD	<u>\$1,906,505</u>	<u>\$1,875,403</u>

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

For the nine months ended June 30, 2004 and 2003 (Dollars in Thousands)

	2004 <u>Unaudited</u>	2003 <u>Unaudited</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$34,600	\$33,486
Payments to suppliers of goods and services	(70,620)	(79,193)
Payments to purchased transportation service providers	(33,195)	(53,983)
Payments to employees	(103,071)	(97,241)
Benefit payments on behalf of employees	(40,785)	(38,681)
Payments allocated to planning, development, and start-up costs	13,767	14,698
NET CASH USED BY OPERATING ACTIVITIES	<u>(199,304)</u>	<u>(220,914)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Sales tax proceeds	246,433	234,276
Other non-capital non-operating revenues (expenses)	28,245	6,093
Local Assistance Program and street improvements	(2,655)	(11,965)
Planning, development, and rail start-up costs	(13,767)	(14,698)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>258,256</u>	<u>213,706</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	1,109	3,689
Proceeds from sales and maturity of investments	227,551	238,763
Purchase of investments	(333,376)	(293,209)
(Increase) decrease in restricted assets	4,662	(6,849)
NET CASH USED BY INVESTING ACTIVITIES	<u>(100,054)</u>	<u>(57,606)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(106,156)	(87,515)
Proceeds from capital lease/leaseback transactions	191	
Proceeds from the issuance of commercial paper notes	95,600	104,090
Payment on commercial paper notes	(22,025)	(12,030)
Principal payment on sales tax revenue bonds	(1,945)	(855)
Interest and financing expenses	(23,582)	(24,857)
Capital and grants provided by federal and other governments	57,379	38,170
Net proceeds from sale of capital assets	473	110
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(65)</u>	<u>17,113</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(41,167)	(47,701)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>68,351</u>	<u>118,760</u>
CASH AND CASH EQUIVALENTS, END OF NINE MONTHS PERIOD	<u>\$27,184</u>	<u>\$71,059</u>

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

For the nine months ended June 30, 2004 and 2003 (Dollars in Thousands)

	2004 Unaudited	2003 Unaudited
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating loss	\$(245,717)	\$(264,007)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation and amortization	72,431	71,755
Changes in assets and liabilities		
(Increase) decrease in transit receivable	(175)	1,027
(Increase) decrease in materials and supplies inventory	(7)	1,477
(Increase) in prepaid expenses and other current assets	(740)	(1,903)
(Increase) decrease in pension assets	(17)	82
(Decrease) in accounts payable and accrued liabilities	(22,636)	(25,416)
(Increase) in other current liabilities	(2,443)	(3,929)
NET CASH USED BY OPERATING ACTIVITIES	<u>\$(199,304)</u>	<u>\$(220,914)</u>
NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Interest income from investments held to pay capital lease/leaseback	\$19,137	\$19,732
Interest expense on capital lease/leaseback	(19,137)	(19,732)
Payment of capital lease/leaseback obligation by trustee	(46,864)	(30,751)
NET NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES	<u>\$(46,864)</u>	<u>\$(30,751)</u>