

## DALLAS AREA RAPID TRANSIT



### Quarterly Disclosure Update for the nine-month period ended June 30, 2003

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*This Quarterly Disclosure Update (this “Quarterly Disclosure Update”) supplements the information contained in our 2003 Annual Disclosure Statement dated January 28, 2003 (the “2003 Annual Disclosure Statement”) and our Quarterly Disclosure Updates dated March 25, 2003, and June 24, 2003). The 2003 Annual Disclosure Statement and each Quarterly Disclosure Update have been filed as public records with the Central Repositories named in the 2003 Annual Disclosure Statement and are posted on the Internet at our website, [www.dart.org](http://www.dart.org). You may also obtain a free copy of this Quarterly Disclosure Update by contacting us at the following address or telephone number: Chief Financial Officer, DART, 1401 Pacific Avenue, Dallas, Texas 75202, (214) 749-3148.*

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#### GENERAL

We are posting and filing this Quarterly Disclosure Update to supplement our 2003 Annual Disclosure Statement and our Quarterly Disclosure Updates dated March 25, 2003, and June 24, 2003. 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 2003 Annual Disclosure Statement. See, 2003 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, 2003.

**YOU SHOULD CAREFULLY CONSIDER THE INVESTMENT CONSIDERATIONS IN THE 2003 ANNUAL DISCLOSURE STATEMENT.**

#### FORWARD-LOOKING STATEMENTS

*We make “forward-looking statements” in the 2003 Annual Disclosure Statement and in Quarterly Disclosure Updates by using forward-looking words such as “may,” “will,” “should,” “intends,” “expects,” “believes,” “anticipates,” “estimates,” or others. You are cautioned that forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include general economic and business conditions, conditions in the financial markets, our financial condition, our sales tax revenues, receipt of federal grants, and various other factors that are beyond our control. Because we cannot predict all factors that may affect future decisions, actions, events, or financial circumstances, what actually happens may be different from what we include in forward-looking statements.*

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**Dated: September 23, 2003**

## QUARTERLY DISCLOSURE UPDATE

The 2003 Annual Disclosure Statement, dated January 28, 2003 and Quarterly Disclosure Updates dated March 25, 2003, and June 24, 2003, are updated by the following supplemental information:

### Unaudited Financial Information

Audited financial statements for our fiscal year ended September 30, 2002, are attached as Appendix A to the 2003 Annual Disclosure Statement. An unaudited statement of our principal accounts for the nine-month period ended June 30, 2003, 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 our employees in accordance with generally accepted accounting principles. Sales tax revenues included in the unaudited quarterly financial statements were determined using accrual method accounting. 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, 2003, 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

Sales tax revenues during the nine-month period ended June 30, 2003, were \$234.2 million, compared to \$249.9 million during the nine-month period ended June 30, 2002, a decrease of 6.7 percent. Actual sales tax receipts for the nine-month period ended June 30, 2003, are 4.40 percent below our Operating Budget. Our operating results for the nine-month period ended June 30, 2003, reflect a net operating loss of \$262.6 million, compared to \$241.6 million for the nine-month period ended June 30, 2002, an increase of 8.7 percent. In order to mitigate the declines in sales tax receipts, we have implemented a series of measures to balance our 2003 fiscal year Operating Budget which include: i) a fare increase that was effective on March 3, 2003; ii) reducing the frequency of trains and buses and the number of vehicles operating on nights and weekends; iii) eliminating filled and vacant positions; iv) reducing the number of hours in which staff are available at bus transfer centers in certain locations; and v) delaying certain capital projects. See also, 2003 Annual Disclosure Statement, "DART OPERATIONS AND PERFORMANCE RESULTS."

On August 12, 2003, our Board of Directors voted to send the Fiscal Year 2004 Business Plan, including the Fiscal Year 2004 Business Plan and Financial Plan, to our 13 member City Councils for final review. Our member cities have 30 days to review the document and provide feedback to the Board of Directors prior to their final adoption on September 23, 2003. At the same meeting, the Board of Directors appointed Swanson W. Angle as General Counsel. The proposed FY 2004 Business Plan reduces originally projected annual operating expenses by approximately \$37 million. This includes \$18.3 million in administrative and non-operating costs, \$16.4 million in bus service modifications, \$1.7 million in rail operating expenses, and \$2 million in program development expenses. It is anticipated that the light rail expansion will be delayed up to an additional year, depending on actual sales tax receipts.

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 June 30, 2003, the balance in the Financial Reserve Account was \$28.9 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, 2003, the Operating Fund balance was \$165.9 million.

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

We do not plan to issue any Senior Lien Obligations in 2003.

We plan to issue additional commercial paper Notes periodically during the year to finance our capital acquisitions. We do not anticipate having more than \$140 million outstanding at year end. As of August 22, 2003, DART had \$135,670,000 in outstanding commercial paper Notes, including \$12,060,000 of taxable Notes.

We have no current plans, but we reserve the right, to issue other Bond Obligations during 2003.

### **Litigation**

No significant changes have occurred in the status of pending litigation involving DART since the date of the 2003 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 2003 Annual Disclosure Statement. See, 2003 Annual Disclosure Statement, "LITIGATION."

### **RULE 15c2-12 DISCLOSURES**

Since June 24, 2003, 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.

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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 23, 2003.

ATTEST:

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

/s/ Robert W. Pope  
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, 2003**

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

June 30, 2003 and September 30, 2002 (In Thousands)

ASSETS	06/30/2003 (Unaudited)	9/30/2002
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$71,059	\$118,760
Investments	134,335	79,744
Restricted assets	4,271	8,493
Sales tax receivable	54,371	54,348
Transit revenue receivable, net	2,741	3,768
Due from federal and other governments	16,727	40,089
Materials and supplies inventory	23,372	24,849
Prepaid transit expense and other	4,279	2,867
<b>TOTAL CURRENT ASSETS</b>	<b>311,155</b>	<b>332,918</b>
<b>NONCURRENT ASSETS</b>		
Restricted assets	20,552	9,481
Capital assets		
Land and rights of way	420,553	415,158
Depreciable capital assets, net of depreciation	1,866,596	1,858,328
Long-term investments held to pay capital lease/leaseback liabilities	496,849	507,868
Net pension asset	3,304	3,385
Unamortized long-term debt issuance costs	4,408	4,502
<b>TOTAL NONCURRENT ASSETS</b>	<b>2,812,262</b>	<b>2,798,722</b>
<b>TOTAL ASSETS</b>	<b>\$3,123,417</b>	<b>\$3,131,640</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$70,102	\$100,321
Commercial paper notes payable	125,705	33,645
Current portion of senior lien sales tax revenue bonds payable	1,945	855
Current portion of capital lease/leaseback liabilities	46,864	29,797
Local assistance program payable	39,873	42,941
Retainage payable	16,758	18,854
Other liabilities	4,440	8,369
<b>TOTAL CURRENT LIABILITIES</b>	<b>305,687</b>	<b>234,782</b>
<b>NONCURRENT LIABILITIES</b>		
Senior lien sales tax revenue bonds payable	492,342	494,192
Capital lease/leaseback liabilities	449,985	478,071
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>942,327</b>	<b>972,263</b>
<b>TOTAL LIABILITIES</b>	<b>1,248,014</b>	<b>1,207,045</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	1,650,399	1,725,940
Restricted for		
Debt service	4,271	8,493
System expansion and acquisition	20,552	9,481
Unrestricted	200,181	180,681
<b>TOTAL NET ASSETS</b>	<b>1,875,403</b>	<b>1,924,595</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$3,123,417</b>	<b>\$3,131,640</b>

**DALLAS AREA RAPID TRANSIT AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF REVENUES AND EXPENSES**  
(in thousands)

	For the three months ended		For the nine months ended	
	06/30/2003 (Unaudited)	06/30/2002 (Unaudited)	06/30/2003 (Unaudited)	06/30/2002 (Unaudited)
<b>OPERATING REVENUES</b>				
Passenger	\$9,241	\$8,175	\$26,662	\$24,850
Advertising and other	2,021	2,126	7,192	7,505
<b>TOTAL OPERATING REVENUES</b>	<b>\$11,262</b>	<b>\$10,301</b>	<b>\$33,854</b>	<b>\$32,355</b>
<b>OPERATING EXPENSES</b>				
Labor	33,210	32,467	97,928	94,027
Benefits	13,084	13,020	38,854	38,220
Services	6,379	6,606	18,093	18,446
Materials and supplies	6,248	7,432	18,987	19,793
Purchased transportation	17,502	19,058	52,887	52,703
Depreciation and amortization	25,275	19,852	71,755	58,029
Utilities	2,643	2,134	6,013	5,570
Taxes, leases, and other	1,371	1,500	3,577	4,174
Casualty and liability	1,077	1,120	3,070	2,843
Transit system planning, development, and start-up costs	(4,726)	(7,202)	(14,698)	(19,764)
<b>TOTAL OPERATING EXPENSES</b>	<b>102,063</b>	<b>95,987</b>	<b>296,466</b>	<b>274,041</b>
<b>NET OPERATING LOSS</b>	<b>\$(90,801)</b>	<b>\$(85,686)</b>	<b>\$(262,612)</b>	<b>\$(241,686)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Sales tax revenue	\$78,816	\$81,748	\$234,299	\$249,932
Investment income	1,008	1,108	3,247	4,651
Interest income from investments held to pay capital	6,423	5,895	19,732	17,860
Interest expense on capital leases	(6,423)	(5,895)	(19,732)	(17,860)
Local Assistance Program and street improvements	(303)	(129)	(8,897)	(9,974)
Transit system planning, development, and start-up costs	(4,726)	(7,202)	(14,698)	(19,764)
Interest and financing expenses	(6,819)	(5,718)	(20,149)	(16,636)
Other revenues (expenses), net	4,933	(463)	4,810	(791)
<b>TOTAL NET NON-OPERATING REVENUES</b>	<b>72,909</b>	<b>69,342</b>	<b>198,612</b>	<b>207,418</b>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	<b>(17,892)</b>	<b>(16,344)</b>	<b>(64,000)</b>	<b>(34,268)</b>
<b>CAPITAL CONTRIBUTIONS</b>				
Federal Financial Assistance	8,749	17,084	14,772	39,172
Other Capital Contributions	0	0	36	304
<b>TOTAL CAPITAL CONTRIBUTIONS</b>	<b>8,749</b>	<b>17,084</b>	<b>14,808</b>	<b>39,476</b>
<b>CHANGE IN NET ASSETS</b>	<b>(9,143)</b>	<b>\$740</b>	<b>(49,192)</b>	<b>\$5,208</b>
<b>NET ASSETS, BEGINNING</b>	<b>1,884,546</b>	<b>1,930,210</b>	<b>1,924,595</b>	<b>1,925,742</b>
<b>NET ASSETS, ENDING</b>	<b>1,875,403</b>	<b>1,930,950</b>	<b>1,875,403</b>	<b>1,930,950</b>

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

For the nine months ended June 30, 2003 and 2002 (In Thousands)

	2003 Unaudited	2002 Unaudited
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$33,511	\$30,161
Receipts for operating grants	1,369	964
Payments to suppliers of goods and services	(79,193)	(90,594)
Payments to purchased transportation service providers	(53,983)	(50,130)
Payments to employees	(97,241)	(93,325)
Benefit payments	(38,681)	(37,927)
Less: payments allocated to planning, development and start-up costs	14,698	19,764
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>(219,520)</u>	<u>(221,087)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Sales tax proceeds	234,276	248,956
Other non-capital non-operating revenues (expenses)	4,805	(794)
Local Assistance Program and street improvements	(11,965)	(6,570)
Planning, development, and rail start-up costs	(14,698)	(19,764)
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<u>212,418</u>	<u>221,828</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	3,689	4,429
Proceeds from sales and maturity of investments	102,836	180,981
Purchase of investments	(157,282)	(209,459)
(Increase) decrease in restricted assets	(6,849)	41,959
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(57,606)</u>	<u>17,910</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(87,621)	(125,317)
Proceeds from the issuance of commercial paper notes	104,090	80,000
Payment on commercial paper notes	(12,030)	(57,555)
Principal payment on Sales Tax Revenue bonds	(855)	0
Interest and financing expenses	(24,857)	(18,682)
Capital provided by federal and other governments	38,170	112,494
Net proceeds from the sale of capital assets	110	43
<b>NET CASH (USED) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>17,007</u>	<u>(9,017)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	(47,701)	9,634
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>118,760</u>	<u>77,275</u>
<b>CASH AND CASH EQUIVALENTS, END OF THE QUARTER</b>	<u><u>\$71,059</u></u>	<u><u>\$86,909</u></u>
<b>NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES</b>		
Interest income from investments held to pay capital lease/leaseback	\$19,732	\$17,860
Interest expense on capital lease/leaseback	(19,732)	(17,860)
Payment of capital lease/leaseback obligation by trustee	(30,751)	(28,981)
<b>NET NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES</b>	<u><u>\$(30,751)</u></u>	<u><u>\$(28,981)</u></u>

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

For the nine months ended June 30, 2003 and 2002 (In Thousands)

RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES	2003 <u>Unaudited</u>	2002 <u>Unaudited</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net operating loss	\$(262,612)	\$(241,685)
<b>ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Depreciation and amortization	71,755	58,029
Changes in assets and liabilities		
(Increase) decrease in transit receivable	1,027	(1,230)
(Increase) in materials and supplies inventory	1,477	(2,597)
Increase in prepaid expenses and other current assets	(1,822)	292
Increase (decrease) in accounts payable and accrued liabilities	(25,416)	(34,670)
Increase (decrease) in other current liabilities	(3,929)	774
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u><u>\$(219,520)</u></u>	<u><u>\$(221,087)</u></u>