Exhibit 1

DALLAS AREA RAPID TRANSIT
2013 Annual Disclosure Statement

This 2013 Annual Disclosure Statement replaces our 2012 Annual Disclosure Statement, dated March 13, 2012. This 2013 Annual Disclosure Statement has been posted on the Internet at our website, ***www.dart.org****, and has been filed with the Municipal Securities Rulemaking Board and is available at www.emma.msrb.org. We intend to update this 2013 Annual Disclosure Statement after the second and third quarters of our fiscal year 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 2013 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 other Bond Obligations (defined below), 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 information under the caption "INVESTMENT CONSIDERATIONS" herein.

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.

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."

Under the Master Debt Resolution, Pledged Revenues consist of (i) the gross revenues that we receive from a 1% sales and use tax (the "Sales Tax"), and the investment earnings thereon while held by the Trustee in the Gross Sales Tax Revenue Fund, (ii) Pledged Farebox Revenues (as defined herein), (iii) with respect to Senior Lien Obligations, Federal Interest Subsidy payments that are deposited to the Senior Lien Debt Service Fund, and (iv) any additional revenues of DART which by a Supplemental Resolution are expressly and specifically pledged to the payment of Obligations. However, the Federal Interest Subsidy is not used to pay or secure the TIFIA bond debt service. 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." 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 2013 Annual Disclosure Statement may be used to offer and sell a series of Senior Lien Obligations, Senior Subordinate Lien Obligations, or other Bond Obligations only if it is accompanied by the Supplemental Official Statement or Supplemental Disclosure Statement and Offering Memorandum for that series.

Dated Date: February 26, 2013

Table of Contents

IMPORTANT NOTICES 1

FORWARD-LOOKING STATEMENTS 1

OUTSTANDING OBLIGATIONS AND OUR FINANCING PLANS 1
- Bond Obligations We Expect to Issue in 2013 1
- Preconditions to Issuance of Bond Obligations—Financial Coverage Tests 2
- Method of Issuing Bond Obligations 3
- Security for the Obligations—Flow of Funds 3

INFORMATION ABOUT DART 6
- DART's Boundaries, Additions, Withdrawal Rights 6
- DART's General Powers and Purposes 7
- The Board of Directors 7
- Significant Board Policies and Planning Documents 8
- DART's Management 9
- Employees and Employee Relations 10
- Pension, Retirement, Deferred Compensation Plans, and Other Post-Employment Benefits 10
- Insurance 11

DART'S FINANCIAL PRACTICES AND RESOURCES 12
- Audits of Financial Information 12
- Principal Source of Revenue—The Sales Tax 12
- Secondary Revenues—Farebox Collections 13
- Federal Grant Funds 13
- Lease/Leaseback Transactions 14

DART OPERATIONS AND PERFORMANCE RESULTS 15
- Sales Tax Revenues and the Net Operating Subsidy 15
- Sales Tax Revenues for Operating Expenses 15
- Subsidy Per Passenger 16
- The Current System 16

LITIGATION 19
- In Ordinary Course of Business 19

INVESTMENT CONSIDERATIONS 19
- Source of Payment is Limited 19
- Our Ability to Make Payments on Obligations is Dependent Upon the Amount of Gross Sales Tax Revenues Actually Generated 20
- The Collection of the Sales Tax is Beyond Our Control 20
- The Comptroller May Reduce Future Payments of our Gross Sales Tax Revenues or Require Us to Make Repayments to Provide for the Repayment of Overpayments of Gross Sales Tax Revenues that Occurred in Prior Periods 20
- We May Receive Payment of Gross Sales Tax Revenues Less Frequently 20
- We May Experience Variations in our Gross Sales Tax Revenues 20
- Ratings of the Obligations Do Not Assure Their Payment 20

CONTINUING DISCLOSURE OF INFORMATION 21
- Annual Reports Required by the Rule 21
- Material Event Notices Required by the Rule 21

BOND RATINGS 23

OBLIGATIONS AS LEGAL INVESTMENTS....23

TRUSTEE AND PAYING AGENTS....23

LEGAL COUNSEL....23

Appendix A - Independent Auditors' Report, with Audited Financial Statements for the Fiscal Years ended September 30, 2012 and 2011
Appendix B - Summary of Certain Terms of the Master Debt Resolution

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 2013 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 2013 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 2013 Annual Disclosure Statement, from the Municipal Securities Rulemaking Board's ("MSRB's") website at www.emma.msrb.org, from our website on the internet at ***www.dart.org***, or by contacting our Executive Vice President/Chief Financial Officer or Vice President, Finance 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 2013 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 2013 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

We have eight series of Senior Lien Obligations outstanding– our Senior Lien Sales Tax Revenue Refunding Bonds, Series 2007 (the "Series 2007 Bonds"), outstanding in the aggregate principal amount of $740,155,000; our Senior Lien Sales Tax Revenue Bonds, Series 2008 (the "Series 2008 Bonds"), outstanding in the aggregate principal amount of $718,540,000; our Senior Lien Sales Tax Revenue Bonds, Series 2009A (the "Series 2009A Bonds") outstanding in the aggregate principal amount of $170,385,000; our Senior Lien Sales Tax Revenue Bonds, Taxable Series 2009B (Build America Bonds – Direct Payment to Issuer) (the "Series 2009B Bonds"), outstanding in the aggregate principal amount of $829,615,000; our Senior Lien Sales Tax Revenue Refunding Bonds, Series 2010A (the "Series 2010A Bonds"), outstanding in the aggregate principal amount of $95,235,000; our Senior Lien Sales Tax Revenue Bonds Taxable Series 2010B (Build America Bonds – Direct Payment to Issuer) (the "Series 2010B Bonds"), outstanding in the aggregate principal amount of $729,390,000, our Senior Lien Sales Tax Revenue Bonds, Series 2012 (the "Series 2012 Bonds"), outstanding in the aggregate principal amount of $127,775,000, and our Senior Lien Sales Tax Revenue Bond, Taxable Series 2012A issued to evidence a Transportation Infrastructure Finance and Innovation Act Loan (the "TIFIA Bond"), when fully drawn in Fiscal Year 2014 will be outstanding in the aggregate principal amount of $119,972,259.

Bond Obligations We Expect to Issue in 2013

We do not currently plan to issue Senior Lien Sales Tax Revenue Bonds. We do plan to issue approximately $106,000,000 in Senior Subordinate Lien Commercial Paper Notes.

Preconditions to Issuance of Bond Obligations—Financial Coverage Tests

– Conditions to Issuance of Senior Lien Obligations

There are eight series of Senior Lien Obligations outstanding comprised of the Series 2007 Bonds, the Series 2008 Bonds, the Series 2009A and 2009B Bonds, the Series 2010A and 2010B Bonds, the Series 2012 Bonds, and the 2012A TIFIA Bond. Under the Master Debt Resolution, we cannot issue 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 Obligations and the proposed Additional Senior Lien Obligations during any of the current or any future Fiscal Year; and

(3) Our Executive Vice President/Chief Financial Officer or Vice President, Finance, 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 Senior Subordinate Lien Obligations or Junior Subordinate Lien Obligations beyond the requirement that we demonstrate the ability to pay them when due.

We cannot issue additional Senior Lien Obligations or Senior Subordinate Lien Obligations 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; and

(4) If the proposed Bond Obligations are Senior Subordinate Lien Obligations, our Chief Financial Officer certifies that estimated Gross Sales Tax Revenues during each of the three consecutive Fiscal Years beginning with the Fiscal Year in which Debt Service is due on the proposed Additional Senior Subordinate Lien Obligations will be sufficient to pay 200% of the Debt Service due on all Senior Lien Obligations, Senior Subordinate Lien Obligations, and Junior Lien Obligations during such three Fiscal Years.

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. 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 2013 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 Pledged Revenues that secure all of the Obligations. Additionally, pursuant to the provisions of the Seventh Supplemental Debt Resolution authorizing the issuance of our Series 2010A and 2010B Bonds, we pledged the "Pledged Farebox Revenues" as security for all of the Obligations. The Pledged Farebox Revenues include all fares collected by or on behalf of DART for its bus, rail, and paratransit services in an amount equal to 97.3% of the debt service accruing on the Series 2010 Bonds after deducting the Federal Interest Subsidy applicable to such Bonds. The annual amount of the Pledged Farebox Revenues varies each year based on the actual debt service on the Series 2010B Bonds. The amount constituting Pledged Farebox Revenues ranges from $22.9 million in 2012 to $71.4 million in 2049. In addition, Federal Interest Subsidy Payments that are deposited to the Senior Lien Debt Service Fund are pledged to the payment of Senior Lien Obligations. We reserved the rights (1) to pledge the other farebox revenues as security for the payment of Obligations or any other obligations of DART and (2) to exclude any specified portion of farebox revenues from Pledged Farebox Revenues (including Special Revenues) by Supplemental Resolution, provided that the aggregate amount of Pledged Farebox Revenues then expected to be collected in all future Debt Service Accrual Periods shall not be reduced as a result.

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.

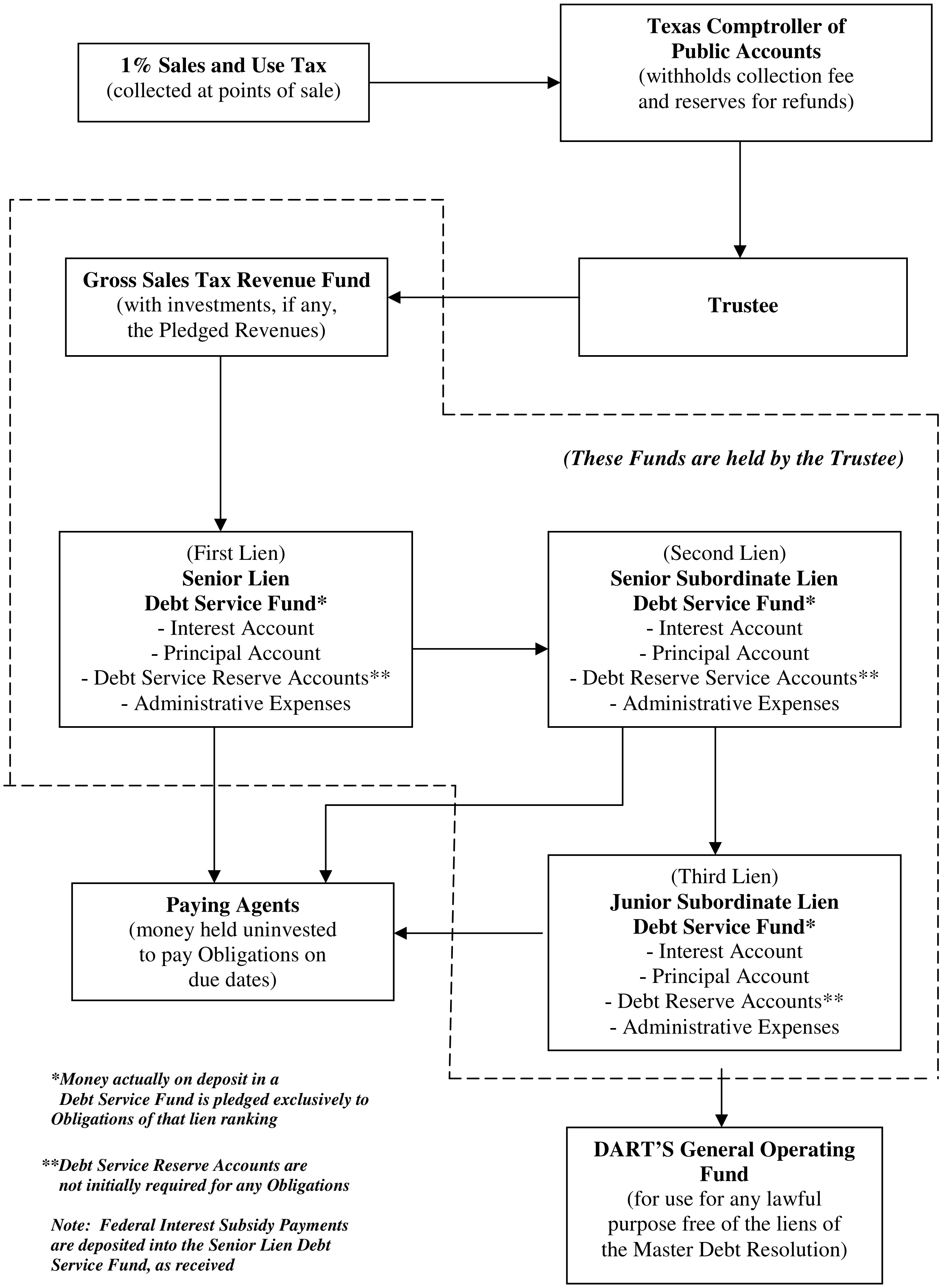
Money actually on deposit in a Debt Service Fund is pledged exclusively and irrevocably to the Obligations of the applicable lien ranking.

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 amounts on deposit in any Debt Service Fund are not sufficient on any Interest Payment Date, Mandatory Redemption Date or Stated Maturity Date, the Trustee is also required to deposit all the Pledged Farebox Revenues to the Debt Service Funds in the same order of priority as 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*

Note: Federal Interest Subsidy Payments are deposited into the Senior Lien Debt Service Fund, as received

Note: Pledged Farebox Revenues are held in the General Operating Fund and are only required to be transferred to the Senior Lien Debt Service Fund if the amounts therein are insufficient to pay debt service on the Bond Obligations.

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 2.3 million persons as of January 2012, according to information obtained from the North Central Texas Council of Governments.

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. This process can be initiated by either official action of the Participating Municipality's governing body or by citizen petition. The next year in which withdrawal elections may be held is 2014.

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 of 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 shown in the table.

CURRENT MEMBERS AND OFFICERS OF THE BOARD OF DIRECTORS			
NAME	REPRESENTS	YEAR OF APPOINTMENT TO BOARD	OCCUPATION
John C. Danish, ***Chair***	Irving	2005	Attorney
Robert W. Strauss, ***Vice Chair***	Dallas	2006	Attorney
Faye Wilkins, ***Secretary***	Farmers Branch and Plano	1999	Telecommunications & Systems Integration Consultant
Richard Carrizales, ***Assistant Secretary***	Dallas	2010	Attorney
Jim Adams	Dallas	2012	Financial Executive
Michael Cheney	Garland	2011	Financial Executive Consultant
Randall D. Chrisman	Carrollton and Irving	2002	Commercial Real Estate Broker
Jerry Christian	Dallas	2007	Minister
Mark C. Enoch	Garland, Rowlett, and Glenn Heights	1997	Attorney
Pamela Dunlop Gates	Dallas	2006	Attorney
Gary Slagel	Addison, Highland Park, Richardson, and University Park	2011	Technology Executive
William Tsao	Dallas	2007	Licensed Professional Engineer
William M. Velasco, II	Dallas and Cockrell Hill	2001	Tax and Insurance Business Owner
Paul N. Wageman	Plano	2012	Attorney
Claude R. Williams, Jr.	Dallas	2008	Dentist

Significant Board Policies and Planning Documents

Our Board has adopted a mission statement, goals, financial and business planning policies, 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.

Each year, for planning purposes, DART issues an annual business plan (the "Business Plan") which includes the following components:

— The Strategic Plan – The Strategic Plan is reviewed annually, and was most recently updated in 2011. It identifies the key initiatives that must be completed to achieve the Board's goals. The Strategic Plan and Business Plan are the basis for the Annual Budget, the Twenty-Year Financial Plan, and for measuring management and employee performance and are modified based on an analysis of business results; employee, customer, and climate surveys; external events (such as issues being considered by the Texas State Legislature), and benchmark comparisons with other transit agencies and private sector companies.

— Service Plan/Transit System Plan – The Service Plan, required under our enabling legislation, specifies the commitments for service provided to the service area cities including the specific locations of major transit facilities and fixed guideways. The Transit System Plan is the long-range planning tool that is updated to incorporate changes in the service area. It provides the vision and direction for DART's future capital projects and operating programs needed to improve regional mobility. The Transit System Plan is closely coordinated with development of the North Central Texas Council of Government's Regional Mobility Plan and is revised every five to six years. The last revision was completed in Fiscal Year 2007 and focuses on transit needs and opportunities within the context of a 2030 horizon.

— Annual Budget – The Act requires the 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.

— Twenty-Year Financial Plan – The Twenty-Year Financial Plan addresses the affordability of the Transit System Plan and the timing of service and capital expansion projects. The Twenty-Year Financial Plan details projected sources and uses of cash for twenty years. The first year of the plan corresponds with the coming year's budget, and the first five years of the plan is comprised of the coming year's Business Plan. The final 15 years of the plan validate the affordability of our long-range Transit System Plan, and include our commitments for future system expansion and the issuance and repayment of debt.

— 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.

— Key Performance Indicators – The Business Plan provides a detailed outline of our performance projections and commitments for each mode of service and DART as a whole. The Plan includes "scorecards" addressing key operating, financial, and quality measures (called "Key Performance Indicators") and identifying initiatives necessary to improve performance. The Business Plan defines how management will achieve the key initiatives presented in the Strategic Plan.

— Five-Year Action Plan – The Five-Year Action Plan provides detailed discussions of our plans to increase bus and rail ridership through service improvements for a five-year period.

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, a Director of Internal Audit, and a Director of the Office of Board Support.

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

DART'S EXECUTIVE MANAGEMENT		
NAME	POSITION	JOINED DART
Gary C. Thomas	President/Executive Director	1998
Jesse Oliver	Deputy Executive Director	2012
Carol Wise	Executive Vice President, Chief Operations Officer	2012
David Leininger	Executive Vice President, Chief Financial Officer	2008
Timothy H. McKay	Executive Vice President, Growth/Regional Development	2001
John Adler	Vice President, Procurement	2006
Albert Bazis	Director of Internal Audit	2001
Mauro Calcaño	Vice President, Chief People Officer	2012
Scott Carlson	General Counsel	2012
Doug Douglas	Vice President, Mobility Management Services	1990
Nevin Grinnell	Vice President, Chief Marketing Officer	2011
Michael C. Hubbell	Vice President, Maintenance	1995
Nancy Johnson	Director of the Office of Board Support	1999
Michael Miles	Vice Present, Government Relations	1982
Michael Muhammad	Vice President, Diversity/Innovative Services	2004
Norma De La Garza-Navarro	Vice President, Commuter Rail	1990
Timothy Newby	Vice President, Transportation	1997
Todd Plesko	Vice President, Planning & Development	2009
Stephen Salin	Vice President, Rail Planning	2000
James Spiller	Vice President, DART Chief of Police	2001
Allan Steele	Vice President, Chief Information Officer	2008
Vacant	Vice President, Finance	n/a

Employees and Employee Relations

DART currently has approximately 3,349 salaried and hourly employees. Hourly employees are represented by two 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.

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.

Pension, Retirement, Deferred Compensation Plans, and Other Post-Employment Benefits

We operate three employee benefit plans. Information about the plans is contained in Note 15 to the Audited Financial Statements attached hereto as Appendix A. In addition to pension benefits, we provide post-retirement health care and life insurance benefits in accordance with DART policy to certain employees. Information about such benefits is contained in Note 16 to the Audited Financial Statements attached hereto as Appendix A. In Fiscal Year 2008, we implemented GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions."

Significant Contract Services

We use contracted services extensively, including the following:

- MV Transportation, Inc., for Mobility Management Services (ADA Paratransit operations and On-Call Services);

  Herzog Transit Services, Inc. for our Commuter Rail services;
- Track 3 (a Joint Venture of LAN, Inc., Aquirre Corporation, APM and Associates, Inc., and Chiang, Patel & Yerby, Inc.) for General Engineering Consultant services and oversight for the Orange and Blue Line Design-Build contracts;
- Kiewit, Stacey and Witbeck, Reyes, and Parsons(a Joint Venture) under a Design Build contract for the Orange Line, Irving I and II;
- Austin Bridge and Road, under a Design Build contract for the Blue Line Extension, Rowlett 1;
- Kiewit, Stacey and Witbeck, Reyes, and Parsons (a Joint Venture), under a Design Build contract for the DFW Corridor Orange Line, Irving-3;
- Clean Energy, under a Design Build contract for the CNG Fueling Stations;
- URS Corporation, under an Architect/Engineering contract for General Planning Consultant services; and
- Stacy and Witbeck, Inc. / Carcon Industries (a Joint Venture) under a Design Build contract for the Union Station to Oak Cliff Streetcar Line.

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. This policy covers all entities associated with providing commuter rail service.
- We purchase $10 million of liability for leased premises to comply with the terms of our lease agreements with third parties. We also purchase insurance to cover non-owned automobile liability, directors and officers liability, and employee dishonesty.
- For the second phase of the light rail 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. In addition, civil contractors are covered for pollution liability arising out of construction activities.
- An Owner Controlled Insurance Program (OCIP) provides all eligible enrolled contractors involved with constructing Phase II of the light rail build-out with statutory workers' compensation coverage, $100 million of general and excess liability insurance, railroad protective liability and builders' risk insurance. The OCIP went into effect on July 25, 2006, and will provide coverage through July 25, 2015. An additional ten years of products and completed operations coverage will commence upon acceptance of the work and commencement of revenue service. Products and completed operations coverage for any work covered by the OCIP will not extend beyond July 25, 2025.

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 Department of Labor and the Texas Department of Workers' Compensation.

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. 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 each Fiscal Year. The Independent Auditors' Report, with our audited annual financial statements for the Fiscal Years ended September 30, 2012 and 2011, is presented as a part of this 2013 Annual Disclosure Statement as Appendix A. Each subsequent annual revision of this 2013 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.

The following table shows our Gross Sales Tax Revenues for each of the most recent 10 Fiscal Years. The Gross Sales Tax Revenues shown below consist of sales taxes we actually receive in a given Fiscal Year, and may differ from the sales tax revenues shown on our financial statements due to accounting adjustments made on our financial statements reflecting amounts determined to be overpayments of Sales Tax to DART. When an overpayment is determined to have been made, the financial statements are adjusted to show a reduction in sales tax revenues for that Fiscal Year; however, in two cases where sizeable overpayments were determined to have been made, DART has entered into a repayment plan spanning several years rather than repaying the overpayment in a single Fiscal Year. The aggregate annual repayment installments by DART are reflected in the Gross Sales Tax Revenues shown in the table below because such repayment installments are deducted from Sales Tax that otherwise would be paid to DART in a Fiscal Year, thereby reducing DART's actual receipts. Since the financial statements reflect a reduction in sales tax revenues for the Fiscal Year in which an overpayment is determined to have been made, rather than in the Fiscal Years over which an overpayment is repaid, the sales tax revenues shown on the financial statements may differ from the Gross Sales Tax Revenues shown below.

Gross Sales Tax Revenues* (in millions)	
Fiscal Year ended 9/30	**Receipts**
2003	$311.8
2004	$332.4
2005	$341.8
2006	$370.5*
2007	$389.1
2008	$416.1*
2009	$377.6
2010	$375.5
2011	$402.4
2012	$432.5

*The amounts shown for 2006 and 2008 include $13.2 million and $3.6 million, respectively, that the State Comptroller has determined to be overpayments. Such amounts are being repaid by DART in quarterly payments through March 2027. See "DART's Operations and Performance Results – 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.

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**
2003	$42.9	$410.9
2004	$44.9	$388.9
2005	$46.2	$427.5
2006	$49.9	$447.1
2007	$50.5	$460.9
2008	$59.8	$512.2
2009	$57.4	$523.6
2010	$63.2	$572.5
2011	$69.4	$629.0
2012	$80.1	$645.8

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 eligible capitalized maintenance expenses and capital programs. Congress allocates transit funds on both a formula basis and a discretionary basis. We are eligible to receive both types of funds.

In July 2006, FTA awarded a landmark $700 million Full Funding Grant Agreement (FFGA) to DART for the Northwest Southeast Light Rail Transit (NWSE LRT) extension project. Congress appropriates the funds for such Agreements annually. To date, Congress has appropriated $621.0 million of the FFGA. We anticipate Congress will make the final appropriation in 2013 of $79.0 million to fund the FFGA.

Federal grants are on a reimbursement basis, so receipts will not match annual appropriation. The following table reflects actual federal and state cash receipts of DART by Fiscal Year for the past ten years.

Federal/State Receipts (in millions)		
Fiscal Year	**Federal Receipts**	**State Receipts**
2003	$ 37.5	$ 1.6
2004	$135.4	$ 5.8
2005	$ 91.7	$ 0.3
2006	$ 69.5	$ 0.0
2007	$137.9	$ 0.0
2008	$173.4	$ 0.0
2009	$300.5	$ 0.1
2010	$197.9	$13.6
2011	$165.5	$ 0.3
2012	$174.8	$15.0

Lease/Leaseback Transactions

As authorized by the Act, we entered into ten separate economically defeased lease transactions which, in general, involved our lease and leaseback of specified, depreciable property to various trustee entities, acting on behalf of private investors. As of the date hereof, four of such transactions are still outstanding. The four outstanding transactions involve the lease and leaseback of light rail cars used as a part of our light rail system and buses. See Note 10 to the Audited Financial Statements attached hereto as Appendix A.

Although we retain legal title to the leased property, these transactions were structured so as to result in a sale of the leased property to the private investors for federal income tax purposes. The rent due for the full term of the leases was prepaid to us, and the trustees have no further obligation to pay us any rent under the leases. The respective trustee subleased the property back to us for a sublease term that is shorter than the term of the respective lease. At a specified date on or before the end of the sublease term, we have the right to purchase the respective trustee's interest in the respective lease.

We paid a portion of the advance rental payments received by us from the trustees to purchase contractual undertakings from certain financial institutions, rated "AA" or better at that time by recognized rating agencies, pursuant to which such financial institutions assumed and agreed to pay to the respective 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. In other leases, we deposited a portion of such advance rental payments with a custodian, whom we instructed to purchase direct obligations of the United States Government and other securities that will mature on the dates and in the amounts required to pay sublease rental payments and the respective purchase option price.

The excess amounts of the advance rental payments received by us over the costs of the contractual undertakings and the amounts of the custodial deposits, after paying for certain other costs incurred in connection with the transactions, was retained and utilized by us. After closing the transactions, we continue to have the right to uninterrupted use and possession of the leased property so long as we are not otherwise in default under the contractual terms of the lease documents. Notwithstanding such contractual undertakings and custodial deposits, we remain obligated to pay all amounts owed by us under the subleases, including sublease rent and the respective purchase option price should we exercise it, in the event of the insolvency of or other failure to pay by the respective financial institution or a failure of the respective custodial deposits.

We have successfully terminated or repaired all lease/leaseback transactions that were non-compliant with their respective operative documents. As of September 30, 2012, four lease/leaseback transactions remain active and all are in full compliance with the respective operative documents, as amended.

DART OPERATIONS AND PERFORMANCE RESULTS

The Independent Auditors' Report on DART's financial statements for the fiscal year ended September 30, 2012, 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. The financial information discussed in this section is derived from the financial statements attached as Appendix A and other identified sources.

Sales Tax Revenues and the Net Operating Subsidy

Sales tax revenues contributed 56% and 58%of total revenues (which includes capital contributions and grants) in fiscal year 2012 and fiscal year 2011, respectively (excluding debt issuances). Sales tax revenues in fiscal year 2012 were $433.3 million, a $30.1 million (7.5%) increase over fiscal year 2011. Sales tax revenues for the year ended September 30, 2012 were $9.9 million (2.35%) above the projected Gross Sales Tax Receipts of $423.3 million. (Net receipts were $432.5 million versus a Sales Tax Budget of $422.5 million). Our sales taxes highly correlate with personal income and retail sales in the region. Our principal revenue source is the sales tax. Sales tax revenues received by us from the State Comptroller reflect sales transactions that occur approximately two months prior to receipt by us. The sales tax revenues discussed in this section are derived from our annual financials which reflect accounting adjustments made as a result of overpayments of sales taxes to DART. As a result of these accounting adjustments, sales tax revenues shown on our financial statements may differ from the Gross Sales Tax Revenues (which represent actual receipts in a Fiscal Year) shown in the table on page 13. As a result of overpayments to DART of $13.2 million in Fiscal Year 2006 and $3.6 million in Fiscal Year 2008, DART entered into a repayment plan with the State Comptroller which commenced in December 2006, and currently extends to March 2027. Pursuant to the repayment plan, the State Comptroller deducts quarterly repayments from sales tax revenues that would otherwise be owed to DART.

The Fiscal Year 2013 Budget projects Net Sales Tax Revenues of $451.7 million compared to $422.5 million for 2012. This represents a 6.9% increase from the 2012 budget which represents a 4.4% increase over the 2011 Actual Sales Tax Receipts. For the first two months of Fiscal Year 2013, sales tax receipts are 3.9% over Fiscal Year 2012 and 0.8% above our fiscal year 2013 sales tax budget.

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. In addition, a Capital Project Reserve Account was established. If the Financial Reserve Account exceeds $50 million, excess funds are placed in the Capital Project Reserve Account. An affirmative vote of two-thirds of the Board is required to draw upon the Financial and Capital Project Reserves and the funds may be used for any purpose approved by the Board. As of September 30, 2012, the balance in the Financial Reserve Account was $31.8 million and the balance in the Capital Reserve Account was $0. For Fiscal Year 2012, our sales tax receipts exceeded our sales tax budget by $9.98 million. Our Financial Standards require us to move any overages to the Financial Reserve Account. These funds were moved in December 2012 and the balance in the Financial Reserve Account as of December 2012 was $41.7 million. In addition, we are required by our Financial Standards to maintain a working cash balance in the general operating fund equal to at least one month of expenses that are projected to be paid from sales tax collections. As of September 30, 2012, the balance in the general operating fund was $669.2 million which equals approximately 17 months of expenses.

Operating results for Fiscal Year 2012 reflect that total expenses exceeded total operating revenues resulting in a loss before capital contribution, grants, and reimbursements of $227.3 million compared to $241.8 million for 2011. This loss in 2012 is less than that of 2011 due to an increase in revenues. 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 extraordinary items and depreciation minus operating revenues. Our goal is for the sales tax revenues to increase by a higher percentage than net operating subsidy. In Fiscal Year 2012, net operating subsidy increased as compared to 2011 due to increases in operating expenses.

Sales Tax Revenues for Operating Expenses

Sales tax revenues for operating expenses measures the percentage of 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. The sales taxes for 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 decreased from 83.9% in Fiscal Year 2011 to 80.1% in Fiscal Year 2012 due primarily to increased revenues.

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 minimize 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 2012 was $3.35, a $0.28 increase from Fiscal Year 2011. Fixed-route subsidy per passenger in Fiscal Year 2012 was $4.48, a $0.34 (0.8%) decrease from Fiscal Year 2011. Subsidy per passenger for Fiscal Year 2012 ranged from a high of $44.93 for paratransit service to a low of $0.24 for HOV service.

INFORMATION ABOUT DART'S TRANSPORTATION SYSTEM

The Current System

Our current mass transit services include:

- Regular route bus service;
- Special events service;
- DART Mobility Management services including Paratransit, DART On-Call, and Flexible services;
- Light rail transit service;
- Commuter rail service;
- High Occupancy Vehicle Lanes; and
- RideShare matching services for carpools and vanpools.

During Fiscal Year 2012, we moved 104.9 million passengers, with an average weekday ridership for all modes of 326,972. 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
2003	40.3	17.0	2.3	33.8	0.6	0.4	94.4
2004	38.4	16.5	2.2	35.0	0.6	0.4	93.0
2005	40.1	17.5	2.1	37.4	0.6	0.4	98.1
2006	44.4	18.6	2.4	36.1	0.7	0.4	102.6
2007	44.5	17.9	2.5	37.6	0.7	0.5	103.7
2008	45.0	19.4	2.7	48.1	0.7	0.7	116.9
2009	43.1	18.9	2.8	51.0	0.8	0.9	117.5
2010	38.0	17.8	2.5	50.1	0.8	0.9	110.1
2011	37.2	22.3	2.4	48.0	0.8	1.0	111.8
2012	38.7	27.7	2.3	34.4	0.8	1.0	104.9

*Automatic Passenger Counter (APC) data used beginning in 2012. These counters have proven to be considerably more accurate than our current manual ridership counting methodology. The APCs show that we have been underreporting ridership by approximately 15.5%.

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 (each passenger boarding is counted as one trip). Total system ridership in Fiscal Year 2012 was 104.9 million, a decrease of 6.9 million (6.2%) from Fiscal Year 2011. Average weekday ridership decreased 11.0% to 326,972 in Fiscal Year 2012 as compared to Fiscal Year 2011.

We contract for 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.

— Bus Transit (36.9% of total system ridership in Fiscal Year 2012)

Our bus system provides local, express, crosstown, feeder bus routes, as well as several flex routes and site specific shuttles. 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.

— Light Rail Transit (26.4% of total system ridership in Fiscal Year 2012)

Light Rail Transit is an electrically powered rail system that generally operates at street level. It currently serves 55 stations 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. In 2002, DART's light rail was extended to North Dallas, Garland, Richardson, and Plano. In 2009, the first phase of the Green Line opened southeast of downtown Dallas with the remainder of the Green Line opening in 2010. In 2012, the first 5-mile segment of the Orange Line to Irving opened for service in July 2012. In December 2012, Irving -2 and the Rowlett extension of the Blue Line opened for service. As of the end of 2012, we operate an 86-mile light rail system with 163 light rail vehicles.

— Commuter Rail (2.2% of total system ridership in Fiscal Year 2012)

Our commuter rail system, commonly referred to as the Trinity Railway Express (the "TRE"), provides diesel powered passenger railroad services on the TRE Corridor between Dallas and Fort Worth, in mixed traffic with freight railroad operations. The 34-mile corridor is jointly owned by DART and the Fort Worth Transportation Authority (the "T"). TRE service is provided pursuant to an interlocal agreement between DART and the T. This agreement was originally entered into in 1994 and was restated and adopted by both Boards in 2003.

Pursuant to Trackage Rights Agreements, the Burlington Northern Santa Fe, the Dallas Garland and Northeastern, and the Union Pacific railroads pay a fee for the right to operate freight services on the TRE corridor. TRE, through its contractor, Herzog Transit Services, Inc., dispatches and maintains the corridor as well as operates the service and maintains the rolling stock used in the service.

— Paratransit (0.8% of total system ridership in Fiscal Year 2012)

We are responsible for providing complementary paratransit service in accordance with the Americans with Disabilities Act of 1990 (the "ADA"). We provide curb-to-curb service to those individuals certified for the program in accordance with guidelines established in the ADA. In Fiscal Year 2013, we will be transitioning to a new service delivery model and a new contractor for providing Paratransit service.

— High Occupancy Vehicle ("HOV") Lanes (32.8% of total system ridership in Fiscal Year 2012)

Interim HOV lanes are constructed within the right-of-way of existing freeways to provide access for multi-passenger vehicles and to relieve congestion levels. 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. We currently operate 75 miles of HOV lanes, due to 9 miles along IH635 being taken out of service as the Texas Department of Transportation (TxDOT) reconstructs the highway. HOV lanes are jointly planned and designed with the Texas Department of Transportation (TxDOT) and are constructed by TxDOT.

DART is responsible for operations, enforcement, and maintenance of the lanes until September 30, 2013. Beginning October 1, 2013 until the end of Fiscal Year 2014, DART's only financial responsibility will be the operation of the barrier transfer machine on I-30 HOV lane. Starting on October 1, 2014, TxDOT will be assuming all operating responsibilities for the HOV lanes.

— Transportation Demand Management (Vanpool is 0.9% of total system ridership in Fiscal Year 2012)

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 through a third party contractor. 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 FY 2012, we operated special event services (bus, light rail, and TRE) to the Texas State Fair, New Year's Eve celebration in downtown Dallas, concerts, basketball, and hockey games. We also began the special event use of our I-30W managed HOV lanes in support of large professional baseball and football games, and concerts in Arlington, Texas at Cowboy Stadium. Due to the change in FTA charter regulations, we are restricted in the use of buses for charter activity. Consequently, most special event services are provided on the light rail, commuter rail, and HOV systems. Bus involvement is restricted to supplementing the capacity of the rail system during periods of very high usage.

Financial Plan

On September 25, 2012, the Board of Directors formally adopted the FY 2013 Annual Budget and Twenty-Year Financial Plan. The FY 2013 Twenty-Year Financial Plan remains largely unchanged from the FY 2012 Plan and reflects that we are staying on course with the changes planned over the last three years based on the economic consequences of the recession. Highlights of the FY 2013 Budget and Financial Plan are:

- The FY13 Annual Budget totals $1.07 billion; $450 million in operating, $469 million in capital and $15 million in net debt service. This represents a significant reduction from the last few years as Light Rail construction projects are completed;

- The first segment of DART's Orange line opened on July 30, 2012. The second section opened on December 3, 2012, along with the Blue Line North extension from Garland to Rowlett;

- Bus service will undergo some restructuring to match new and revised rail schedules; although not as significant as when the Green Line opened in 2010;

- Mobility Management introduced a new service delivery model and a new contractor (MV Transportation) for Paratransit in October 2012;

- A new fleet of CNG-powered heavy-duty transit buses will begin in FY2013. We are also replacing nearly 20% of the bus fleet with smaller (<30') vehicles which are less expensive to purchase and operate;

- The DART Board approved a change in the fare structure that went into effect with the new light rail service in December 2012; and

- The anticipated revenue service date for the Blue Line South extension (South Oak Cliff-3) has been accelerated by three years, from late 2019 to late 2016.

The FY 2013 Business Plan (including the FY 2013 Annual Budget and Twenty-Year Financial Plan) is posted on our website at www.dart.org.

Future Expansions

The Board periodically updates our Transit System Plan. The most recent update, the 2030 Transit System Plan, was adopted in October 2006. Two light rail transit projects are funded and under design or construction: A 5-mile extension of the Orange Line (I-3) to the Dallas-Fort Worth International Airport; and a 2.6-mile Blue line extension to the UNT Dallas (South Oak Cliff-3) at a cost of approximately $196 million. Planning is underway to determine the second light rail alignment through downtown Dallas (D2). The implementation timeframe for D2 and other 2030 rail projects will be reassessed in the next system plan updated based on updated financial conditions and system needs. The 2030 plan also included 116 miles of permanent managed HOV lanes, many of which are currently interim lanes and 97 miles of enhanced and rapid bus corridors. Funding for these improvements is not within the current DART financial plan and they will be reassessed in the next system plan update.

A joint initiative is currently under discussion between the transit agencies in North Texas and the North Central Texas Council of Governments with a view to accelerating the design, construction, operation, and maintenance of passenger rail operations on a 62-mile rail corridor owned by DART. The project is not included in the twenty-year financial plan, and no representations are being made by DART that the agency would provide any funding for this project. The agency will consider offering a lease on its rail corridor and would also consider taking on project delivery responsibilities on a fee-for-service basis acting on behalf of the funding parties. The current discussions are at a very preliminary stage, and the agency makes no representations that the project may come to fruition.

LITIGATION

Bond Validation Action

Pursuant to an action filed by DART in connection with the issuance of its Senior Lien Sales Tax Revenue Bonds, Series 2012, the Dallas County 160th Judicial District Court entered a Final Judgment, among other matters, that the limitation set forth in the Election Order regarding the principal amount of long-term debt obligations payable and secured solely by sales tax revenues is inapplicable to long-term debt secured by a combination of both sales tax revenues and system revenues, including farebox revenues. Pursuant to the Eighth Supplemental Debt Resolution authorizing the Series 2012 Bonds, Pledged Revenues securing DART’s Bond Obligations includes a pledge of Pledged Farebox Revenues. As a result, the limitation regarding the principal amount of Bond Obligations DART is permitted to issue is no longer applicable, when secured by multiple revenue sources.

In Ordinary Course of Business

Typically, a number of claims, administrative appeals, and/or lawsuits arise from individuals and businesses in the ordinary course of our business that seek compensation for additional construction costs, labor and employment claims, personal injuries, death, and/or property damage resulting from routine operation and development of our public transportation system. We do not believe that the outcome of these claims, administrative appeals, and/or lawsuits will have a material adverse effect on our financial condition. We have accrued an estimate of losses on such matters and have included this accrual in accounts payable and accrued liabilities in our consolidated balance sheets.

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 sources 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, Federal Interest Subsidy and the Pledged Farebox Revenues**.** 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.

The Comptroller May Reduce Future Payments of our Gross Sales Tax Revenues or Require Us to Make Repayments to Provide for the Repayment of Overpayments of Gross Sales Tax Revenues that Occurred in Prior Periods

The Comptroller periodically identifies underpayments and overpayments of Gross Sales Tax Revenues and responds to claims by taxpayers. In the event that the Comptroller determines that we received an overpayment, our Gross Sales Tax Revenues for future periods are subject to reduction or we may be required to make a repayment in order to reimburse the overpayment. Under State law, DART has no legal standing or ability to intervene or appeal the Comptroller's determination. We have previously entered into two repayment agreements with the Comptroller regarding overpayments, including an agreement whereby overpayments of approximately $16.8 million will result in a reduction of our Gross Sales Tax Revenues in equal amounts quarterly through March 2027.

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 2013 Annual Disclosure Statement on an annual basis and to update it after the second and third quarters of our fiscal year. These disclosure documents will be filed with the Municipal Securities Rulemaking Board ("MSRB") 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 MSRB.

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 MSRB 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 2013 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 MSRB in electronic format, which will be available to the public free of charge via the Electronic Municipal Access ("EMMA") system at www.emma.msrb.org.

The updated information will include audited financial statements if they are 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 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 the MSRB of the change.

Over the last five years, we have complied in all material respects with all Continuing Disclosure Agreements made by us in accordance with the Rule except that the filing of annual financial information and operating data for the fiscal year ended September 30, 2007, was filed on April 30, 2008 (30 days after the time set forth in the Undertaking). In addition, on March 21, 2012, DART timely electronically filed with EMMA its 2012 Annual Disclosure Statement for the year ended September 30, 2011. However, DART's Audited Financial Statements for the year ended September 30, 2011 that are part of the Annual Disclosure Statement as Appendix A were inadvertently omitted from the electronically filed 2012 Annual Disclosure Statement as a result of an error that occurred during the electronic submission process. As a result, the Audited Financial Statements were not filed with the Annual Disclosure Statement. DART Financial staff corrected the submission by filing the Audited Financial Statements for the period ended September 30, 2011 on October 10, 2012. In addition, DART has modified its procedures for future submissions to EMMA. Under its new procedures, DART will electronically transmit to EMMA the Annual Disclosure Statement and the Audited Financial Statements as separate documents.

Material Event Notices Required by the Rule

We will also provide timely notices of any material events to the MSRB, in not more than ten Business Days after the occurrence, thereof, of any of the following events:

· (i) Principal and interest payment delinquencies;

- (ii) Nonpayment related default, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability. Notices of Proposed Issue (IRS Form 5701-TED) or other material notices or determinations with respect to the tax status of Obligations, or other material events affecting the tax status of Obligations;
- (vii) Modifications to rights of Holders of Bond Obligations;
- (viii) Bond Obligation call, if material and tender offers;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of Bond Obligations; or
- (xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership, or similar event of DART, which shall occur as described below;

(xiii) The consummation of a merger, consolidation, or acquisition involving DART or the sale of all of substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) Appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material.

For these purposes, any event described in the immediately preceding clause (xii) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for DART in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of DART, or if such jurisdiction has been assumed by leaving the existing governing body, and officials or officers in possession bus subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court of governmental authority having supervision or jurisdiction over substantially all of the assets or business of DART.

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.

Availability of Information From MSRB

The information will be available to Holders of Bond Obligations free of charge through the MSRB's EMMA system at www.emma.msrb.org.

BOND RATINGS

The current underlying ratings for all the outstanding Senior Lien Obligations are "Aa2" by Moody's Investors Service, Inc. and "AA+" by Standard & Poor's Ratings Services, a Standard and Poor's Financial Service LLC business. The Series 2007 Bonds are also rated "AA" by Fitch Ratings.

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 Amegy Bank 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

The law firms of Bracewell & Giuliani LLP, 1445 Ross Avenue, Suite 3800, Dallas, Texas 75202, and West & Associates L.L.P., 320 S. R.L. Thornton Freeway, Suite 300, Dallas, Texas 75203, serve as our Co-Finance Counsel and as our Co-Bond Counsel with respect to the Obligations and other financial matters.

This 2013 Annual Disclosure Statement, in substantially the form and content presented above, was approved by the Board of Directors of DART on February 26, 2013.

/s/ John C. Danish
Chair, Board of Directors

ATTEST:

/s/ Faye Wilkins
Secretary, Board of Directors

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

APPENDIX A

Independent Auditors' Report with Audited Financial Statements for the Fiscal Years ended September 30, 2012 and 2011

Dallas Area Rapid Transit
Dallas, Texas

Financial Statements
Years Ended September 30, 2012 and 2011 and
Independent Auditors' Report

DALLAS AREA RAPID TRANSIT
DALLAS, TEXAS
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT 1

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) 2

BASIC FINANCIAL STATEMENTS:

STATEMENTS OF NET ASSETS 13

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS 14

STATEMENTS OF CASH FLOWS 15

NOTES TO FINANCIAL STATEMENTS 17

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED):

SCHEDULE OF FUNDING PROGRESS FOR DEFINED BENEFIT PLAN AND OTHER POST EMPLOYMENT BENEFITS 39

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

Report of Independent Auditors

Members of the Board of Directors
Dallas Area Rapid Transit
Dallas, Texas

We have audited the accompanying financial statements of the business-type activities of Dallas Area Rapid Transit ("DART"), as of and for the year ended September 30, 2012, as listed in the table of contents. These financial statements are the responsibility of DART's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of DART as of September 30, 2011, were audited by other auditors whose report dated January 27, 2012, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DART's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the DART as of September 30, 2012, the respective changes in financial position, and cash flows, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2013 on our consideration of DART's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedules of Funding Progress, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Crowe Horwath LLP

Crowe Horwath LLP

Dallas, Texas
January 30, 2013

DALLAS AREA RAPID TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011 (Dollars in Thousands)

The management of Dallas Area Rapid Transit (DART) offers the users of DART's financial statements this narrative overview and analysis of the financial activities for the fiscal years ended September 30, 2012 and 2011. This discussion and analysis is designed to assist the reader to focus on significant financial activities and identify any significant changes in the financial position of DART. It should be read in conjunction with the financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

As of September 30, 2012 and 2011, total assets of DART exceeded total liabilities by $2,344,124 and $2,373,611 respectively. The amount of unrestricted net assets as of September 30, 2012 was $771,204 compared to $840,297 in 2011.

The net assets of DART decreased by $29,487 during the current fiscal year compared to a decrease of $71,883 last year. The decrease during 2012 is mainly due to increases in interest and depreciation expenses. The decrease during 2011 is predominately due to increases in interest and depreciation expenses and decreases in federal capital contributions and grants. The decrease during 2012 is less than that of 2011 because of increases in sales and use tax revenue, and capital contributions and grants.

DART's total debt decreased by $122,714 (3%) during the current fiscal year compared to an increase of $704,723 (23%) in 2011. The decrease in 2012 is due to principal payments made on revenue bonds, commercial paper notes and capital lease/leaseback liabilities. The increase in 2011 is due to additional borrowing in the form of revenue bonds.

Sales and use tax revenue was $433,302 in 2012 compared to $403,228 in 2011 and it increased by 7% ($30,074) in 2012 compared to an increase of 7% ($26,933) in 2011.

Capital contributions from federal, state and local governments were $141,669 in 2012 and $122,314 in 2011. Such contributions were used to finance DART's transit system expansion projects and acquisition of light rail vehicles, buses and equipment.

Other federal grants were $56,161 in 2012 compared to $47,566 in 2011.

For fiscal year 2012, total expenses exceeded total revenues resulting in a loss before capital contributions and grants of $227,317 compared to $241,763 for 2011. The loss in 2012 is lower than that of 2011 primarily because of the increase in operating and sales and use tax revenues.

BASIC FINANCIAL STATEMENTS

Management's Discussion and Analysis serves as an introduction to DART's basic financial statements. DART's basic financial statements are comprised of 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 changes in the financial position of DART. The statements of net assets are shown on page 13 of this report.

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 result in cash flows only 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 are shown on page 14 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, along with related notes and information in other financial statements, can be used to assess the following: DART's ability to generate positive future cash flows and pay its debt as the debt matures; the reasons for differences between DART's operating cash flows and operating income (loss); and the effect of cash and non-cash investing, capital, and financing activities on DART's financial position. The statements of cash flows are shown on pages 15-16 of this report.

FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011 (Dollars in Thousands)

Notes to the financial statements provide additional information that is essential to fully understand 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 are shown on pages 17-38 of this report.

The activities of DART are accounted for as a proprietary fund and are presented in the financial statements of DART as business type activities. The activities of DART are supported by a 1% sales and use tax within the member jurisdictions, fare collections, federal, state, and local financial assistance, and other receipts such as advertising and rental income.

The financial statements of DART include the accounts and operations of blended component units, Regional Rail Right-of-Way Corporation and Dallas Area Rapid Transit Mesquite Bus Service, LGC.

FINANCIAL ANALYSIS

Statements of Net Assets – Total assets of DART exceeded total liabilities by $2,344,124 and $2,373,611 as of September 30, 2012 and 2011, respectively. The largest portion of this excess (66% in 2012 and 64% in 2011) was invested in capital assets, net of related outstanding debt. DART uses these capital assets to provide public transportation services to customers and member jurisdictions; consequently, these assets are not available for future spending. Although DART's investments in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be obtained from other sources such as sales and use tax and farebox revenues, since the capital assets themselves cannot be used to liquidate these liabilities.

Condensed Summary of Assets, Liabilities, and Net Assets

	2012	2011	2010
Current assets	$1,001,962	$1,053,663	$962,389
Other non-current assets	419,596	686,533	446,089
Capital assets (net of accumulated depreciation)	4,916,558	4,775,830	4,520,616
Total assets	6,338,116	6,516,026	5,929,094
Current liabilities	394,371	476,118	501,043
Non-current liabilities	3,599,621	3,666,297	2,982,557
Total liabilities	3,993,992	4,142,415	3,483,600
Net assets			
Invested in capital assets, net of related debt	1,551,617	1,515,210	1,741,742
Restricted for:			
Debt service	10,760	7,338	15,765
Security for lease/leaseback liabilities	10,543	10,766	
Unrestricted	771,204	840,297	687,987
Total net assets	$2,344,124	$2,373,611	$2,445,494

Other non-current assets decreased by $266,937 in 2012 compared to an increase by $240,444 in 2011. The decrease in 2012 is mainly due to a decrease in restricted investments held for system expansion and acquisition as a result of spending on capital projects and payments made on capital lease/lease back liabilities. The increase in 2011 is due to proceeds from bonds that were issued during the year and held for payment of construction and acquisition of capital assets.

As of September 30, 2012 $10,543 of DART's net assets are restricted to satisfy the requirements of an amended lease/lease back agreement compared to $10,766 as of September 30, 2011. The unrestricted portion of net assets, $771,204 in 2012 and $840,297 in 2011 represent resources available to meet DART's ongoing obligations. The DART Board committed $35,013 and $26,123 of the unrestricted net assets for self-insurance and financial reserves in 2012 and 2011, respectively. The decrease in unrestricted net assets of $69,093 (8%) in 2012 is due to payments of commercial paper notes payable, and payments for capital project costs. The increase in unrestricted net assets of $152,310 (22%) in 2011 is due to timing of expenditures and related reimbursements.

FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011 (Dollars in Thousands)

Statements of Revenues, Expenses, and Changes in Net Assets – During fiscal year 2012, DART's activities resulted in a decrease in net assets of $29,487 compared to a decrease of $71,883 in 2011. The decrease during 2012 is mainly due to increases in interest and depreciation expenses. The decrease in 2011 is due to increases in expenses such as depreciation and interest and financing costs and decreases in capital contributions and other federal grants. The key elements of the changes in net assets for the fiscal years ended September 30 with comparative information for 2010 are shown in the following table.

Summary of Revenues, Expenses, and Changes in Net Assets

	2012	2011	2010
Operating revenues			
Passenger revenues	$ 59,809	$ 57,329	$ 52,081
Advertising, rent and other	20,306	12,049	11,149
Total operating revenues	80,115	69,378	63,230
Operating expenses			
Labor	202,009	198,290	193,213
Benefits	86,734	86,548	80,714
Services	30,153	33,832	32,323
Materials and supplies	49,120	51,096	57,585
Purchased transportation	55,640	53,466	50,452
Depreciation	192,875	179,119	135,324
Utilities	18,499	17,047	13,805
Taxes, leases, and other	5,732	5,737	5,288
Casualty and liability	5,048	3,878	3,841
Total operating expenses	645,810	629,013	572,545
Operating loss	(565,695)	(559,635)	(509,315)
Non-operating revenues (expenses)			
Sales and use tax revenue	433,302	403,228	376,295
Investment income	27,315	28,434	29,539
Build America Bonds tax credit	30,462	30,250	17,736
Other non-operating revenues	11,392	13,562	12,039
Interest expense	(155,033)	(145,514)	(93,752)
Street improvements for member cities	(5,615)	(1,244)	(1,010)
Other non-operating expenses	(3,445)	(10,844)	(7,251)
Total net non-operating revenues	338,378	317,872	333,596
Loss before capital contributions and grants	(227,317)	(241,763)	(175,719)
Capital contributions	141,669	122,314	151,836
Other federal grants	56,161	47,566	50,913
Total capital contributions and grants	197,830	169,880	202,749
Increase (decrease) in net assets	(29,487)	(71,883)	27,030
Net assets, beginning of the year	2,373,611	2,445,494	2,418,464
Net assets, end of the year	$2,344,124	$2,373,611	$2,445,494

Significant changes in revenues and expenses are shown and explained on the following pages.

FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011 (Dollars in Thousands)

REVENUES

The following table summarizes revenues for fiscal year 2012 and 2011 with comparative information for 2010:

REVENUES

Revenues	**2012**	**2011**	**2010**
Passenger revenues	$ 59,809	$ 57,329	$ 52,081
Advertising, rent and other	20,306	12,049	11,149
Sales and use tax revenue	433,302	403,228	376,295
Other federal grants	56,161	47,566	50,913
Investment income	27,315	28,434	29,539
Capital contributions	141,669	122,314	151,836
Build America Bonds tax credit	30,462	30,250	17,736
Other revenues	11,392	13,562	12,039
Total	**$780,416**	**$714,732**	**$701,588**

Passenger revenues – include farebox receipts, monthly and annual pass revenues, paratransit revenue, and special event fares. Passenger revenues increased by 4% ($2,480) in 2012 compared to a 10% ($5,248) increase in 2011. The increase in 2012 is due to increases in bus and light rail ridership. The increase in 2011 is due to an increase in light rail ridership.

Advertising, rent and other – Advertising income includes revenues from advertisements at transit stations, on DART buses, and electronic signs on light rail cars. Rental income includes revenue from the rental of land along the rail corridor and other properties. Advertising, rent and other income increased by 69% ($8,257) in 2012 compared to an increase of 8% ($900) in 2011. The increase during 2012 is due to reimbursement of HOV operating costs for service provided outside of the DART service area. The increase during 2011 is due to rental income from DART's right-of-way and rail diesel cars leased to the Denton County Transportation Authority.

Sales and use tax revenue **–** Sales and use tax revenue is a dedicated 1% tax imposed on certain items within DART's member jurisdictions or service area. Sales and use tax revenue increased by 7% ($30,074) in 2012 compared to an increase of 7% ($26,933) in 2011. The increases in both 2012 and 2011 are due to a relative improvement in the local economy resulting in better than previous year's retail sales and sales and use tax receipts. Sales and use tax revenue constituted approximately 56% of DART's total revenues in 2012 and 2011.

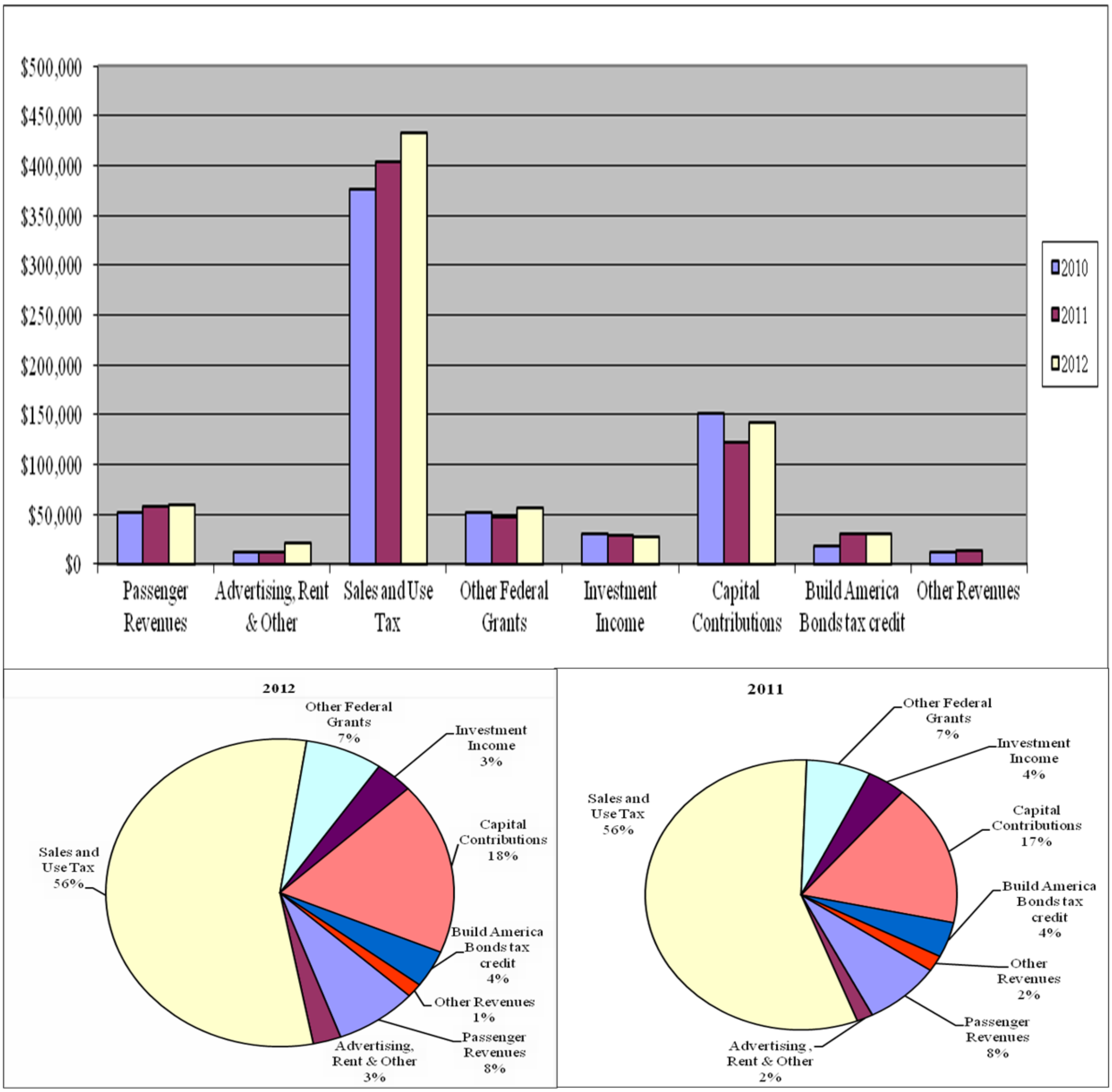
Other federal grants – Other federal grant revenues increased by 18% ($8,595) in 2012 compared to a decrease of 7% ($3,347) in 2011. The following factors contributed to the increase in 2012: more funds made available by Federal Transit Administration (FTA); more work done on the integrated corridor management (ICM) project that resulted in increased reimbursements during 2012 compared to 2011; and some of the preventive maintenance grant money was used for capital projects during 2011 and reported as capital contributions. The decrease in 2011 is due to reduced funding for preventive maintenance grants and some of the preventive maintenance grants money was used for capital projects during 2011 and reported as capital contributions. DART received $1,731 in 2012 and $1,579 in 2011 from the Federal Transit Administration (FTA) for vanpool and ozone programs and $539 in 2012 compared to $847 in 2011 in the form of homeland security grants from the United States Department of Homeland Security.

Capital contributions – Capital contributions include federal and local grants and contributions. Capital contributions increased by 16% ($19,355) in 2012 compared to a decrease of 19% ($29,522) in 2011. The increase in 2012 is mainly due to a new grant received from the State of Texas in the form of Texas Mobility Fund (TMF). The decrease in 2011 was due to delay in project funding from the federal government. City of Irving's share of the Belt Line Grade separation project cost is $2.0 million in 2012 compared to $4.2 million during 2011. These amounts are recorded as capital contributions.

Investment income – Investment income decreased by 4% ($1,119) in 2012 compared to a 4% ($1,105) decrease in 2011. The decrease in 2012 is due to a decrease in investment balances. The decrease in 2011 is due to a decrease in interest rates.

Build America Bonds tax credit – The Build America Bonds (BABs) tax credit increased by 1% ($212) in 2012 compared to a 71% ($12,514) increase in 2011. The increase in 2012 is due to the full year effect of an additional bond issued under the BABs program in October 2010. The increase in 2011 is due to the additional bond issued in October 2010.

<u>Other revenues</u> – Other revenues decreased by 16% ($2,170) in 2012 compared to a 13% ($1,523) increase in 2011. Other revenues include revenues from billings to the Fort Worth Transportation Authority (The T) for their share of the Trinity Railway Express (TRE) commuter rail service, toll credits received from the State of Texas as a local match for FTA capital grants, and alternative fuel tax credits. The decrease in 2012 is due to less alternative fuel tax credit received during 2012 compared to 2011. The increase in other revenues in 2011 is due to the alternative fuel tax credit received for periods covering fiscal years 2011 and 2010. The following charts summarize revenues for fiscal years 2010 through 2012.



FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011 (Dollars in Thousands)

EXPENSES

The following table summarizes expenses for fiscal year 2012 and 2011 with comparative information for 2010:

EXPENSES BY OBJECT CLASS

Expenses	**2012**	**2011**	**2010**
Labor	$202,009	$198,290	$193,213
Benefits	86,734	86,548	80,714
Services	30,153	33,832	32,323
Materials and supplies	49,120	51,096	57,585
Purchased transportation	55,640	53,466	50,452
Depreciation and amortization	192,875	179,119	135,324
Utilities	18,499	17,047	13,805
Taxes, leases and other	5,732	5,737	5,288
Casualty and liability	5,048	3,878	3,841
Street improvements for member cities	5,615	1,244	1,010
Interest and financing expenses	155,033	145,514	93,752
Other non-operating expense	3,445	10,844	7,251
Total	**$ 809,903**	**$ 786,615**	**$ 674,558**

Labor – Labor costs increased by 2% ($3,719) in 2012 compared to an increase of 3% ($5,077) in 2011. The increase in 2012 is due to positions filled in operations such as Transportation, Maintenance and DART Police. The increase in operations labor cost is partially offset by a decrease in administrations labor cost as a result of a reduction in force that took place at the end of 2011. The increase in 2011 is due to early retirement incentives payments and severance pay for terminations as a result of a reduction in force.

Benefits – Benefits increased by 0.2% ($186) in 2012 compared to a 7% ($5,834) increase in 2011. The smaller increase in 2012 is due to a decrease in workers compensation claim costs as a result of improved claim experience. This decrease is partially offset by increases in pension plans' costs and retiree benefits expenses. The increase in 2011 is mainly due to increase in health care claim costs. Other smaller increases include contributions to retirement plans, and payroll taxes.

Services – Services include contracted services such as: security, vehicles, equipment and right-of-way maintenance, advertising, marketing, computing, communication, legal, governmental, and environmental services. Services decreased by 11% ($3,679) in 2012 compared to an increase of 5% ($1,509) in 2011. The decrease in 2012 is related to the following items: commuter rail vehicles maintenance, right-of-way maintenance, facilities maintenance, and advertising expenses. Commuter rail vehicle maintenance expense is down in 2012 because the overhaul being done on certain commuter rail cars is getting close to completion in 2012 compared to the level of work done during 2011. Right-of-way maintenance expenses decreased during 2012 because less work was performed on the commuter rail right-of-way during 2012 compared to 2011. Facilities maintenance expense decreased during 2012 because of the decrease in the amount spent on tunnel repair and replacement of trash cans at bus stops compared 2011. Advertising decreased during 2012 because 2011 costs included the Green Line opening promotions whereas 2012 did not include similar costs. The increase in 2011 is due to the cost of an overhaul of commuter rail vehicles and refurbishment of HOV lane pylons.

Materials and supplies – Materials and supplies include the cost of fuel, parts and supplies used to operate and maintain vehicles, equipment, and facilities. Materials and supplies expenses decreased by 4% ($1,976) in 2012 compared to a decrease of 11% ($6,489) in 2011. The decrease in 2012 is due to decrease in spending on light rail parts as a result of delays in overhaul programs and decreased allowance for obsolete parts. The decrease in 2011 is due to DART's diesel fuel hedge program that significantly reduced the net cost of fuel used by DART vehicles.

Purchased transportation – Purchased transportation represents the costs of contracted transportation services such as commuter rail, paratransit, DART on-call, and shuttle services. Purchased transportation expenses increased by 4% ($2,174) in 2012 compared to a 6% ($3,014) increase in 2011. The increase in 2012 is due to increases in the hourly rate, fuel costs, and fixed monthly costs for paratransit service. The increase in 2011 is due to increases in service miles and hours of paratransit service, fuel costs, and fixed monthly costs for paratransit and commuter rail services.

Depreciation – Depreciation expenses increased by 8% ($13,756) in 2012 compared to a 32% ($43,795) increase in 2011. The increases in both 2012 and 2011 are due to new assets placed in service during both fiscal years. The increase in 2011 is larger because of the opening of the Green Line light rail service and Northwest Rail Operating Facility in December 2010.

Utilities – Utilities represent the cost of electricity, telecommunications, water and sewer, and natural gas. Utilities increased by 9% ($1,452) in 2012 compared to an increase of 23% ($3,242) in 2011. The increases in both 2012 and 2011 are due to electricity usage increase for the light rail service as a result of the Green Line opening in 2011 and the opening of the first section of the Orange Line in July 2012.

Taxes, leases, and other **–** Taxes, leases, and other includes fuel and lube taxes, equipment rentals, leases of operating and passenger facilities, training, travel, business meetings, membership dues, subscriptions, employee programs and allowance for uncollectible receivables. Taxes, leases, and other expenses decreased by 0.1% ($5) in 2012 compared to an increase of 8% ($449) in 2011. The decrease in 2012 is due to a lease that was terminated during 2012. The increase in 2011 is due to an increase in equipment rentals, increases in usage and rental rates for document storage facilities and an increase in the wellness screening costs.

Casualty and liability – Casualty and liability expenses increased by 30% ($1,170) in 2012 compared to an increase of 1% ($37) in 2011. The increases in both 2012 and 2011 are due to higher claim losses.

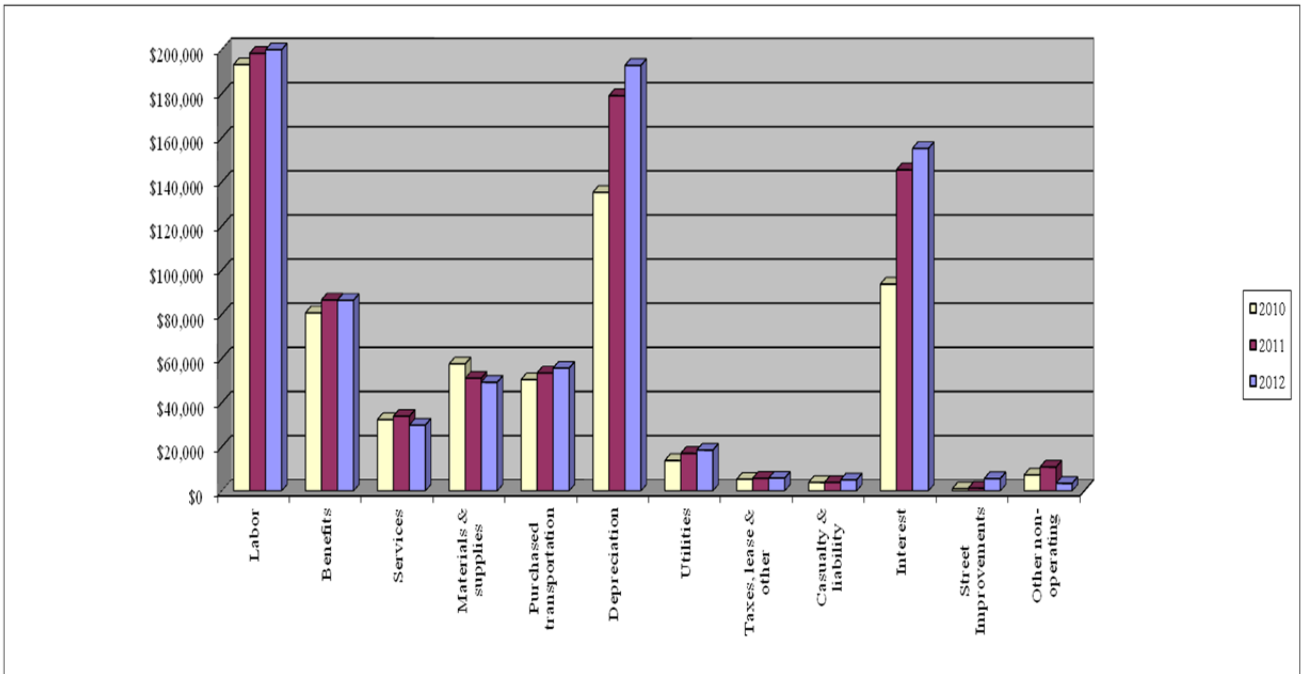
Street improvements – Local assistance is provided to eligible member jurisdictions in the form of technical and financial assistance to reduce traffic congestion and complement bus and public transit operations. The street improvement program costs increased by 351% ($4,371) in 2012 compared to a 23% ($234) increase in 2011. The increases in both 2012 and 2011 are due to increased work on intelligent transportation systems and street improvement projects that are expected to improve the flow of vehicle traffic.

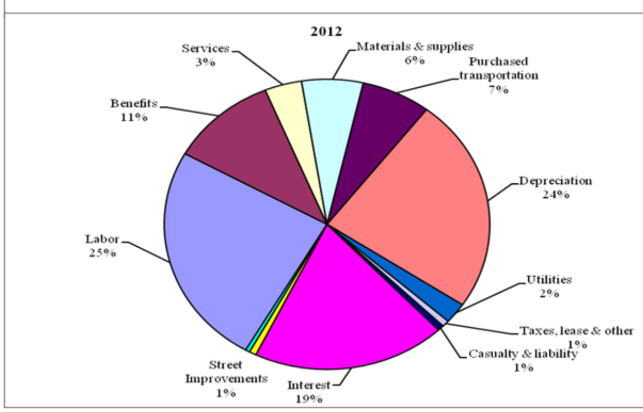
Interest **–** Interest expense increased by 7% ($9,519) in 2012 compared to an increase of 55% ($51,762) in 2011. In both 2012 and 2011, interest expense increased due to additional borrowings in the form of revenue bonds and less interest was capitalized as a result of the completion of the Green Line related projects during the first quarter of the fiscal year 2011 and the opening of the first section of the Orange Line in July 2012. Also, bonds were issued in October 2010 which caused an additional increase in interest in fiscal year 2011.

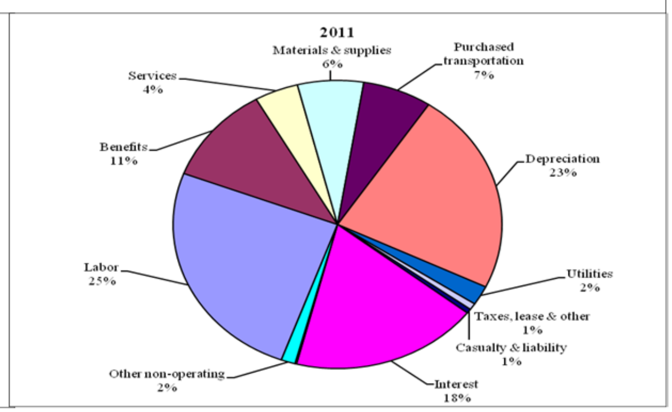
Other non-operating expenses – Other non-operating expenses decreased by 68% ($7,399) in 2012 compared to an increase of 50% ($3,593) in 2011 The decrease in 2012 is due to lower than 2011 costs incurred for general planning and consulting service costs for a regional commuter rail project. Also, there was no loss on disposal of capital assets for 2012 compared to 2011. The increase in 2011 is due to general planning and consulting service costs for a regional commuter rail project and a loss on disposal of capital assets.

The charts on the following page summarize expenses for fiscal years 2010 through 2012.

The following charts summarize expenses for fiscal years 2010 through 2012:





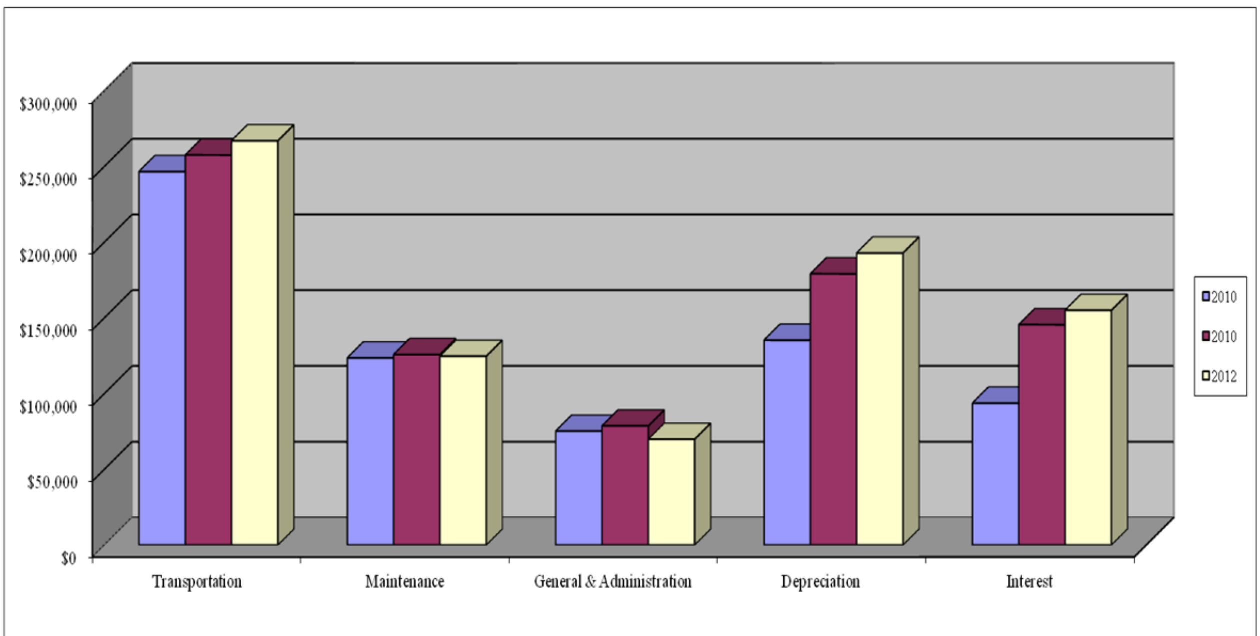


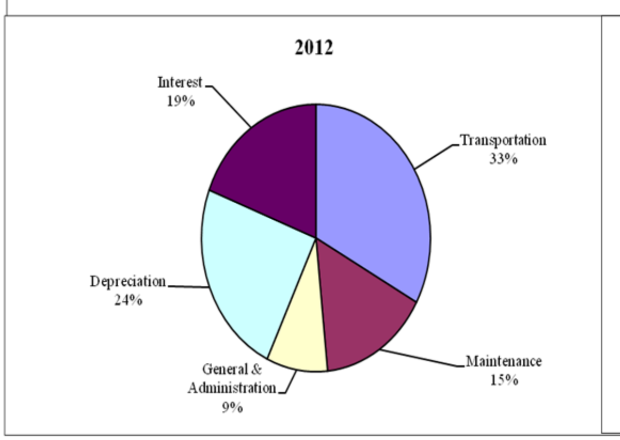
FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011 (Dollars in Thousands)

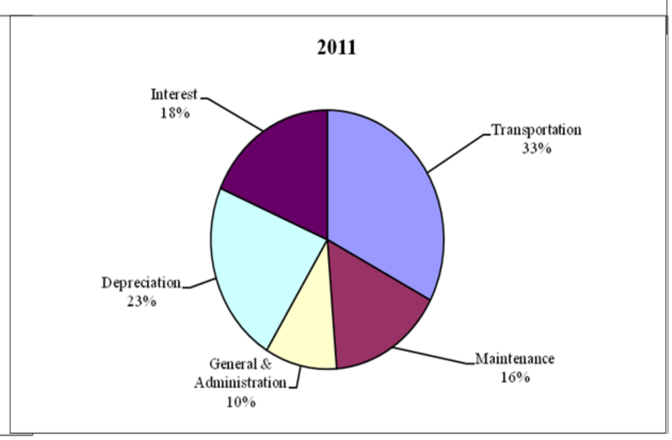
Expenses by function – *Transportation* – includes expenses that are directly related to the operation of bus, light rail, commuter rail, vanpool, paratransit, high occupancy vehicle (HOV) lanes, DART on-call and shuttle services. These expenses include such items as wages and benefits for operators, transit center service employees, transportation supervisors and managers, DART police, cost of fuel, tires and tubes, propulsion power, purchased transportation, customer service, revenue collection, and other related costs. *Maintenance* – includes labor costs and benefits for vehicle and facility maintenance, materials and supplies, utilities, and all other costs incurred for maintenance purposes. *General and administration* – includes administrative personnel costs, benefits, accident, general liability and contract claims; street improvements; and other related costs. *Depreciation* – includes depreciation expense on all depreciable capital assets. *Interest* – includes interest expense incurred on debt net of capitalized interest.

EXPENSES BY FUNCTION

	2012	2011	2010
Transportation	$ 267,001	$ 257,546	$ 246,631
Maintenance	124,708	125,778	123,596
General and administration	70,286	78,658	75,255
Depreciation and amortization	192,875	179,119	135,324
Interest	155,033	145,514	93,752
Total	**$ 809,903**	**$ 786,615**	**$ 674,558**







FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011 (Dollars in Thousands)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets – Investment in capital assets includes: land and rights-of-way; transitways; buildings and improvements; revenue and non-revenue vehicles and equipment; and furniture, fixtures, and leasehold improvements. DART's investment in capital assets as of September 30, 2012, is $4,916,558 compared to $4,775,830 in 2011. The net increase in capital assets during the current year is $140,728 (3%) compared to an increase of $255,214 (6%) in 2011.

The following table summarizes capital assets net of depreciation as of September 30 with comparative information for 2010.

Capital Assets (Net of Depreciation)

	2012	2011	2010
Land and rights-of-way	$ 554,714	$ 548,904	$ 397,997
Transitways	2,497,655	2,185,849	1,123,831
Buildings and improvements	436,298	455,135	198,617
Revenue and non-revenue vehicles and equipment	715,931	719,397	487,900
Furniture, fixtures, and leasehold improvements	10,608	6,673	7,001
Projects in progress	701,352	859,872	2,305,270
Total	$4,916,558	$4,775,830	$4,520,616

The increases during 2012 and 2011 are due to the cost of planning, designing and building the Light Rail Transit (LRT) Phase II expansion. The Phase II expansion consists of approximately 46 miles of light rail transit lines. These new lines extend northwest from Downtown Dallas to the cities of Carrollton, Farmers Branch, and Irving and southeast from Downtown Dallas to Buckner Blvd. in South Dallas and northeast from the Downtown Garland Station to the Rowlett Park-and-Ride. The first section of the southeast extension, Bryan Street to Fair Park, opened for service on September 14, 2009. Other northwest and southeast extensions opened for service during 2011 and the first section of Irving line segment opened for service in July 2012. The second section of the Irving line segment and the northeast (Rowlett) extension are scheduled to open during 2013.

Additional information on DART's capital assets is shown in note 6 on pages 25-26.

Outstanding debt – Outstanding debt includes sales tax revenue commercial paper notes, senior lien revenue bonds, and capital lease/leaseback liabilities. As of September 30, 2012, DART had total outstanding debt of $3,649,619 compared to $3,772,333 as of September 30, 2011. Outstanding debt decreased by 3% ($122,714) in 2012 compared to a 23% ($704,723) increase in 2011.

The following table summarizes DART's total outstanding debt.

Outstanding Debt

	2012	2011	2010
Sales tax revenue commercial paper notes	$ 70,000	$ 150,000	$ 150,000
Senior lien revenue bonds payable	3,290,060	3,298,430	2,595,370
Capital lease/leaseback liabilities	289,559	323,903	322,240
Total debt	$3,649,619	$3,772,333	$3,067,610

The sales tax revenue commercial paper notes was $70,000 as of September 30, 2012 compared to $150,000 as of September 30, 2011. The commercial paper notes were issued as a senior subordinate lien to sales and use tax revenues and are payable from the 1% sales and use tax receipts.

Senior lien revenue bonds outstanding are $3,290,060 as of September 30, 2012 and $3,298,430 as of September 30, 2011. These are senior lien bonds secured by and payable from the 1% sales and use tax receipts and farebox revenues (pledged revenues). The decrease of $8,370 in 2012 is due to principal payments made on December 1, 2011. The increase of $703,060 in 2011 is due to additional borrowing during fiscal year 2011 net of principal payments. All of DART bonds are issued to finance capital projects. The senior lien revenue bonds are shown net of original issuance premium, discount and refunding gain (loss) of $61,195 and $66,008 as of September 30, 2012 and 2011, respectively, on the statement of net assets.

During 2012, DART maintained a AA+ credit rating from Standard & Poors, and a Aa2 from Moody's for its bonds.

Capital lease/leaseback liabilities are $289,559 and $323,903 as of September 30, 2012 and 2011, respectively. The decrease in capital lease/leaseback liabilities in 2012 is due to lease payments. The increase in 2011 is due to accrued interest on outstanding liabilities.

Additional information on DART's outstanding debt is shown in footnotes 10-14.

ECONOMIC OUTLOOK

Sales and use tax is the largest source of revenue for DART, representing 56% of total revenues in both 2012 and 2011. Sales and use tax revenues are affected by changes in the local economy. During fiscal year 2012, DART's sales and use tax revenues showed a 7.5% increase compared to the previous year. Actual sales and use tax revenues in 2012 are $433.3 million compared to $403.2 million in 2011. The sales and use tax budget for 2013 is $451.7 million compared to $433.3 million actual for 2012. The budget for 2013 represents a 4.2% increase from the 2012 actual sales and use tax revenues.

REQUESTS FOR INFORMATION

This financial report is designed to provide our member jurisdictions, customers, 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, 2012 and 2011 (Dollars in Thousands)

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 106,532	$ 116,477
Investments	598,860	677,801
Derivative instrument asset	4,865	5,480
Sales and use tax receivable	73,927	68,114
Transit revenue receivable, net	3,012	2,563
Due from federal and other governments	30,147	20,306
Materials and supplies inventory, net	28,914	27,381
Prepaid transit expense and other	3,090	2,483
Restricted investments held by trustee for debt service	68,624	65,375
Restricted investments held for advance funding agreements	8,811	11,921
Restricted investments held to pay capital lease/leaseback liabilities	75,180	55,762
TOTAL CURRENT ASSETS	1,001,962	1,053,663
NONCURRENT ASSETS		
Investments restricted for system expansion and acquisition	141,685	354,274
Restricted investments held as security for capital lease/leaseback liabilities	10,543	10,766
Investment in joint venture	23,435	24,190
Capital assets		
Land and rights-of-way	554,714	548,904
Depreciable capital assets, net of depreciation	3,660,492	3,367,054
Projects in progress	701,352	859,872
Restricted investments held to pay capital lease/leaseback liabilities	214,379	268,141
Net pension asset	7,775	6,485
Unamortized bond issue costs and other	21,779	22,677
TOTAL NONCURRENT ASSETS	5,336,154	5,462,363
TOTAL ASSETS	6,338,116	6,516,026
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	100,436	93,415
Commercial paper notes payable	70,000	150,000
Current portion of capital lease/leaseback liabilities	75,180	55,762
Current portion of repayment due to State Comptroller	824	824
Local Assistance Program payable	5,370	13,370
Retainage payable	42,953	55,666
Unearned revenue and other liabilities	30,139	35,194
Accrued interest payable from restricted assets	57,864	58,037
Current portion of senior lien revenue bonds payable	6,740	8,370
Deferred inflows of resources	4,865	5,480
TOTAL CURRENT LIABILITIES	394,371	476,118
NONCURRENT LIABILITIES		
Accrued liabilities	29,680	30,217
Repayment due to State Comptroller	11,047	11,871
Senior lien revenue bonds payable	3,344,515	3,356,068
Capital lease/leaseback liabilities	214,379	268,141
TOTAL NONCURRENT LIABILITIES	3,599,621	3,666,297
TOTAL LIABILITIES	3,993,992	4,142,415
NET ASSETS		
Invested in capital assets, net of related debt	1,551,617	1,515,210
Restricted for debt service	10,760	7,338
Restricted as security for capital lease/leaseback liabilities	10,543	10,766
Unrestricted	771,204	840,297
TOTAL NET ASSETS	$2,344,124	$2,373,611

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, 2012 and 2011 (Dollars in Thousands)

	2012	2011
OPERATING REVENUES		
Passenger revenues	$ 59,809	$ 57,329
Advertising, rent, and other	20,306	12,049
TOTAL OPERATING REVENUES	80,115	69,378
OPERATING EXPENSES		
Labor	202,009	198,290
Benefits	86,734	86,548
Services	30,153	33,832
Materials and supplies	49,120	51,096
Purchased transportation	55,640	53,466
Depreciation and amortization	192,875	179,119
Utilities	18,499	17,047
Taxes, leases, and other	5,732	5,737
Casualty and liability	5,048	3,878
TOTAL OPERATING EXPENSES	645,810	629,013
NET OPERATING LOSS	(565,695)	(559,635)
NON-OPERATING REVENUES (EXPENSES)		
Sales and use tax revenue	433,302	403,228
Investment income	5,896	5,966
Interest income from investments held to pay capital lease/leaseback	21,419	22,468
Interest expense on capital lease/leaseback	(21,419)	(22,468)
Street improvements	(5,615)	(1,244)
Interest and financing expenses	(133,614)	(123,046)
Build America Bonds tax credit	30,462	30,250
Other non-operating revenues	11,392	13,562
Other non-operating expenses	(3,445)	(10,844)
NET NON-OPERATING REVENUES	338,378	317,872
LOSS BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	(227,317)	(241,763)
CAPITAL CONTRIBUTIONS AND GRANTS		
Federal capital contributions	119,443	117,217
State capital contributions	19,865	839
Local capital contributions	2,361	4,258
Total capital contributions	141,669	122,314
Other federal grants	56,161	47,566
TOTAL CAPITAL CONTRIBUTIONS AND GRANTS	197,830	169,880
CHANGE IN NET ASSETS	(29,487)	(71,883)
TOTAL NET ASSETS – BEGINNING OF YEAR	2,373,611	2,445,494
TOTAL NET ASSETS – END OF YEAR	$2,344,124	$2,373,611

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, 2012 and 2011 (Dollars in Thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 70,956	$ 75,976
Cash flows from other sources	8,039	6,828
Payments to suppliers of goods and services	(101,429)	(120,006)
Payments to purchased transportation service providers	(65,087)	(58,436)
Payments to employees	(198,009)	(197,539)
Benefit payments on behalf of employees	(87,192)	(85,649)
NET CASH USED BY OPERATING ACTIVITIES	(372,722)	(378,826)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Sales and use tax receipts	426,666	398,284
Other federal grants	55,513	48,057
Other non-capital financing receipts	957	4,123
Build America Bonds tax credit	30,462	26,008
Other non-capital financing payments	(175)	(1,905)
Local Assistance Program and street improvements	(12,352)	(649)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	501,071	473,918
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	4,783	8,629
Proceeds from sales and maturity of investments	1,229,454	1,299,015
Purchase of investments	(1,149,408)	(1,368,785)
Decrease (increase) in restricted assets	212,676	(270,598)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	297,505	(331,739)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(345,142)	(504,244)
Proceeds from the issuance of commercial paper notes	905,000	824,800
Payment on commercial paper notes	(985,000)	(824,800)
Proceeds from the issuance of revenue bonds		839,531
Payments to advance refund existing revenue bonds		(110,410)
Payment of debt issuance costs	(109)	(4,948)
Principal payment on revenue bonds	(8,370)	(18,790)
Interest and financing expenses	(137,777)	(113,884)
Federal capital contributions	118,870	118,634
State capital contributions	14,999	
Local capital contributions	1,406	4,849
Proceeds from the sale of capital assets	324	967
NET CASH (USED) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(435,799)	211,705
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,945)	(24,942)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	116,477	141,419
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 106,532	$ 116,477

(Continued)

DALLAS AREA RAPID TRANSIT
STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

	2012	2011
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating loss	$(565,695)	$(559,635)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation and amortization	192,875	179,119
Miscellaneous non-operating income	10,023	8,077
Miscellaneous non-operating expenses	(3,182)	(6,736)
Changes in assets and liabilities		
Increase in transit receivable	(8,855)	(1,139)
Increase (decrease) in materials and supplies inventory	(1,533)	1,002
(Increase) decrease in prepaid expenses and other current assets	(570)	71
Decrease in pension assets	(1,290)	(900)
Increase (decrease) in accounts payable and accrued liabilities	5,588	(4,460)
Increase (decrease) in other current liabilities	(83)	5,776
NET CASH USED BY OPERATING ACTIVITIES	$(372,722)	$(378,826)
NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Interest income from investments held to pay capital lease/leaseback	$21,419	$22,468
Interest expense on capital lease/leaseback	(21,419)	(22,468)
Decrease in capital lease/leaseback obligations	(34,343)	(1,662)
Decrease in investments held to pay capital lease/leaseback	34,343	1,662
Increase (decrease) in fair value of investments	1,140	(1,454)
Amortization of premium, discount and debt issuance costs	(3,633)	(2,686)
Gain (loss) on disposal of assets	295	(2,205)

(Concluded)

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, University Park, and the towns of Addison and Highland Park. Fifteen Board members represent the 13 member jurisdictions. Board members are appointed according to the ratio of the population of a member jurisdiction to the total population of the service area. One Board member may represent multiple jurisdictions.

Amendments to DART’s enabling legislation require approval of the Texas State Legislature, which holds its regular session every two years. Past legislative changes allowed the issuance of lease/leaseback transactions (see note 10), changed the collection period of sales taxes from quarterly to monthly, and allowed a joint pledge of sales and use tax and farebox revenues as security for long-term debt. 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 to begin in January 2013.

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 solely payable from and secured by the DART sales and use tax revenue, 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, $98.7 million of the authorized bonds were issued. On March 8, 2007, an additional $770.3 million of the authorized bonds were issued. From the $770.3 million, $317.7 million was issued to refund part of the 2001 and 2002 bonds. The remaining $452.6 million was issued to pay-off commercial paper notes. In April 2008, the Board approved the fourth issuance of Bonds (Series 2008), for $731.4 million as authorized by the Master Debt Resolution. This issuance included $341 million to refund commercial paper notes. In May 2009, the Board approved the fifth issuance of Bonds (Series 2009A and Series 2009B), for $1 billion as authorized by the Master Debt Resolution (see notes 12 and 13). In September 2010, the Board approved the sixth issuance of Bonds (Series 2010A and Series 2010B), for $824.6 million as authorized by the Master Debt Resolution (see notes 12 and 13). These bonds are Senior Lien Revenue Bonds that are secured by, and payable from, a senior lien on Pledged Revenues.

DART received approximately $433,302 in 2012 from a 1% sales and use tax imposed on certain items within its member jurisdictions compared to $403,228 in 2011. These revenues constituted approximately 56% of DART's total revenues during both fiscal years 2012 and 2011. Approximately 50%, 16%, and 11% of these sales and use tax revenues were collected from sales in the cities of Dallas, Plano, and Irving during fiscal years 2012 compared to 50%, 15%, and 11% for fiscal year 2011.

Basis of Accounting – The activities of DART are accounted for as proprietary funds 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 applies all standards issued on or before November 30, 1989, by the Financial Accounting Standards Board (FASB), except when they contradict GASB standards, and has elected not to apply FASB standards issued after November 30, 1989.

Reporting Entity – DART has two blended component units, Regional Rail Right-Of-Way Corporation (RRRC) and Dallas Area Rapid Transit Mesquite Bus Service, LGC (Mesquite LGC). RRRC is a legally separate corporation, which was formed to facilitate the acquisition of certain properties and right-of-way for DART. Mesquite LGC is a Corporation created under the LGC Act on behalf of DART to provide the City of Mesquite, Texas, public transportation (solely by bus) outside the DART service area. Because RRRC and Mesquite LGC directly benefit DART, GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*, requires that DART use the blending method to incorporate the financial information of RRRC and Mesquite LGC into DART’s financial statements. The accompanying financial statements include the accounts and operations of RRRC and Mesquite LGC. All significant intercompany balances have been eliminated. Internally prepared financial statements for either Regional Rail Right-of-Way Corporation or Mesquite LGC may be obtained by contacting the Chief Financial Officer at Dallas Area Rapid Transit, 1401 Pacific Avenue, P.O. Box 660163, Dallas, TX 75266-7220.

New Accounting Pronouncements – During 2012, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. This Statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans and clarifies when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers. This Statement became effective for DART during 2012 and had no financial impact on DART during 2012.

The Governmental Accounting Standards Board Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No.* 53 became effective for DART during 2012. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. It also provides guidance as to when the effective hedging relationship continues and hedge accounting should continue to be applied. This Statement had no financial impact on DART during 2012.

Cash and Cash Equivalents – DART considers investments in unrestricted funds with original maturities of less than 90 days at the date of purchase to be cash equivalents. Cash and cash equivalents were $106,532 and $116,477 as of September 30, 2012 and 2011, respectively.

Investments – The investment balances, other than investments held to pay lease/leaseback obligations (see Note 3), at September 30, 2012 and 2011 are stated at fair value. Fair value is the amount at which an investment may be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. DART considers quoted market prices at September 30, 2012 and 2011, as the equivalent of the fair value of investments. When both restricted and unrestricted funds are available, it is DART's policy to spend restricted funds first on eligible expenditures.

Material and Supplies Inventory – An 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 five thousand dollars ($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 in note 6. 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 capital assets or add new functionality are capitalized. Transit system development costs for services such as project-related design, construction, construction management, and project management costs are capitalized when incurred. Interest expense incurred during the construction phase of a capital asset is capitalized. In 2012, total interest and financing expense of $171,966 was incurred, and $38,352 of this total was capitalized. In 2011, total interest and financing expense of $172,498 was incurred, and $49,452 of this total was capitalized. Donated assets are capitalized at estimated fair value on the date of donation.

Federal, State and Local Capital Contributions, and Grants – Grant funds used for the acquisition of property and equipment are recorded as capital contribution revenues when the related grant eligibility requirements are met and qualified expenditures are incurred. DART received $141,669 in federal, state and local capital contributions during 2012 compared to $122,314 during 2011. Of the total capital contributions amount received during 2012, $81,839 was based on capital expenditures made during the previous years. This amount is included in Federal Capital Contributions on the Statements of Revenues, Expenses and Changes in Net Assets for the fiscal year ended September 30, 2012.

In addition to capital contributions, DART also received $56,161 in 2012 compared to $47,566 in 2011 in the form of other federal grants. Included in these amounts are grants that are substantially related to capital maintenance grants from the federal government.

Paid Time Off, Vacation and Sick Leave – Salaried exempt and non-exempt employees are eligible for a "Paid Time Off" (PTO) benefits program. Accumulated PTO hours have no cash value unless the employee has five or more years of service. Upon termination of employment, a percentage of unused PTO hours will be paid in a lump sum based on number of years or length of continued service with DART. Hourly employees earn vacation and sick leave, which may be taken or accumulated up to certain levels, until paid upon retirement or termination. The liability for PTO, vacation, and sick leave has been calculated in accordance with GASB Statement No. 16, *Accounting for Compensated Absences,* and is included in the accounts payable and accrued liabilities line item in the accompanying statements of net assets.

Operating Revenues and Expenses – Operating revenues are generated from activities related to providing public transportation services such as bus, light rail, commuter rail, paratransit, and vanpool to DART customers. DART's operating revenues include passenger fare revenues, advertising revenues, and certain rental income. Non-operating revenues are revenues not directly related to the operations of DART's transit service. Sales and use tax revenues, Build America Bond tax credit, and investment income are classified as non-operating revenues.

Operating expenses are incurred for activities directly related to providing public transportation services to DART customers. Such activities include transportation, maintenance, transit police, and general and administrative functions. Non-operating expenses include interest and financing costs, general planning and consulting work not related to current service, and the local assistance provided to eligible member jurisdictions.

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

Revenue Recognition – Operating revenues are recognized when transit service is provided. Monthly tickets and annual 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 the unearned revenue and other liabilities line item in the accompanying statements of net assets.

Sales and use tax Revenues – Sales and use tax revenues are recognized when the underlying transactions occur. Sales and use tax revenues are subject to audits by the State Comptroller, which sometimes results in refunds to the State.

Self-Insurance Liabilities – DART administers and maintains self-insured reserves for employee medical, operational workers compensation, auto, and general liability (including bus/rail accidents), directors and officers liability, and light rail construction workers compensation and general 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 and the estimate is included in the accounts payable and accrued liabilities line item in the accompanying statements of net assets.

The estimate includes incurred but not reported (IBNR) claims. Changes in the liabilities in 2012 and 2011 for all of DART's self-insured programs are as follows:

Description	2012	2011	2010
Beginning balance	$17,816	$16,907	$15,901
Current year claims and changes in estimates	3,868	6,412	7,732
Payments	(4,670)	(5,503)	(6,723)
Ending balance	$17,014	$17,816	$16,907
Amounts due in one year	$5,633	$5,868	$5,783

DART purchases liability insurance coverage for all-risk property, commuter rail, leased premises, crime, directors and officers and light rail project-specific professional liability and light rail build-out workers compensation and general liability. Coverage is evaluated annually and adjusted as necessary based upon exposure and claim payments. There was no significant reduction in insurance coverage from the previous year and the settlement amounts did not exceed insurance coverage for each of the past three fiscal years.

Premium and Discounts on Revenue Bonds - Premiums and discounts on Senior Lien Revenue Bonds are amortized using the effective interest method. Costs of issuance and gains/losses on refunding are also amortized using the effective interest method over the life of the bonds.

Net Assets – Equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the DART’s policy to use restricted resources first, and then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

2. SERVICE AGREEMENTS

DART has entered into several long-term agreements with contractors to provide paratransit, commuter rail, HOV lane, DART on-call and shuttle services. Payments to service providers are recorded as purchased transportation in the accompanying statements of revenues, expenses, and changes in net assets. The following is a summary of the major amounts for services rendered in 2012 and 2011 and the current contract terms, including option periods:

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

		Annual Payments		Contract Terms	
Contractor's Name	Service Type	2012	2011	Began	Expires
Herzog Transit Services, Inc.	Commuter Rail	$18,044	$17,949	10/1/2010	9/30/2015
Veolia Transportation Services, Inc.	Paratransit , DART On-call, and Flex Services	32,013	30,133	1/1/2007	9/30/2012
Others	Various	5,522	5,384	Various	Various
Total		$55,579	$53,466		

During fiscal year 2012, DART awarded a new contract to MV Contract Transportation, Inc for the paratransit and DART On-Call services. The contract term is from October 1, 2012 to September 30, 2014. The Flex service is provided by DART starting from October 1, 2012.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and investments, excluding investments held for lease/leaseback liabilities, as of September 30 are classified in the statements of net assets as follows:

	9/30/2012	9/30/2011
Cash and cash equivalents	$106,532	$116,477
Investments	598,860	677,801
Restricted investments held by trustee for debt service	68,624	65,375
Restricted investments held for advance funding agreements	8,811	11,921
Investments restricted for system expansion and acquisition	141,685	354,274
Restricted investments held as security for capital lease/leaseback liabilities	10,543	10,766
Total cash and investments	$935,055	$1,236,614

Cash and investments as of September 30 consist of the following:

	9/30/2012	9/30/2011
Cash on hand	$880	$570
Cash equivalents	105,652	115,907
Investments	828,523	1,120,137
Total cash and investments	$935,055	$1,236,614

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.

On September 30, 2012, the carrying amount of DART's deposits was $880 compared to $570 at September 30, 2011. Bank balances at September 30, 2012 and 2011 were entirely covered either by Federal Depository Insurance or by collateral held by DART's agent in DART's name.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, DART will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party**.** DART's policy requires that all deposits with financial institutions must be collateralized to the extent not protected by F.D.I.C. insurance. Securities that can be accepted as collateral are limited to U.S. Government Securities, Federal Agency Securities, and Municipal Securities.

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 among other things. All DART investments are subject to the Texas Public Funds Investment Act.

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

The following table identifies the investment types that are authorized by DART's Investment Policy. The table also identifies certain provisions of DART Investment Policy that address interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer at the time of purchase
U.S. Government Securities	None	None	None
Federal Agency Securities	None	None	25%
Municipal Securities	None	None	10%
Repurchase Agreements and Reverse Repurchase Agreements	90 days	50%	5%
Money Market Mutual Funds	10 years	None	None
Commercial Paper	270 days	None	5%
Banker's Acceptance	270 days	None	5%
Certificate of Deposit	10 years	None	None

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that DART manages exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of it matures evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of DART investments to market interest rate fluctuations as of September 30 is provided in the tables below, which show the distribution of DART investments by maturity.

		Remaining Maturity (in months) as of September 30, 2012		
Investment Type	Total Amount	12 months or Less	12 to 24 Months	24 to 60 Months
Federal Farm Credit Banks	$239,302	$35,008	$ 118,361	$85,933
Federal National Mortgage Association	167,575	15,074	35,031	117,470
Federal Home Loan Bank	133,132	91,284	30,519	11,329
Federal Home Loan Mortgage Corporation	20,083	6,250	8,828	5,005
Commercial Paper	170,807	170,807		
Money Market Funds	153,671	153,671		
US Treasury Bill	16,348	16,348		
US Treasury Note	33,256	33,256		
Total	$ 934,174	$ 521,698	$ 192,739	$ 219,737

		Remaining Maturity (in months) as of September 30, 2011		
Investment Type	Total Amount	12 months or Less	12 to 24 Months	24 to 60 Months
Federal Farm Credit Banks	$229,957	$54,662	$ 103,801	$71,494
Federal Home Loan Mortgage Corporation	191,903	84,685	70,011	37,207
Federal Home Loan Bank	168,841	65,070	63,568	40,203
Federal National Mortgage Association	102,163	21,286	15,071	65,806
Bankers Acceptance	62,038	62,038		
Commercial Paper	354,613	354,613		
Money Market Funds	126,529	126,529		
Total	$ 1,236,044	$ 768,883	$ 252,451	$ 214,710

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized rating agency. The following tables show actual ratings as of September 30 for each investment type. Money market funds listed are SEC regulated 2a.7 funds.

Investment Type	Total Amount	Rating as of September 30, 2012 AA+/ Aaa	A1/P1	AAAm
Federal Farm Credit Banks	$239,302	$239,302		
Federal National Mortgage Association	167,575	167,575		
Federal Home Loan Bank	133,132	133,132		
Federal Home Loan Mortgage Corporation	20,083	20,083		
Commercial Paper	170,807		$170,807	
Money Market Funds	153,671			$153,671
US Treasury Bill	16,348	16,348		
US Treasury Note	33,256	33,256		
Total	$934,174	$609,696	$170,807	$153,671

Investment Type	Total Amount	Rating as of September 30, 2011 AA+/ Aaa	A1/P1	AAAm
Federal Farm Credit Banks	$229,957	$229,957		
Federal Home Loan Mortgage Corporation	191,903	191,903		
Federal Home Loan Bank	168,841	168,841		
Federal National Mortgage Association	102,163	102,163		
Bankers Acceptance	62,038		$ 62,038	
Commercial Paper	354,613		354,613	
Money Market Funds	126,529			$126,529
Total	$1,236,044	$692,864	$416,651	$126,529

On August 5, 2011, Standard and Poors, one of three nationally recognized raters of US debt and securities, downgraded the rating of long-term United States sovereign debt from AAA to AA+ for the first time since 1941 with a negative outlook. The two other national raters, Moody's and Fitch, continue to have the highest ratings, but also have the debt on their watch lists. Included in DART's investment portfolio as of September 30, 2012 is $609,696 compared to $692,864 as of September 30, 2012 that was downgraded from AAA to AA+ by Standard and Poors.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of DART's investment in a single issuer. The Investment Policy of DART contains limitations on the amount that can be invested in any one issuer as shown in the table on page 21. Investments in any one issuer that represent 5% or more of total investment portfolio of DART as of September 30 are as shown below:

September 30, 2012 Investment type/Issuer	Reported Amount	Percentage of Total Portfolio
Federal Farm Credit Banks	$239,302	26%
Federal National Mortgage Association	167,575	18%
Federal Home Loan Bank	133,132	14%
Money Market Fund:		
Fidelity	62,293	7%

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

September 30, 2011		
Investment type/Issuer	Reported Amount	Percentage of Total Portfolio
Federal Farm Credit Banks	$229,957	19%
Federal Home Loan Mortgage Corporation	191,903	16%
Federal Home Loan Bank	168,840	14%
Federal National Mortgage Association	102,163	8%
Bankers Acceptance:		
Bank of America	62,038	5%
Commercial Paper:		
ABN AMRO Bank, N.A.	69,876	6%
Citigroup	69,839	6%
Prudential	64,943	5%
Abbey National	59,859	5%

Custodial Credit Risk - The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, DART will not be able to recover the value of its investment or collateral securities that are in the possession of another party. All of DART's investments with the exception of money market mutual funds, which by design provide ownership of shares within the fund, are registered in DART's name as of September 30, 2012 and 2011 and are not exposed to custodial credit risk.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. None of DART's Investment is in foreign currency-denominated investments.

Restricted investments held to pay capital lease/leaseback liabilities – Currently, DART has four outstanding lease/leaseback obligations. When DART entered into these transactions it received advance rental payments. A portion of the advance rental payment received by DART was used to purchase contractual undertakings from certain financial institutions. These institutions assumed and agreed to pay the sublease rental payments due through the purchase option date, together with the purchase option price owed if DART were to exercise the purchase option rights. For other leases, DART deposited a portion of the advance rental payment with a trustee, who was to purchase direct obligations of the US government and other securities that would mature on the dates and the amounts required to pay sublease rental payments and the respective purchase option price. These investments are held by the trustee in the name of DART and are invested in U.S. Treasury strips, U.S. government sponsored enterprise obligations, and guaranteed investment contracts. They include a combination of investments with short-term and long-term maturities which minimizes the exposure to interest rate risk. Because these investments are insured by a third party and are held in U.S. Treasuries and government investment contracts they are not recorded at fair value but are recorded at amortized cost in the statement of net assets.

Assigned assets – The DART Board has assigned certain cash and investment balances to be maintained for self-insurance and financial reserve. These amounts are shown as unrestricted investments in the accompanying financial statements. The assets for self-insurance include amounts assigned by the Board to fund future claims and workers' compensation liabilities. The Board established the financial reserve to accumulate sales and use taxes in years when sales and use tax revenues exceed the budgeted amount. Sales and use tax revenues, net of annual repayments to the State Comptroller, were $9,950 more than budget for fiscal year 2012 compared to $8,482 for fiscal year 2011. In addition, the Board of Directors authorized the establishment of a Capital Reserve Account. Should the Financial Reserve exceed $50 million, excess funds are placed in the Capital Project Reserve Account.

An affirmative vote of two-thirds of the Board is required to draw upon the Financial and Capital Project Reserves, and the funds may be used for any purpose approved by the Board. During 2011, the DART Board approved a request to set aside a portion of the financial reserve investments for potential collateral as required by an amendment to one of the lease/leaseback agreements. The amount set aside for this purpose is $10,543 as of September 30, 2012 compared to $10,766 as of September 30, 2011. These amounts are shown as restricted investments held as security for capital lease/lease back liabilities in the statements of net assets and are excluded from the financial reserve amount of September 30, 2012 and 2011 shown below.

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

Assigned for	2012	2011
Self-Insurance	$13,747	$13,761
Financial Reserve	21,266	12,362
Total	$35,013	$26,123

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 trust accounts created for this purpose. The money maintained in the trust accounts is reported as *Investments held by trustee 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 for bonds and commercial paper notes, and administrative expenses.

The System Expansion and Acquisition Fund (SEA Fund) includes monies on deposit to be used solely for paying the costs of acquisition and construction of capital assets. The Board may, but is not required to, use money on deposit in the SEA Fund to pay for obligations in the event of a default.

Restricted assets shown in the Statements of Net Assets also include bond proceeds which will be used to fund capital expenditures.

DART entered into three advance funding agreements with the Texas Department of Transportation and received money for construction of three parking lots. DART also entered into an inter-local agreement with the City of Dallas to plan and design a modern street car system for the City of Dallas and received money for this purpose. The remaining balances of these monies are shown as restricted investments held for advance funding agreements in the Statements of Net Assets as of September 30, 2012 and 2011.

DART also entered into an additional Equity Security Agreement that requires it to set aside certain investments as security for a certain lease/leaseback obligation. As of September 30, 2012, DART has set aside $10,543 compared $10,766 as of September 30, 2011 for this purpose and this amount is shown as investments restricted as security for lease/lease back liabilities in the statements of net assets.

5. INVESTMENT IN JOINT VENTURE

DART and the Fort Worth Transportation Authority ("The T") jointly provide commuter rail service between downtown Dallas and downtown Fort Worth. The authorities have adopted the name *Trinity Railway Express* ("TRE") to provide this service. The operation and maintenance of commuter rail service is contracted to Herzog Transit Services, Inc. Cost of operating TRE, net of operating revenues, is shared between DART and the T based on revenue seat miles operated in Dallas County and Tarrant County, respectively. The transit authorities separately contributed the capital for the passenger stations and track storage areas in their respective counties, including fixtures and fare collection equipment at those stations. DART has separately contributed the capital for thirteen rail diesel cars (RDCs) purchased for the initial TRE commuter rail service. DART and the T have jointly contributed the capital for seven rehabilitated locomotives, two new locomotives, ten rehabilitated bi-level coaches, five new bi-level coaches, two rehabilitated bi-level cab cars, and five new bi-level cab cars. The book value of DART's share of these capital assets jointly owned with the T is recorded as Investment in Joint Venture in the statement of net assets in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No.39, *Determining Whether Certain Organizations Are Component Units.* There are no separate financial statements for the TRE. Each authority includes its share of revenues, operating costs and capital assets in its own financial statements.

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

6. CAPITAL ASSETS

Changes in capital assets for the years ended September 30, 2012 and 2011 are shown as follows:

	Beginning Oct. 1, 2011	Additions	Disposals	Net Transfers/ Adjustments	Ending Sept. 30, 2012
Non-Depreciable Assets					
Land and right-of-way	$548,904			$ 5,810	$554,714
Capital projects in progress	859,872	$332,418		(490,938)	701,352
Total non-depreciable assets	1,408,776	332,418		(485,128)	1,256,066
Depreciable Assets					
Transitways	2,779,751			408,554	3,188,305
Buildings and improvements	696,102		(77)	6,154	702,179
Revenue and non-revenue vehicles and equipment	1,218,639		(4,968)	61,890	1,275,561
Furniture, fixtures, and Leasehold improvements	43,242		(2,235)	8,530	49,537
Total depreciable assets	4,737,734		(7,280)	485,128	5,215,582
Less accumulated depreciation					
Transitways	593,902	96,748			690,650
Buildings and improvements	240,967	24,960	(46)		265,881
Revenue and non-revenue vehicles and equipment	499,242	65,352	(4,964)		559,630
Furniture, fixtures, and Leasehold improvements	36,569	4,595	(2,235)		38,929
Total accumulated depreciation	1,370,680	191,655	(7,245)		1,555,090
Depreciable assets, net	3,367,054	(191,655)	(35)	485,128	3,660,492
Total capital assets	$4,775,830	$140,763	$(35)		$4,916,558

	Beginning Oct. 1, 2010	Additions	Disposals	Net Transfers/ Adjustments	Ending Sept. 30, 2011
Non-Depreciable Assets					
Land and right-of-way	$397,997		$(957)	$ 151,864	$548,904
Capital projects in progress	2,305,270	$437,213		(1,882,611)	859,872
Total non-depreciable assets	2,703,267	437,213	(957)	(1,730,747)	1,408,776
Depreciable Assets					
Transitways	1,631,987		(2,965)	1,150,729	2,779,751
Buildings and improvements	419,849		(1,619)	277,872	696,102
Revenue and non-revenue vehicles and equipment	935,898		(15,095)	297,836	1,218,639
Furniture, fixtures, and Leasehold improvements	38,940		(8)	4,310	43,242
Total depreciable assets	3,026,674		(19,687)	1,730,747	4,737,734
Less accumulated depreciation					
Transitways	508,156	87,205	(1,459)		593,902
Buildings and improvements	221,232	21,354	(1,619)		240,967
Revenue and non-revenue vehicles and equipment	447,998	65,632	(14,388)		499,242
Furniture, fixtures, and Leasehold improvements	31,939	4,638	(8)		36,569
Total accumulated depreciation	1,209,325	178,829	(17,474)		1,370,680
Depreciable assets, net	1,817,349	(178,829)	(2,213)	1,730,747	3,367,054
Total capital assets	$4,520,616	$258,384	$(3,170)		$4,775,830

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

Capital assets are depreciated using the 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

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES AND REPAYMENT DUE TO STATE COMPTROLLER

Accounts payable and accrued liabilities at September 30 were as follows:

Description	2012	2011
Accounts payable and accrued liabilities		
Payroll	$11,745	$9,364
Accrued paid time off, vacation and sick leave	20,979	19,235
Self insurance liabilities	17,014	17,816
Other operating liabilities	32,814	30,278
Total operating expense related	82,552	76,693
Non-operating expense and capital related	47,564	46,939
Total accounts payable and accrued liabilities	130,116	123,632
Non-current	29,680	30,217
Current	$100,436	$93,415

The Texas State Comptroller collects the 1% sales and use tax from tax payers for DART. Sales and use tax revenues are subject to audits by the State Comptroller, which sometimes results in repayments to the State. Outstanding repayments and changes in the repayments due to the State Comptroller at September 30 are as follows:

Description	2012	2011
Beginning balance	$12,695	$13,519
Payments	(824)	(824)
Ending balance	11,871	12,695
Non-current	11,047	11,871
Current	$824	$824

8. ACCRUED PAID TIME OFF (PTO) VACATION AND SICK LEAVE

Changes in accrued PTO, vacation, and sick leave for the years ended September 30 are shown in the following table.

Description	2012	2011
Beginning balance	$19,235	$19,650
Additions	2,764	1,944
Payments	(1,020)	(2,359)
Ending balance	$20,979	$19,235
Amounts due in one year	$936	$965

Payments during 2011 are higher than that of 2012 because of PTO, sick leave and vacation payments in connection with early retirement and reduction in force that took place during 2011. Accrued PTO, vacation, and sick leave amounts shown above are included in the accounts payable and accrued liabilities line item on the statement of net assets.

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

9. LOCAL ASSISTANCE PROGRAM

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 inter-local agreements, DART allocated a percentage of its annual sales and use tax collections for the LAP program. Eligible member jurisdictions received 15% of the estimated sales and use taxes collected within that jurisdiction, except Irving, which received 7.5%. Dallas, University Park, and Highland Park were not eligible. The LAP program ended in 2004. Accrued but unpaid funds were carried over to succeeding years and were recorded as a liability on the accompanying statements of net assets.

Changes in Local Assistance Program Payable for the years ended September 30 are as follows:

Description	2012	2011
Beginning balance	$13,370	$13,370
Payments	(8,000)	
Ending balance	$5,370	$13,370

10. FINANCE OBLIGATIONS UNDER CAPITAL LEASE/LEASEBACK

DART has entered into lease transactions in which certain capital assets are leased to investors (headlease) and simultaneously leased back (sublease). Under these transactions, DART maintains the right to continued use and control of the assets through the end of the lease term 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 capital lease/leaseback transactions as of the respective transaction date.

Lease Date	Property	Fair Market Value At Closing Date	Prepayment Received On Head Lease	Amount Invested to Satisfy Sublease Obligation	Cash Benefit	Repurchase Option Date	Sublease Termination Date
7/25/97	22 Light rail cars	$57,992	$51,886	$47,096	$4,790	01/01/13	12/15/13
9/28/00	28 Light rail cars	91,000	91,000	84,000	7,000	01/02/23	12/15/23
10/26/00	25 Light rail cars	81,000	81,000	74,700	6,300	01/02/25	12/15/25
7/10/02	Buses – Lot 1	46,505	46,505	44,903	1,602	01/01/12	12/15/12
7/10/02	Buses – Lot 2	36,828	36,828	35,559	1,269	01/01/13	12/15/13
7/10/02	Buses – Lot 3	15,367	15,367	14,838	529	01/01/14	12/15/14

The subleases provide DART with an opportunity, at its sole discretion, to repurchase equipment on specified dates. As these dates approach, DART will complete a financial analysis on each specific lease to determine if it is financially beneficial to repurchase the equipment. At this point in time, DART anticipates that it will exercise the repurchase option on all of its remaining leases at the specified dates and has reflected this option in the amortization.

The following table shows the book value of the light rail cars and buses under the lease/lease back agreements as of September 30, 2012 and 2011.

Lease Date	Property	Book value as of 9/30/2012	Book value as of 9/30/2011
7/25/97	22 Light rail cars	$19,948	$22,232
9/28/00	28 Light rail cars	37,269	40,327
10/26/00	25 Light rail cars	37,385	40,275
7/10/02	Buses – Lot 1		2,250
7/10/02	Buses – Lot 2	311	3,899
7/10/02	Buses – Lot 3	3,212	1,935

The net present value of the future sublease payments has been recorded as both a short-term and long-term liability in the accompanying statements of net assets. Prepayments received from the head lease were invested to satisfy the sublease obligations. 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 capital lease/leaseback liabilities are reported as follows on the statements of net assets:

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

	2012	2011
Amounts due within one year	$75,180	$55,762
Amounts due in more than one year	214,379	268,141
Total	$289,559	$323,903

Each of the lease/leaseback transactions has specific performance requirements for DART when the financial rating of the Payment Undertaker insurer falls below a specified level. During fiscal year 2010, credit ratings of two of three financial institutions insuring DART's lease/leaseback transactions were downgraded below certain levels specified in the lease/leaseback agreements. As a result, DART has entered into an amended agreement to reset the acceptable credit rating to be maintained at or above BBB for one of these two transactions. For the other lease/leaseback obligation, DART also entered into an additional Equity Security Agreement that requires it to set aside certain investments as security. As of September 30, 2012, DART has set aside $10,543 compared to $10,766 as of September 30, 2011 for this purpose. These amounts are shown as investments restricted as security for lease/lease back liabilities in the statements of net assets.

Changes in the capital lease/lease back obligations for the years ended September 30 are shown below:

Description	2012	2011
Beginning balance	$323,903	$322,240
Accrued interest	21,419	22,468
Retirements/terminations/adjustments	(55,763)	(20,805)
Ending Balance	$289,559	$323,903

The following schedule shows future minimum sublease payments as of September 30, 2012 for the outstanding lease capital lease/leaseback transactions.

Year Ending September 30	Minimum Sublease Payments
2013	$86,884
2014	36,209
2015	14,096
2016	12,210
2017	12,210
2018 – 2022	54,693
2023 – 2026	261,351
Total minimum sublease payments due under capital lease/leaseback	477,653
Less: amount representing interest	(188,094)
Present value of minimum sublease payments	$289,559

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

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. In 2006, a new Revolving Credit Agreement was 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 Agreement expired on January 21, 2011. A new agreement was executed with Bank of America with an effective date of January 20, 2011. As part of this new revolving credit agreement, the maximum commercial paper amount that can be issued is limited to a principal amount of $150 million.

The Revolving Credit Agreement contains certain covenants as follows: projected gross sales and use tax revenues must exceed debt service requirements by 150% for each of the three following and consecutive fiscal years, beginning with the first fiscal year in which debt service on the proposed bond obligations will be due and 200% of four consecutive quarters of the last six quarters. DART complied with these covenants for the years ended September 30, 2012 and 2011. Commercial paper is issued in blocks for terms from 1 to 270 days.

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

The commercial paper notes are recorded as current liabilities on the statements of net assets. The Revolving Credit Agreement is secured by and payable from a pledge (senior subordinate lien) of DART's sales and use tax revenue. The average interest rate on outstanding commercial paper at September 30, 2012 was 0.24% compared to 0.25% at September 30, 2011.

On November 15, 2012, DART issued $127,775 in Senior Lien Sales Tax Revenue Bonds Series 2012 (see note 20, Subsequent Events). Proceeds of the Series 2012 Bonds were used to refund the Subordinate Lien Sales Tax Revenue Commercial Paper Notes and to pay for the issuance costs of the Series 2012 Bonds. The Revolving Credit Agreement with Bank of America was terminated on November 15, 2012. Changes in the Commercial Paper Notes for the years ended September 30 are shown below:

Description	2012	2011
Beginning balance	$150,000	$150,000
Additions	905,000	824,800
Retirement	(985,000)	(824,800)
Ending Balance	$70,000	$150,000

The maximum principal of outstanding Commercial Paper Notes did not exceed the $150 million limit during either year.

12. SENIOR LIEN 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 the existing light rail system and other improvements to the public transportation system. The DART Board has approved several issuances in accordance with the Master Debt Resolution. These bonds are Senior Lien Revenue Bonds that are secured by, and payable from pledged revenues. Pertinent information related to each bond is shown below:

				Interest rates (Yields) range		Maturity date range		Optional Redemption	
Bond Series	Board Approval Date	Original Issue Amount	Date issued	From	To	From	To	Bonds maturing after	Earliest call date
2001	Jul. 2001	$400,000	8/09/01	2.8%	5.2%	12/1/02	12/1/31	12/1/12	12/1/11
2002	Jul. 2002	98,735	9/10/02	3.0%	5.4%	12/1/05	12/1/32	12/1/13	12/1/12
2007*	Jan. 2007	770,270	3/08/07	4.0%	5.3%	12/1/07	12/1/36	12/1/17	12/1/16
2008	Apr. 2008	731,415	6/23/08	4.5%	5.3%	12/1/09	12/1/48	12/1/18**	12/1/17
2009A	May 2009	170,385	6/25/09	2.8%	4.3%	12/1/14	12/1/22	12/1/19	6/1/19
2009B	May 2009	829,615	6/25/09	6.0%	6.3%	12/1/23	12/1/44	12/1/34	5/31/19
2010A	Sep. 2010	95,235	10/7/10	2.0%	5.0%	12/1/13	12/1/23	12/1/21	12/1/20
2010B	Sep. 2010	729,390	10/7/10	4.9%	5.0%	12/1/37	12/1/48	Not applicable	

* The series 2007 bond issuance included $328,235 to partially refund Series 2001 and 2002 bonds.
** The Series 2008 bonds maturing after December 1, 2018 are subject to optional redemption with the exception of those maturing on December 1, 2029 and 2030.

In June 2009, DART issued and sold $170,385 in tax exempt Senior Lien Sales Tax Revenue Bonds (Series 2009A Bonds), and $829,615 in taxable Senior Lien Sales Tax Revenue Bonds (Series 2009B Bonds) to finance capital expenditures for DART's system expansion and acquisition. The Series 2009B bonds are taxable bonds issued under the Build America Bond program of the American Recovery and Reinvestment Act of 2009 (ARRA). In accordance with ARRA, DART receives a tax credit from the United States Treasury in amounts equal to 35% of the interest payable amount on the Series 2009B Bonds.

In October 2010, DART issued and sold $95,235 in tax exempt Senior Lien Sales Tax Revenue Bonds (Series 2010A Bonds), and $729,390 in taxable Senior Lien Sales Tax Revenue Bonds (Series 2010B Bonds) to finance capital expenditures for DART's system expansion and acquisition. The Series 2010B bonds are taxable bonds issued under the Build America Bond program of the American Recovery and Reinvestment Act of 2009 (ARRA). In accordance with ARRA, DART receives a tax credit from the United States Treasury in amounts equal to 35% of the interest payable amount on the Series 2010B Bonds.

During 2012, DART recorded tax credits of $30,462 compared to $30,250 for 2011 as Build America Bonds tax credit in the Statements of Revenues, Expenses and Changes in Net Assets.

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

Additional bonds may not be issued unless gross sales and use tax revenues exceed maximum debt service by at least 200% for 12 of the last 18 months. Changes in revenue bonds (shown at par) for the years ended September 30, 2012 and 2011 are as follows:

Bond Series	Balance, 9/30/2010	Additions	Advance Refunding	Retirement	Balance, 9/30/2011	Retirement	Balance, 9/30/2012	Amounts due in one year
2001	$82,315		$(73,400)	$(8,915)				
2002	28,410		(25,910)	(1,500)	$ 1,000		$ 1,000	$1,000
2007	756,210			(5,240)	750,970	$(5,075)	745,895	5,740
2008	728,435		(3,465)	(3,135)	721,835	(3,295)	718,540	
2009A	170,385				170,385		170,385	
2009B	829,615				829,615		829,615	
2010A		$ 95,235			95,235		95,235	
2010B		729,390			729,390		729,390	
Total	$2,595,370	$824,625	$(102,775)	$(18,790)	$3,298,430	$(8,370)	$3,290,060	$6,740

The revenue bonds shown above are at face value. They are shown in the statement of net assets net of the original issuance premium, discount and refunding gain (loss) of $61,196 and $66,008 as of September 30, 2012 and 2011, respectively.

Below is a summary of debt service requirements of the Senior Lien Revenue Bonds outstanding as of September 30, 2012:

Year Ended September 30	Principal	Interest	Total Debt Service	Build America Bonds tax credit	Net Debt Service
2013	$6,740	$173,395	$180,135	$(30,462)	$149,673
2014	23,355	172,728	196,083	(30,462)	165,621
2015	43,740	171,218	214,958	(30,462)	184,496
2016	45,870	169,090	214,960	(30,463)	184,497
2017	48,155	166,805	214,960	(30,462)	184,498
2018 – 2022	279,870	794,959	1,074,829	(152,311)	922,518
2023 – 2027	349,785	714,552	1,064,337	(147,969)	916,368
2028 – 2032	433,685	611,689	1,045,374	(133,081)	912,293
2033 – 2037	548,635	478,256	1,026,891	(114,604)	912,287
2038 – 2042	632,495	318,867	951,362	(81,391)	869,971
2043 – 2047	651,800	134,884	786,684	(31,903)	754,781
2048 – 2049	225,930	13,855	239,785	(2,517)	237,268
TOTAL	$3,290,060	$3,920,298	$7,210,358	$(816,087)	$6,394,271

13. PLEDGED REVENUES

DART has pledged sales and use tax and farebox revenues as security for bonds and commercial paper debts. The amount of the pledge is equal to the remaining debt service requirements for these obligations. These obligations were issued to pay for DART's system expansion and acquisition costs. The pledge continues for the remaining life of these obligations, which is currently through fiscal year 2049. Total principal and interest remaining on the bonds as of September 30, 2012 is $7.2 billion. The annual debt service requirements for these bonds, before Build America Bonds tax credits, range from $214,998 in fiscal year 2018 to $119,292 in fiscal year 2049. For the current fiscal year, debt service on the bonds (including principal and interest) was $182,138. Bonds have a senior lien on pledged revenues.

Total principal and interest remaining on commercial paper as of September 30, 2012 is $70,011. Interest payments on commercial paper notes during the current fiscal year totaled $354. Commercial Paper notes have a subordinate senior lien on pledged revenues.

14. DEBT REFUNDINGS

In prior years, DART issued $770,270 in Senior Lien Sales Tax Revenue Bonds (Series 2007 bonds) to refund the Series 2001 and 2002 Bonds and the Series 2001 Commercial Paper Notes. As a result, the Series 2001 Commercial Paper Notes, and a portion of the Series 2001 and 2002 bonds are considered defeased and the liability for those notes, bonds, and the corresponding assets in the trust account have been removed from DART's Statements of Net Assets. Also during 2011, DART issued the Series 2010A bonds to refund a portion of Series 2001, 2002 and 2008 bonds. As a result, the Series 2001, 2002 and 2008 bonds in the total amount of $102,775 are considered to be defeased and the liability for those bonds, and the corresponding assets in the trust account have been removed from DART's Statements of Net Assets. As of September 30, 2012, $88,130 of refunded DART bonds remains outstanding compared to $431,010 as of September 30, 2011. These refunded bonds are solely payable from and secured by the assets in the irrevocable trust accounts. All of DART's refunded bonds that were outstanding as of September 30, 2012 have been fully paid on December 3, 2012. As a result of the 2011 refunding, DART recognized a book loss of $7,883, a reduction in debt service of $3,945 and an economic gain of $8,786.

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

15. 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 plan), DART Retirement Plan, and DART Capital Accumulation Plan and Trust. DART is the administrator of these retirement plans and has the authority to establish and amend the plans.

Defined Benefit Plan – The DART Employees Defined Benefit Retirement Plan and Trust (the DB Plan) is a single-employer defined benefit pension plan that was designed to provide retirement, death, and disability benefits to certain employees of DART. On October 1, 1995, the DTS Employees Retirement Plan (Plan A) was amended to become the DB Plan. Participants of the DB Plan are those employees who were members of the former plan on September 30, 1995. Those employees who elected to be covered under Plan A have eligibility, vesting, and benefit provisions different from those who elected the DB Plan. DART's covered payroll for the DB Plan as of October 1, 2011 (actuarial valuation date), was approximately $19.3 million compared to $23.7 as of October 1, 2010.

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 were in the Plan on September 30, 1995 are required to contribute 3% of their base monthly salaries to the Plan. Other participants are not required to contribute to the DB Plan. DART's contribution amount is actuarially determined on an annual basis.

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. A net pension asset of $7,775 and $6,485 is shown in the accompanying statements of net assets of DART at September 30, 2012 and 2011, respectively.

In accordance with GASB Statement No. 27, *Accounting for Pension by State and Local Government Employers*, 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.

Actuarial Assumptions - The net pension assets for fiscal years 2012 and 2011 were computed as part of an actuarial valuation performed and dated as of the first day of the fiscal periods, October 1, 2011 and 2010. The following table shows significant actuarial assumptions:

Valuation Date	October 1, 2011	October 1, 2010
Investment Return	7% compounded annually, net of expenses	8% compounded annually, net of expenses
Salary Increases	3.25% per annum	3.5% per annum
Mortality	RP 2000 mortality tables for males and females	RP 2000 mortality tables for males and females
Disability Mortality	RP 2000 mortality tables for males and females	RP 2000 mortality tables for males and females
Early Retirement Age	55	55
Normal Retirement Age	60	60
Cost-of-Living Adjustments	2.5% per annum	2.5% per annum
Actuarial Cost Method	Projected Unit Credit Cost Method	Projected Unit Credit Cost Method

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

For plan years 2012, 2011, and 2010, the net pension asset was as follows:

	2012	2011	2010
Annual required contribution	$6,686	$5,317	$5,395
Interest on net pension asset	(454)	(447)	(385)
Adjustment to annual required contribution	523	496	427
Annual pension cost	6,755	5,366	5,437
Employer contributions	8,045	6,266	6,212
Increase in net pension asset	1,290	900	775
Net pension asset, beginning of year	6,485	5,585	4,810
Net pension asset, end of year	$7,775	$6,485	$5,585
Percentage of annual pension cost contributed	120%	117%	114%

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.

Funding Progress - The schedule of funding progress for the DART Employees Defined Benefit Retirement Plan is included in the Required Supplementary Information. The data for the two most recent valuations are as follows:

	Actuarial Valuation Date	
	10/1/11	10/1/10
Actuarial value of assets	$141,480	$145,605
Actuarial accrued liability (AAL) projected unit credit	195,504	176,587
Unfunded AAL (UAAL)	54,024	30,982
Funded ratio	72.4%	82.5%
Covered payroll	19,306	23,727
UAAL as a % of covered payroll	279.8%	130.6%

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 hired before January 1, 2006 are vested in 25% of DART's contributions after two years of service, graduating to 100% vesting after five years. Participants hired after December 31, 2005 become 100% vested in DART's contributions to the Plan only after completing five years of service. Total expense to DART to fully fund this plan was approximately $13,280 and $12,710 for the years ended September 30, 2012 and 2011, 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 subject to the annual contribution limits of the Internal Revenue Service. DART matches 50% of the employee's contribution up to a maximum of 3% of the employee's annual compensation. Participants hired before January 1, 2006 are vested in 25% of DART's contributions after two years of service, graduating to 100% vesting after five years. Participants hired after December 31, 2005 become 100% vested in DART's contributions to the Plan only after completing five years of service. Total expense to DART to fully fund this plan was approximately $4,431 and $4,607 for the years ended September 30, 2012 and 2011, respectively.

Annual financial statements for each of the three retirement plans discussed above may be obtained by contacting the Chief Financial Officer at Dallas Area Rapid Transit, 1401 Pacific Avenue, P.O. Box 660163, Dallas, TX 75266-7220.

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

16. POSTEMPLOYEMENT BENEFITS OTHER THAN PENSIONS

Plan Description - DART administers a single-employer defined benefit other post employment benefits (OPEB) Plan. The plan provides healthcare and life insurance for eligible retirees and their spouses through DART's group health plan and group life plan, which covers both active employees and retired members. Eligibility criteria for the post employment health care and life insurance benefits are as follows: Participants of the defined benefit pension plan will be eligible at age 55 with a minimum of ten years of service to DART. Participants of the defined contribution pension plan will be eligible at age 60 with a minimum of ten years of service to DART.

Funding Policy - DART's contribution to the retiree healthcare and life insurance is an annual required contribution (ARC) determined actuarially based on the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortization of any unfunded actuarial liabilities (funding excess) over a period not to exceed thirty years. The ARC for fiscal year 2012 is 3.0% of annual covered payroll compared to 2.8% for 2011. Retirees also make monthly contributions to the healthcare plan. Such contributions are determined annually by the plan administrator based on expected annual cost. For the years ended September 30, 2012 and 2011, DART's annual required contributions to other post employment benefits (OPEB) trust were $5,024 and $4,591. These contribution amounts are the same as annual OPEB costs for both years. The contribution for 2011 was made after fiscal year-end. The annual required contribution amount of $4,591 was recorded as liability and included in the accounts payable and accrued liabilities on DART's statement of net assets. The OPEB trust was set up during the fiscal year 2008 for the first time and is not included in these financial statements. DART has 310 retirees eligible to receive these benefits in 2012 compared to 298 retirees in 2011.

Actuarial Assumptions - Actuarial evaluations were performed for the OPEB Plan as of September 30. The following tables show the summaries of significant actuarial assumptions:

Valuation Date	September 30, 2012
Investment Return	7.00%
Future Participation	For future eligible retirees, 56% are assumed to elect medical coverage, while 100% are assumed to elect life coverage
Health Care Trend	Year 1 trend is 9% for Aetna and 11.5% for Secure Horizons Medicare Advantage Plan, and the trend for 11 or more years is 5% (with different rates for the years in between)
Mortality – Pre-retirement	RP 2000 Employees Pre-Retirement Mortality
Mortality – Post-retirement	RP 2000 Healthy Mortality
Aging Factor	3% per annum for Pre-65 and 2% for Post-65
Eligibility for Coverage	For Defined Benefit Pension Plan participants: age 55 and 10 years of service and for Defined Contribution Pension Plan participants: age 60 and 10 years of service
Spouse coverage	For active employees, 40% are assumed to be married at retirement with the spouse electing coverage
Age of Dependent Spouse	Females are assumed to be 4 years younger than males
Actuarial Cost Method	Projected Unit Credit
Salary Increases	3.25% per annum
Amortization	30 Years Level Dollar Amortization Method, Open period

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

Valuation Date	September 30, 2011
Investment Return	7.00%
Future Participation	For future eligible retirees, 56% are assumed to elect medical coverage, while 100% are assumed to elect life coverage
Health Care Trend	Year 1 trend is 8%, and the trend for 12 or more years is 5% (with different rates for the years in between)
Mortality – Pre-retirement	RP 2000 Employees Pre-Retirement Mortality
Mortality – Post-retirement	RP 2000 Healthy Mortality
Aging Factor	3% per annum for Pre-65 and 2% for Post-65
Eligibility for Coverage	For Defined Benefit Pension Plan participants: age 55 and 10 years of service and for Defined Contribution Pension Plan participants: age 60 and 10 years of service
Spouse coverage	For active employees, 40% are assumed to be married at retirement with the spouse electing coverage
Age of Dependent Spouse	Females are assumed to be 4 years younger than males
Actuarial Cost Method	Projected Unit Credit
Salary Increases	3.25% per annum
Amortization	30 Years Level Dollar Amortization Method, Open period

Annual OPEB Cost and Net OPEB Asset - For plan years 2012 and 2011, annual OPEB cost and the net OPEB asset were as follows:

	2012	2011
Annual required contribution	$5,024	$4,951
Annual OPEB cost	5,024	4,951
Total employer contributions*	9,975	
Increase in net OPEB obligation (decrease in net OPEB asset)	4,951	4,951
Net OPEB asset (obligation), beginning of year	(4,951)	
Net OPEB asset (obligation), end of year	(0)	(4,951)
Percentage of annual OPEB cost contributed*	199%	0%

*For 2011, employer contribution was made on October 13, 2011, after fiscal year-end.

Funding Progress - The schedule of funding progress for the DART Other Postemployment Benefits (OPEB) is included in the Required Supplementary Information. The data for the two most recent valuations are as follows:

	Fiscal Year Ended	
	9/30/12	9/30/11
Actuarial value of assets	$18,066	$7,170
Actuarial accrued liability (AAL) Unit Credit	$49,384	$43,323
Unfunded AAL (UAAL)	$31,318	$36,153
Funded ratio	36.6%	16.6%
Covered payroll	$169,196	$175,685
UAAL as a % of covered payroll	18.5%	20.6%

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

17. 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 statements.

18. COMMITMENTS AND CONTINGENCIES

The Board has approved a Transit System Plan, which includes the design and construction of a 46-mile light rail transit (LRT) extension from Downtown Dallas to Buckner Blvd. (the Southeast Corridor) and from Downtown Dallas to Farmers Branch, Carrollton, and Irving (the Northwest Corridor) and from downtown Garland to Rowlett (Rowlett extension). The timing and completion of the Transit System Plan is based on economic assumptions made in DART's 20-year financial plan and is subject to change based on changing economic conditions. The Transit System Plan is forecasted at $3.8 billion as of September 30, 2012. The first section of the southeast extension, Bryan Street to Fair Park, opened for service on September 14, 2009. Other northwest and southeast extensions opened for service during 2011 and the first section of Irving line segment opened for service in July 2012. The second section of the Irving line segment and the northeast (Rowlett) extension are scheduled to open during 2013. DART has entered into contract commitments for the LRT build out and other capital developments in the amount of $3.3 billion and spent approximately $3.0 billion of the committed amount as of September 30, 2012 on these projects.

DART participates in several federal and state 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 $1,096 and $1,302 in 2012 and 2011, respectively.

Future minimum lease payments for all non-cancelable operating leases are as follows:

Fiscal Year	2013	2014	2015	2016	2017
Minimum Lease Payments	$495	$424	$375	$141	$141

DART owns and operates a number of facilities. It also acquires new properties for light rail expansion projects. In some of these properties DART has discovered contamination that may require pollution remediation activity. DART is working with relevant state and federal agencies on pollution remediation plans. Management does not believe that the outcome of these remediation activities will have a material adverse effect on DART's financial position. Management has accrued an estimate which is included in the accounts payable and accrued liabilities line item in the accompanying statements of net assets.

19. DERIVATIVE INSTRUMENTS

Diesel Fuel Hedge

As part of its normal business of providing public transportation services, DART operates a large fleet of buses, commuter rail cars, and paratransit and innovative service vans, that are currently operated with diesel fuel. DART has diesel fuel delivery contracts with suppliers; however, the price DART pays for the fuel fluctuates depending on market prices. This exposes DART to significant risk related to fluctuations in the amounts it pays for fuel. It also creates uncertainty in budgeting for fuel costs. In order to minimize the impact of fluctuating fuel market prices on its cash flow, DART has entered into diesel fuel hedge contracts. Summary information of relevant diesel fuel hedge contracts is shown below:

Fiscal Year Covered	Type	Notional Amount (U.S. Gallons)	Effective Date	Termination Date	Fair Value, 9/30/11	Fair Value, 9/30/12	Change in Fair Value
2012	Commodity forward contract	8,413,200	10/1/11	9/30/12	$3,565	$0	$(3,565)
2013	Commodity forward contract	7,218,765	10/1/12	9/30/13	1,915	4,865	2,950
	Total				$5,480	$4,865	$(615)

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

The fair values of $4,865 and $5,480 as of 9/30/2012 and 9/30/2011 are shown in the statements of net assets and statements of changes in net assets.

Objective and terms of the fuel hedge contracts

The objective of each of the derivative instruments (diesel fuel hedge contracts) is to hedge changes in cash flows due to market price fluctuations related to expected purchases of diesel fuel for DART buses, commuter rail cars, and paratransit vans. The terms of the agreement include DART paying monthly fixed prices and receiving floating prices based on an average of daily mean of Platts US Gulf Coast ultra low sulphur diesel (ULSD) for each month.

Risks

Credit risk – The derivative instrument for fiscal years 2012 and 2013 are held by the same counterparty. On September 30, 2012, DART's position in the derivative instruments is a potential inflow of resources. DART can potentially be exposed to credit risk if the counter party to the transaction becomes insolvent. The following table shows credit ratings for the counterparty.

Fiscal Year Covered	Credit Rating
2012	A+/Aa3
2013	A+/Aa3

Termination risk – DART or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The effect of termination risk on DART is that it will pay market prices for diesel fuel it buys for use in its operations. No termination event has occurred during fiscal years 2012 and 2011.

Contingencies

The diesel fuel hedge contracts include provisions that require DART to post collateral in the event its credit rating falls below A- or A3 as issued by Standard & Poors or Moody's and if the exposure exceeds threshold amounts specified in the derivative instruments (contracts). DART's credit rating as of September 30, 2012 is AA+ as issued by Standards & Poors or Aa2 as issued by Moody's.

Compressed Natural Gas (CNG) Delivery Contract

Starting from October 1, 2012, DART is replacing its existing diesel and liquefied natural gas operated fleet of buses with new buses that are operated with compressed natural gas (CNG). DART will also buy CNG for contractor-owned and-operated paratransit vehicles.

During fiscal year 2010, DART entered into a fixed price and indexed price CNG delivery contract for the CNG needed to operate these vehicles. The contract specifies monthly volumes of CNG to be used by DART from October 1, 2012 to September 30, 2020 with 85% of the monthly volumes at a fixed price and 15% at an indexed price. When DART uses lower than the volumes specified in the contract, the excess CNG has to be sold back to market at market price. The market price could be lower or higher than the fixed price and indexed price specified in the contract. The difference between the contract and market price can result in an exposure for DART. The amount of this exposure for DART is not expected to be material and no liability is included in the statements of net assets as of September 30, 2012.

Objective and terms of the CNG delivery contract

The objectives of the CNG delivery contract are: to ensure that DART has delivery of natural gas for its transit buses and contractor owned and operated paratransit vehicles during the contract period; to fix the price for 85% of monthly volumes; and to minimize the fluctuations in cash flows caused by changes in market prices of CNG.

Risks

Early Termination – subject to payment of early termination damages, either party to the delivery contract may terminate the CNG delivery contract by giving at least thirty (30) days written notice to the other party. The effect of termination risk on DART is that it will pay market prices for CNG it buys for use in its operations. No termination event has occurred during fiscal years 2012.

For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)

20. SUBSEQUENT EVENTS

On November 15, 2012, DART issued and sold $127,775 in Senior Lien Sales Tax Revenue Bonds (Series 2012 Bonds). Series 2012 Bonds were issued to refund $150,000 Commercial Paper Notes. The Commercial Paper Notes were issued to finance capital expenditures for DART's system expansion and acquisition. The following table summarizes debt service requirements of the Senior Lien Sales Tax Revenue Bonds including the bonds issued on November 15, 2012.

Year Ended September 30	Principal	Interest	Total Debt Service	Build America Bonds tax credit	Net Debt Service
2013	$6,740	$176,640	$183,380	$(30,462)	$152,918
2014	25,480	178,679	204,159	(30,462)	173,697
2015	45,910	177,125	223,035	(30,462)	192,573
2016	48,115	174,920	223,035	(30,463)	192,572
2017	50,490	172,543	223,033	(30,462)	192,571
2018 – 2022	292,980	822,230	1,115,210	(152,311)	962,899
2023 – 2027	366,165	738,552	1,104,717	(147,969)	956,748
2028 – 2032	454,710	631,036	1,085,746	(133,081)	952,665
2033 – 2037	575,150	492,117	1,067,267	(114,604)	952,663
2038 – 2042	666,485	325,256	991,741	(81,391)	910,350
2043 – 2047	659,680	135,082	794,762	(31,903)	762,859
2048 – 2049	225,930	13,855	239,785	(2,517)	237,268
TOTAL	$3,417,835	$4,038,035	$7,455,870	$(816,087)	$6,639,783

The annual debt service requirements for these bonds, before Build America Bonds tax credits, range from $223,075 in fiscal year 2018 to $119,292 in fiscal year 2049.

Also, on December 13, 2012 DART entered into a Transportation Infrastructure Finance and Innovation Act (TIFIA) financing agreement with the U.S Department of Transportation. Under this loan agreement, DART will issue a Senior Lien Obligation bond to borrow $119,972 from the U.S Department of Transportation. The proceeds from the bond will be used to pay for the cost of the third phase of DART's light rail Orange Line extension project, which will extend DART's light rail service from Irving to the Dallas Fort Worth International Airport. The TIFIA financing agreement is reimbursement-based and DART will request (draw down) the money after paying for the capital project costs. The expected draw down is $100,000 during fiscal year 2013 and $19,972 during fiscal year 2014. The TIFIA bond is a Senior Lien Obligation and is secured by and payable from Pledged Revenues on parity with other Senior Lien Obligations.

The following table summarizes estimated debt service requirements of the TIFIA financing agreement executed on December 13, 2012 based on expected draw down of $100,000 during fiscal year 2013 and $19,972 during fiscal year 2014. The amounts and timing of the debt service shown here for the TIFIA bond are subject to change depending on the amount and timing of the draw down.

Year Ended September 30	Principal	Interest	Total TIFIA Bond Debt Service
2013		$220	$220
2014		2,862	2,862
2015		3,491	3,491
2016		3,495	3,495
2017	$2,321	3,448	5,769
2018 – 2022	12,659	16,189	28,848
2023 – 2027	14,612	14,203	28,815
2028 – 2032	16,865	11,914	28,779
2033 – 2037	19,466	9,265	28,731
2038 – 2042	22,468	6,214	28,682
2043 – 2047	25,933	2,691	28,624
2048	5,648	69	5,717
TOTAL	$119,972	$74,061	$194,033

The annual debt service requirements for the TIFIA bond range from $5,773 in fiscal year 2020 to $220 in fiscal year 2013.

21. NEW ACCOUNTING PRONOUNCEMENTS

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The standard addresses SCAs in which there is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The statement also includes required disclosures about the SCAs. This Statement is effective for DART in fiscal year 2013.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*—an amendment of GASB Statements No. 14 and No. 34, to improve financial reporting for a governmental reporting entity. The standard modifies certain requirements for inclusion of component units, amends criteria for blending, and clarifies the reporting of equity interests in legally separate entities. This Statement is effective for DART in fiscal year 2013.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. This standard becomes effective for DART in fiscal year 2013.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB defines deferred outflows of resources as a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources as an acquisition of net assets by the government that is applicable to a future reporting period. This standard becomes effective for DART in fiscal year 2013.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This standard becomes effective for DART in fiscal year 2014.

In March 2012, GASB issued Statement No. 66, a*n amendment of GASB Statements No.10 and No 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*. This standard becomes effective for DART in fiscal year 2014.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25.* This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This standard becomes effective for DART and the DART Employees Defined Benefit Retirement Plan and Trust (the DB Plan) in fiscal year 2014.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pension Plans—an amendment of GASB Statement No. 27*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This standard becomes effective for DART in fiscal year 2015.

Management has not yet determined the impact of these statements on the basic financial statements.

DALLAS AREA RAPID TRANSIT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
DEFINED BENEFIT PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS

September 30, 2012 (Dollars in Thousands)

The schedule of funding progress for the DART defined benefit Pension Plan calculated by the actuaries as follows:

	Actuarial Valuation Date		
	10/1/11	10/1/10	10/1/09
Actuarial Value of Assets	$141,480	$145,605	$141,696
Actuarial Accrued Liability (AAL) Projected Unit Credit	195,504	176,587	173,469
Unfunded AAL (UAAL)	54,024	30,982	31,773
Funded Ratio	72.4%	82.5%	81.7%
Covered Payroll	19,306	23,727	23,904
UAAL as a % of Covered Payroll	279.8%	130.6%	132.9%

Annual financial statements for the DART defined benefit Pension Plan may be obtained by contacting the Chief Financial Officer at Dallas Area Rapid Transit, 1401 Pacific Avenue, P.O. Box 660163, Dallas, TX 75266-7220.

The schedule of funding progress for the DART Other Postemployment Benefits (OPEB) calculated by the actuaries is as follows:

	Fiscal Year Ending		
	9/30/12	9/30/11	9/30/10
Actuarial Value of Assets	$18,066	$7,170	$10,554
Actuarial Accrued Liability (AAL) Unit Credit	$49,384	$43,323	34,598
Unfunded AAL (UAAL)	$31,318	$36,153	24,044
Funded Ratio	36.6%	16.6%	30.5%
Covered Payroll	$169,196	$175,685	171,371
UAAL as a % of Covered Payroll	18.5%	20.6%	14.0%

* * * * * * * *

APPENDIX B

A Table of Contents and brief descriptions of certain provisions of the Master Debt Resolution, as amended, 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.

TABLE OF CONTENTS

Page

DEFINITIONS B-1
Interpretations - Standard Assumptions B-8

PURPOSES, PLEDGE AND SECURITY B-8
Purposes of Resolution, Contract with Holders B-8
Confirmation and Levy of Sales Tax B-8
Pledge and Security for Obligations B-8
Collection of Pledged Revenues, Assignment to Trustee B-9
Security Agreement B-9

PERMITTED DART INDEBTEDNESS B-9
Initial Senior Lien Obligations B-9
Additional Senior Lien Obligations B-10
Senior Subordinate Lien Obligations B-10
Junior Subordinate Lien Obligations B-10
Credit Agreement Obligations B-11
Special Revenue Bonds B-11
Other Encumbrances Prohibited B-11

TERMS, PROVISIONS AND AUTHENTICATION OF BOND OBLIGATIONS B-11
SPECIAL FUNDS, USES OF MONEYS B-11
Creation of Funds and Accounts B-11
System Expansion and Acquisition Fund B-12
Gross Sales Tax Revenue Fund B-12
Senior Lien Debt Service Fund, Senior Subordinate Lien Debt Service Fund and Junior Subordinate Lien Debt Service Fund B-12
General Provisions Applicable to Payments on Obligations B-13
Uses of General Operating Fund and of Available Remaining Revenues B-13
Investment of Trust Funds and Accounts B-13
Effect of Deposits With Paying Agents B-13
Arbitrage B-13
Deposits of Special Revenues B-13

GENERAL COVENANTS AND REPRESENTATIONS B-13
Representations as to Pledged Revenues B-13
Accounts, Periodic Reports and Certificates B-14
Withdrawals of Units of Election B-14

DEFAULTS AND REMEDIES B-14
Events of Default B-14
Remedies for Default B-15
Application of Revenues and Other Moneys After Default B-15
Notice of Event of Default B-15

THE TRUSTEE B-16

AMENDMENTS TO RESOLUTION B-16
Supplemental Resolution Without Holders' Consent B-16
Powers of Amendment B-16
Consent of Holders, Credit Providers or Bondholder Representatives B-16

DISCHARGE OF RESOLUTION B-17
Discharge by Payment B-17
Discharge by Defeasance B-17

MISCELLANEOUS PROVISIONS B-17
Secondary Market Disclosure, Annual Reports B-17
Meeting of Holders of Bond Obligations B-17
Appointment of Bondholder Representative B-17

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 Vice President, Finance, 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.

Federal Interest Subsidy – means the interest subsidy payment received by DART from the United States Treasury relating to the interest payable on the Series 2009B Bonds and the 2010B Bonds under Section 54AA of the Code.

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 Farebox Revenues - means with respect to any Debt Service Accrual Period, all fares collected by or on behalf of DART for its bus, rail and paratransit services in an amount equal to the Pledged Farebox Revenues Ratio multiplied by the Accrued Aggregate Debt Service applicable to the Series 2010B Bonds during such Debt Service Accrual Period after deducting the Federal Interest Subsidy accrued during such Debt Service Accrual Period.

Pledged Farebox Revenues Ratio – means the ratio derived by dividing the aggregate principal amount of the Series 2010B Bonds, less the amount of the Series 2010B Bonds set forth in the Pricing Certificate (for such Bonds) to be deducted from the amount of Bond Obligations DART may issue within the Voted Tax and Debt Limits, by the aggregate principal amount of the Series 2010B Bonds.

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, (d) Pledged Farebox Revenues, € Federal Interest Subsidy payments that are deposited to the Senior Lien Debt Service Fund, and (f) 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. (Pursuant to the Seventh Supplemental Debt Resolution, DART irrevocably pledged the Pledged Farebox Revenues as additional security for the Obligations, and such Pledged Farebox Revenues were made expressly and specifically subject to the pledge and lien of the Master Debt Resolution as Pledged Revenues.)

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.

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

<u>Tax-Exempt Obligation</u> - 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.

<u>Trustee</u> - 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.

<u>Variable Interest Rate</u> - 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.

<u>Variable Interest Rate Obligations</u> - 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) first, 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) second, 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. Notwithstanding the pledge of Pledged Revenues to the payment of Bond Obligations, Federal Interest Subsidy payments are not security for nor may such amounts be used to pay principal of or interest on the TIFIA Bond.

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. The Debt Service required to be calculated for a particular series of Obligations shall be calculated net of amounts payable to DART from or by the State or the United States for, on account of, or in reimbursement for the payment of principal and interest on such Obligations, if such amounts are, at the time of calculation, required to be deposited to the debt service fund for such Obligations.

The Debt Service required to be calculated for a particular series of Obligations under subsections (iii) and (iv) of Section 3.2(b) of the Master Debt Resolution shall be calculated net of amounts payable to DART from or by the State or the United States for, on account of, or in reimbursement for the payment of principal and interest on such Obligations (the “Federal Interest Subsidiary” payments).

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.

Additional Senior Subordinate Lien Obligations. 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 V*}

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 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 to 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 to 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, <u>first,</u> 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 <u>second</u>, 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*}

Amegy Bank N.A. 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.