

***SALEM AREA MASS TRANSIT DISTRICT
MARION COUNTY, OREGON
FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION
Years Ended June 30, 2008 and 2007***

SALEM AREA MASS TRANSIT DISTRICT
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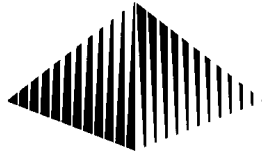
SALEM AREA MASS TRANSIT DISTRICT
DISTRICT OFFICIALS
JUNE 30, 2008

<u><i>Board of Directors</i></u>	<u><i>Term Expires</i></u>
Marcia Kelley, President 396 Washington Street S Salem, Oregon 97302	June 2011
Jerry Thompson, Vice-President 4930 State Street Salem, Oregon 97301	June 2011
Eric Jacobson, Secretary 1632 Court St. NE Salem, Oregon 97301	June 2011
Hersch Sangster, Treasurer 832 Maine Avenue Keizer, Oregon 97303	June 2009
Shelley Hanson 3634 Goldstone Ct., NE Salem, OR 97305	June 2009
Lloyd Chapman 1240 Hillendale Dr., SE Salem, Oregon 97302	June 2009
Joe Green 2316 Broadview Ln NW Salem, Oregon 97304	June 2011

ADMINISTRATIVE

Allan Pollock, General Manager

555 Court Street NE, Suite 5230
Salem, Oregon 97301-3980



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Salem Area Mass Transit District
Salem, Oregon

We have audited the statement of net assets, revenues, expenses and changes in net assets and cash flows of Salem Area Mass Transit District (the District) as of and for the years ended June 30, 2008 and 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salem Area Mass Transit District as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years 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 March 27, 2009 on our consideration of Salem Area Mass Transit District's internal control over financial reporting and 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 the 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 read in conjunction with this report in considering the results of our audits.

Management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and, therefore, express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Salem Area Mass Transit District. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Also, the supplementary information listed in the table of contents is for purposes of additional analysis and is not a required part of the basic financial statement of the District. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

GROVE, MUELLER AND SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By 
Charles A. Swank, A Shareholder

March 27, 2009

Management's Discussion and Analysis

The management of Salem Area Mass Transit District (SAMTD or the District) presents this narrative overview and analysis to facilitate both a short-term and long-term analysis of the financial activities of the District for the fiscal year ended June 30, 2008. This Management's Discussion and Analysis (MD&A) is based on facts, decisions, and conditions that existed as of the date of the independent auditor's report.

Overview of the Financial Statements

This is the sixth year that the District has presented its financial statements under the new reporting model required by Government Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments."

The District's financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. They have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the related cash flows.

Financial Highlights

The District's net assets at June 30, 2008, increased \$3.2 million from \$30.8 million to \$34 million, or 10.2 percent, from the prior year. This increase is due to increased federal assistance and capital contributions.

The District's total assets increased from \$33.9 million to \$39 million.

The District's total liabilities increased by \$2,182,485.

Operating revenue, including special transportation, decreased \$2.5 million from \$11 million to \$8.4 million, or 23 percent, from the prior year. This change is due to decreased special transportation funding. Non-operating revenues increased \$4.6 million from the prior year. Operating expenses increased by \$2.5 million from the prior year.

	<i>June 30,</i>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets			
Current and restricted assets	\$ 11,263,617	\$ 10,258,141	\$ 8,895,486
Capital assets, net of depreciation	27,949,586	23,614,440	24,147,672
	<u>\$ 39,213,203</u>	<u>\$ 33,872,581</u>	<u>\$ 33,043,158</u>
Liabilities	\$ 5,244,045	\$ 3,061,560	\$ 3,714,830
Net Assets			
Invested in capital assets	27,949,586	23,614,440	24,147,672
Restricted for capital projects and special transportation	272,326	1,281,412	(168,398)
Unrestricted	5,747,246	5,915,169	5,349,054
	<u>33,969,158</u>	<u>30,811,021</u>	<u>29,328,328</u>
<i>Total Net Assets</i>	<u>\$ 39,213,203</u>	<u>\$ 33,872,581</u>	<u>\$ 33,043,158</u>
<i>Total Liabilities and Net Assets</i>	<u>\$ 39,213,203</u>	<u>\$ 33,872,581</u>	<u>\$ 33,043,158</u>

Net assets invested in capital assets consist of land, buildings, vehicles, and office and shop equipment, net of accumulated depreciation.

Net assets restricted for capital projects and special transportation programs represents amounts restricted by State of Oregon statutes for use for special transportation programs, projects, and capital expenditures.

	<i>Year Ended June 30,</i>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 8,427,895	\$ 10,961,052	\$ 7,845,910
Non-operating revenues	18,480,024	13,884,343	15,910,554
	<u>26,907,919</u>	<u>24,845,395</u>	<u>23,756,464</u>
<i>Total Revenues</i>	<u>26,907,919</u>	<u>24,845,395</u>	<u>23,756,464</u>
Total operating expenses	(29,805,952)	(27,315,017)	(27,317,464)
Capital contributions	6,056,170	3,952,315	3,036,356
	<u>3,158,137</u>	<u>1,482,693</u>	<u>(524,644)</u>
Changes in net assets	<u>3,158,137</u>	<u>1,482,693</u>	<u>(524,644)</u>
<i>Total Net Assets, beginning of year</i>	<u>30,811,021</u>	<u>29,328,328</u>	<u>29,852,972</u>
<i>Total Net Assets, end of year</i>	<u>\$ 33,969,158</u>	<u>\$ 30,811,021</u>	<u>\$ 29,328,328</u>

The District's total revenue increased \$2.1 million, or 8 percent, during FY 2007-2008.

Capital Assets

At June 30, 2008, the District had invested \$44.7 million in capital assets (40.3 million at June 30, 2007). Accumulated depreciation at June 30, 2008 was \$16.8 million (\$16.7 million at June 30, 2007).

Request for Information

This financial report is designed to provide a general overview of the District's finances for those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Salem Area Mass Transit District
555 Court Street NE, Suite 5230
Salem, Oregon 97301-3736

SALEM AREA MASS TRANSIT DISTRICT
STATEMENTS OF NET ASSETS
JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets		
Cash and investments	\$ 1,094,427	\$ 4,630,644
Receivables		
Property tax	525,800	454,422
Grants and other	6,324,861	2,601,583
Prepaid expenses	198,949	115,495
Inventories	837,598	772,227
	<hr/>	<hr/>
<i>Total Current Assets</i>	8,981,635	8,574,371
	<hr/>	<hr/>
Restricted Assets		
Cash and investments	1,561,157	1,093,123
Federal grants receivable	455,554	49,353
State grants receivable	265,271	541,294
	<hr/>	<hr/>
<i>Total Restricted Assets</i>	2,281,982	1,683,770
	<hr/>	<hr/>
Capital Assets		
Land	242,394	242,394
Buildings	15,525,655	15,525,655
Buses and equipment	27,323,423	24,256,992
Construction in progress	1,624,875	252,122
	<hr/>	<hr/>
	44,716,347	40,277,163
Less accumulated depreciation	(16,766,761)	(16,662,723)
	<hr/>	<hr/>
<i>Total Capital Assets</i>	27,949,586	23,614,440
	<hr/>	<hr/>
<i>Total Assets</i>	\$ 39,213,203	\$ 33,872,581
	<hr/> <hr/>	<hr/> <hr/>

	<u>2008</u>	<u>2007</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 250,564	\$ 230,231
Accrued payroll liabilities	1,855,819	1,301,842
Accrued compensated absences	985,882	1,010,579
Deferred revenue	142,124	116,550
	<hr/>	<hr/>
<i>Total Current Liabilities</i>	3,234,389	2,659,202
Liabilities (Payable From Restricted Assets)		
Accounts payable	2,009,656	402,358
	<hr/>	<hr/>
<i>Total Liabilities</i>	5,244,045	3,061,560
Net Assets		
Investment in capital assets	27,949,586	23,614,440
Restricted for capital projects and special transportation	272,326	1,281,412
Unrestricted	5,747,246	5,915,169
	<hr/>	<hr/>
<i>Total Net Assets</i>	33,969,158	30,811,021
	<hr/>	<hr/>
<i>Total Liabilities and Net Assets</i>	\$ 39,213,203	\$ 33,872,581
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The accompanying notes are an integral part of the financial statements.

SALEM AREA MASS TRANSIT DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Passenger fares	\$ 2,762,266	\$ 2,632,514
Special transportation	5,665,629	8,328,538
	<hr/>	<hr/>
<i>Total Operating Revenues</i>	8,427,895	10,961,052
OPERATING EXPENSES		
Personal services	13,893,007	13,586,670
Materials and services	3,957,481	4,040,827
Special transportation	9,442,890	8,042,717
Depreciation	2,512,574	1,644,803
	<hr/>	<hr/>
<i>Total Operating Expenses</i>	29,805,952	27,315,017
OPERATING LOSS	(21,378,057)	(16,353,965)
NON-OPERATING REVENUES		
Property taxes	8,566,026	8,314,992
State assistance	4,321,136	4,460,309
Federal assistance	4,531,288	346,153
Investment income	265,859	266,571
Other revenues	795,715	496,318
	<hr/>	<hr/>
<i>Total Non-operating Revenues</i>	18,480,024	13,884,343
CAPITAL CONTRIBUTIONS	6,056,170	3,952,315
	<hr/>	<hr/>
CHANGE IN NET ASSETS	3,158,137	1,482,693
TOTAL NET ASSETS, Beginning of year	30,811,021	29,328,328
	<hr/>	<hr/>
TOTAL NET ASSETS, End of year	\$ 33,969,158	\$ 30,811,021
	<hr/> <hr/>	<hr/> <hr/>

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

SALEM AREA MASS TRANSIT DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for services	\$ 4,704,617	\$ 9,918,856
Cash paid to suppliers for goods and services	(2,453,102)	(5,924,581)
Cash paid to employees for services	(13,363,726)	(12,534,745)
Cash paid for special transportation services	(9,442,890)	(8,042,717)
	<hr/>	<hr/>
<i>Net cash provided by (used for) operating activities</i>	(20,555,101)	(16,583,187)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes received	8,494,648	8,305,848
State assistance received	4,597,159	4,570,441
Federal assistance received	4,531,288	346,153
Other nonoperating revenues	795,715	496,318
	<hr/>	<hr/>
<i>Net cash provided by (used for) noncapital financing activities</i>	18,418,810	13,718,760
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Federal assistance received	5,649,969	4,474,148
Acquisition of capital assets	(6,847,720)	(1,111,571)
	<hr/>	<hr/>
<i>Net cash provided by (used for) capital financing activities</i>	(1,197,751)	3,362,577
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	265,859	266,571
	<hr/>	<hr/>
<i>Net cash provided by (used for) investing activities</i>	265,859	266,571
	<hr/>	<hr/>
NET CHANGE IN CASH AND INVESTMENTS	(3,068,183)	764,721
CASH AND INVESTMENTS, Beginning of year	5,723,767	4,959,046
	<hr/>	<hr/>
CASH AND INVESTMENTS, End of year	\$ 2,655,584	\$ 5,723,767
	<hr/> <hr/>	<hr/> <hr/>

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	\$ (21,378,057)	\$ (16,353,965)
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</i>		
Depreciation	2,512,574	1,644,803
<i>Changes in operating assets and liabilities:</i>		
(Increase) decrease in accounts receivable	(3,723,278)	(1,042,196)
(Increase) decrease in prepaid expenses	(83,454)	(13,168)
(Increase) decrease in inventories	(65,371)	(165,391)
Increase (decrease) in accounts payable	1,627,631	(1,821,745)
Increase (decrease) in payroll liabilities	553,977	940,434
Increase (decrease) in compensated absences payable	(24,697)	111,491
Increase (decrease) in deferred revenue	25,574	116,550
	<u> </u>	<u> </u>
<i>Net cash provided by (used for) operating activities</i>	<u>\$ (20,555,101)</u>	<u>\$ (16,583,187)</u>

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

SALEM AREA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2008 AND 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Salem Area Mass Transit District (SAMTD) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

The Financial Reporting Entity

The financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board and either (1) the ability to impose will by the primary government, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the above criteria, the District does not have any component units that require inclusion in the financial statements. Conversely, the District is not a component unit of another government.

Organization and Operation

The District was organized under the provisions of Oregon Revised Statutes (ORS) Chapter 267 to provide mass transit services to the Salem/Marion County area. Formation of the District was effective in 1979. Under ORS 267, the District is authorized to levy property taxes and charge fares to pay for the operations of the District. The District is also authorized to issue general obligation and revenue bonds.

The District is governed by an elected seven-member Board of Directors. Board members represent and must live in certain geographical sub-districts. The Board of Directors sets District policy, levies taxes, appropriates funds, adopts budgets, and performs other duties required by state and federal law.

The District is reported as a single proprietary fund. Proprietary funds are used to account for operations and activities that are similar to those found in the private sector.

The financial statements have been prepared using the economic resources measurement focus and accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the timing of related cash flows.

The District, under the guidance of Statement No. 20 of the Governmental Accounting Standards Board (GASB), "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Accordingly, the accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to reporting proprietary activity.

SALEM AREA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2008 AND 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting and Revenue Recognition

The accounts of the District are organized on the basis of funds. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating governmental functions and activities. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equities, revenues, and expenditures (expenses).

Operating revenues consist primarily of passenger fares and funds received for special transportation. Operating expenses include the costs of operating the District, including depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Revenues are recognized when they are earned and available to meet current obligations. Expenses are recognized when they are incurred. The District applies a flow of economic resources measurement focus whereby all assets and liabilities associated with the operation of the District are included on the balance sheet.

Ad valorem property taxes are levied and become a lien on all taxable property as of July 1. Property taxes are payable on November 15. Collection dates are November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

Uncollected taxes are deemed to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectible taxes has been established.

Federal and state grant contributions for capital acquisitions are recorded as capital contributions and are included in net income when earned. Federal and state grant receipts relating to operating expenses are recorded as non-operating revenue when earned.

Restricted Assets

Restricted assets consist of assets restricted for federal capital grant programs and State of Oregon special transportation programs.

Cash and Investments

Oregon Revised Statute 294.035 authorizes the District to invest in obligations of the U.S. Treasury and agencies, time certificates of deposit, bankers' acceptances, repurchase agreements, certain types of corporate bonds, and the State of Oregon Local Government Investment Pool. Such investments are stated at cost. The investments are increased by accretion of discounts and reduced by amortization of premiums, which are computed by the straight-line method and approximates fair market value.

Fair value is defined as the amount at which an investment could be exchanged between willing parties, other than in a forced or liquidation sale.

SALEM AREA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2008 AND 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments (Continued)

For purposes of the statement of cash flows, the District considers cash and equivalents to include all highly liquid debt instruments with an original maturity of three months or less.

Inventories and Prepaid Expenses

Inventories of fuel, lubricants, parts, and supplies are valued at cost, which approximates market, using the average cost method.

Payments to vendors reflecting costs applicable to future accounting periods are recorded as prepaid expenses.

Capital Assets

Capital assets are stated at cost, except for donated capital assets, which are stated at the fair market value on the date of donation. Expenditures for additions and improvements with a value in excess of \$5,000 and a useful life of more than one year are capitalized. Expenditures for maintenance, repairs, and minor improvements are charged to operations as incurred. Upon disposal of capital assets, the accounts are relieved of the related costs and accumulated depreciation, and the resulting gains or losses are reflected in the statement of revenues, expenses, and changes in net assets.

Capital assets, excluding land and construction in progress, are depreciated using the straight-line method over the estimated useful lives of the assets. Depreciation is an accounting process to allocate the cost of capital assets to expense in a systematic and rational manner to those periods expected to benefit from the use of capital assets. Depreciation is not intended to represent an estimate in the decline of fair market value, nor are capital assets, net of accumulated depreciation, intended to represent an estimate of the current condition of the assets or the maintenance requirements needed to maintain the assets at their current level of condition.

Revenue rolling stock is depreciated using an eight to twelve year life as suggested by the U.S. Government Federal Transit Administration (FTA). Shelters, stations, and buildings have estimated useful lives of ten to forty years. Useful lives for furniture and other equipment range from three to ten years.

Vested Compensated Absences

Vacation pay is vested when earned. Employees earn annual leave based on length of service to the District. Unpaid vested vacation is shown as vested compensated absences on the balance sheet and recorded as an expense when earned.

Sick pay is accrued on a bi-weekly basis. Payouts are either 50% or 20% of the balance depending on the accrued hours and length of service. Sick pay is recorded as a liability on the balance sheet and an expense as accrued.

Retirement Plans

Substantially all of the District's employees are participants in retirement plans. Contributions to the plans are made on a current basis as required by the plans and are charged to expenses as the related liability is incurred.

SALEM AREA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2008 AND 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: investment in capital assets, net of related liabilities; restricted net assets; and unrestricted net assets.

Investment in capital assets, net of related liabilities, consists of all capital assets, net of accumulated depreciation and reduced by outstanding liabilities that are attributable to the acquisition, construction and improvement of those assets, restricted cash and investments are excluded from the determination. Restricted net assets consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted consists of all other net assets not included in the above categories.

Restricted Resources

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

For budgeting purposes, the District consists of a general fund, capital improvement fund, special transportation fund, facility maintenance fund and reserve for operations fund. This is in conformity with Oregon Budget Law. Budgetary basis revenues and expenditures are recognized on the modified accrual basis. The treatment of capital expenditures is the principal difference between the budgetary basis and the accrual basis. Capital expenditures on a budgetary basis are recorded as current expenditures.

Financial operations of the District are accounted for in the following budgetary funds:

General Fund

The fund accounts for all financial resources and expenditures related to the District's general operations, except those required to be accounted for in another fund. The principal revenue sources are property taxes, state payroll assessments, passenger fares and federal operating assistance.

SALEM AREA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2008 AND 2007

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Capital Improvement Fund

This fund accounts for major capital acquisitions and projects. The principal revenue sources are capital grants from the Federal Transportation Administration and transfers from the General Fund.

Special Transportation Fund

This fund accounts for expenditures related to transportation service to special public groups. The fund's principal sources of revenue are Federal grants, reimbursements and State special transportation formula grants and transfers from the General Fund.

Facility Maintenance Fund

This fund was established to accumulate resources for significant facility improvements. The fund's principal revenue source is transfers from the General Fund.

Reserve for Operations Fund

This fund was established to accumulate resources for future operations. The fund's principal revenue source is transfers from the General Fund.

The General Manager submits a proposed operating and capital budget to the Budget Committee a sufficient length of time in advance to allow adoption of the budget prior to July 1. The operating and capital budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayer comments.

The District legally adopts its annual budget prior to July 1 through passage of a resolution. The resolution authorizes appropriations by fund and at broad classification levels for personal services, materials and services, capital outlay, and contingency. Expenditures cannot legally exceed appropriations at these control levels. Appropriations that have not been spent at year-end expire.

The Board of Directors, by resolution, may amend the budget as originally adopted. One amendment was made to the budget during fiscal year 2007-2008.

CASH AND INVESTMENTS

The District maintains a cash and investment pool that is available for use by all funds, except for restricted cash and investments. Each fund type's portion of this pool is displayed as part of "cash and investments." At June 30, 2008 and 2007 the carrying value of cash and investments and fair value are approximately equal. Cash and investments are comprised of the following at June 30, 2008 and 2007:

SALEM AREA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2008 AND 2007

CASH AND INVESTMENTS (Continued)

	<u>2008</u>	<u>2007</u>
Cash		
Cash on hand	\$ 5,430	\$ 5,226
Deposits with financial institutions	278,256	26,652
Investments		
Local Government Investment Pool	2,371,898	5,691,889
	<u>2,655,584</u>	<u>5,723,767</u>
<i>Total Cash and Investments</i>	<u>\$ 2,655,584</u>	<u>\$ 5,723,767</u>
Unrestricted cash and investments	\$ 1,094,427	\$ 4,630,644
Restricted cash and investments	1,561,157	1,093,123
	<u>2,655,584</u>	<u>5,723,767</u>
<i>Total Cash and Investments</i>	<u>\$ 2,655,584</u>	<u>\$ 5,723,767</u>

Deposits

At year end, the book balance of the District's bank deposits (checking accounts) was \$278,256 and \$26,652 and the bank balance was \$430,553 and \$462,424 respectively. The difference is due to transactions in process. These deposits were covered by federal depository insurance to legal limits. The remaining amount is collateralized in accordance with Oregon Revised Statutes.

Investments

The State Treasurer of the State of Oregon maintains the Oregon Short-term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. At June 30, 2008 and 2007, the fair value of the position in the Oregon State Treasurer's Short-term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-term Fund is not subject to risk evaluation. Separate financial statements for the Oregon Short-term Fund are available from the Oregon State Treasurer.

SALEM AREA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2008 AND 2007

CASH AND INVESTMENTS (Continued)

Interest Rate Risk

In accordance with its investment policy, the District manages its exposure to declines in fair value of its investments by limiting the weighted average maturity of its investments, specifically by maintaining funds in the Local Government Investment Pool.

Custodial Risk - Deposits

In the case of deposits, there is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Oregon laws require governmental deposits to be made in banks to be protected either by depository insurance or the financial institution is required to maintain on deposit with a collateral pool manager securities having a value of not less than 25% of the face value of the certificate issued by the pool manager. When such securities are deposited with the pool manager, covered funds are considered fully collateralized under Oregon law. The collateral is held by a state-sponsored pool manager which is a commercial bank in the name of the pool manager, with the collateral certificate issued by the pool manager in the name of the District. This does not constitute full collateral of deposits, but meets Oregon legal requirements.

Custodial Credit Risk - Investments

For an investment, there is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. Currently the District's investments are limited to the Local Government Investment Pool.

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short-term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

SALEM AREA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2008 AND 2007

RESTRICTED ASSETS

Restricted assets are restricted for capital outlay and special transportation.

	Total Restricted Assets	Less Current Liabilities Payable	Net Restricted Assets (Liabilities)
2008			
Restricted for Operating Capital			
Cash and investments	\$ 39,662	\$ -	\$ 39,662
Federal grants receivable	455,554	(698,774)	(243,220)
<i>Total Restricted for Operating Capital</i>	<u>495,216</u>	<u>(698,774)</u>	<u>(203,558)</u>
Restricted for Special Transportation			
Cash and investments	1,521,495	-	1,521,495
State grants receivable	265,271	(1,310,882)	(1,045,611)
<i>Total Restricted for Special Transportation</i>	<u>1,786,766</u>	<u>(1,310,882)</u>	<u>475,884</u>
	<u>\$ 2,281,982</u>	<u>\$ (2,009,656)</u>	<u>\$ 272,326</u>
2007			
Restricted for Operating Capital			
Cash and investments	\$ (279,198)	\$ -	\$ (279,198)
Federal grants receivable	49,353	(61,691)	(12,338)
<i>Total Restricted for Operating Capital</i>	<u>(229,845)</u>	<u>(61,691)</u>	<u>(291,536)</u>
Restricted for Special Transportation			
Cash and investments	1,372,321	-	1,372,321
State grants receivable	541,294	(340,667)	200,627
<i>Total Restricted for Special Transportation</i>	<u>1,913,615</u>	<u>(340,667)</u>	<u>1,572,948</u>
	<u>\$ 1,683,770</u>	<u>\$ (402,358)</u>	<u>\$ 1,281,412</u>

SALEM AREA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2008 AND 2007

CAPITAL ASSETS

The changes in capital assets for the fiscal year ended June 30, 2008 are as follows:

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008
Land and buildings	\$ 15,768,049	\$ -	\$ -	\$ 15,768,049
Buses	21,169,283	5,414,506	(2,408,536)	24,175,253
Equipment	3,087,709	60,461	-	3,148,170
Work in progress	252,122	1,372,753	-	1,624,875
	<u>40,277,163</u>	<u>6,847,720</u>	<u>(2,408,536)</u>	<u>44,716,347</u>
Accumulated depreciation	(16,662,723)	(2,512,574)	2,408,536	(16,766,761)
<i>Total</i>	<u>\$ 23,614,440</u>	<u>\$ 4,335,146</u>	<u>\$ -</u>	<u>\$ 27,949,586</u>
	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007
Land and buildings	\$ 15,768,049	\$ -	\$ -	\$ 15,768,049
Buses	20,846,219	615,415	(292,351)	21,169,283
Equipment	2,849,241	244,034	(5,566)	3,087,709
	-	252,122	-	252,122
	<u>39,463,509</u>	<u>1,111,571</u>	<u>(297,917)</u>	<u>40,277,163</u>
Accumulated depreciation	(15,315,837)	(1,644,803)	297,917	(16,662,723)
<i>Total</i>	<u>\$ 24,147,672</u>	<u>\$ (533,232)</u>	<u>\$ -</u>	<u>\$ 23,614,440</u>

The federal government retains a reversionary interest in property and equipment to the extent of capital grants provided for their purchase. Upon disposal of property and equipment, a prorated share of proceeds, if any, is returned to the federal governments.

SALEM AREA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2008 AND 2007

EMPLOYEE RETIREMENT PLANS

The District provides retirement benefits to its employees through two defined benefit plans, a defined contribution plan and a deferred compensation plan.

Defined Benefit Plans

The District provides pension benefits through two single-employer defined benefit pension plans. In a defined benefit plan, benefits are determined using benefit formulas which take into account actuarial information. The plans were effective January 1, 2002 and are administered by an outside organization.

The defined benefit plans provide pension benefits to eligible full-time bargaining and non-bargaining employees. Regular career status employees who have successfully completed the probationary period of six months or 1,000 hours of service, whichever is later, are eligible to participate.

The District makes all contributions to the plan. The District's contributions for each employee (and investment earnings allocated to the employee's account) are fully vested after five years of service. District contributions for, and investment earnings forfeited by, employees who leave employment before five years of service, are used to reduce the District's contribution requirements. The contributions were \$591,481 and \$-0-, for the bargaining unit and \$224,480 and \$-0-, for the non-bargaining unit for the years ended June 30, 2008 and 2007 respectively.

The benefit payable at a participant's normal retirement date will be equal to the excess of 1.50% times the participant's final average salary times the participants benefit credits for the non-bargaining employees or 1.64% for the bargaining unit employees over the amount which is the actuarial equivalent of the participant's account balance in the Salem Area Mass Transit District Non-Bargaining Unit Retirement Plan (Defined Contribution Plan) as of termination of employment.

Non-Bargaining Group

Actuarial valuation date	July 1, 2006	July 1, 2004
Actuarial value of assets	\$ 1,103,790	\$ 308,449
Actuarial value of liabilities	2,947,054	1,032,698
Unfunded actuarial accrued liabilities	1,843,264	724,249
Amortization period, years	12	12
Funded ratio	37%	30%
Valuation payroll	3,093,571	2,680,269
UAAL as a percentage of covered payroll	60%	27%

SALEM AREA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2008 AND 2007

EMPLOYEE RETIREMENT PLANS (Continued)

Defined Benefit Plans (continued)

Bargaining Group

Actuarial valuation date	<u>July 1, 2006</u>	<u>July 1, 2004</u>
Actuarial value of assets	\$ 3,167,866	\$ 1,709,034
Actuarial value of liabilities	6,935,923	4,140,602
Unfunded actuarial accrued liabilities	3,768,057	2,431,568
Amortization period, years	12	12
Funded ratio	46%	41%
Valuation payroll	6,137,795	5,318,746
UAAL as a percentage of covered payroll	61%	46%

The annual required contributions were determined as part of July 1, 2004 and 2006 actuarial valuations. The asset valuation method used to determine the actuarial value of assets was the market value method. The actuarial cost method used to determine liabilities was the entry age normal cost method. The actuarial assumptions included a 7.00% investment return (net of investment expenses), and projected salary increases ranging from 7.5% to 3.0% per year. The assumptions did not include post-retirement benefit increases, as the Plan does not provide such benefits. The unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over a period of 12 years.

Defined Contribution Plan

The District provides pension benefits through a defined contribution pension plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered by an outside organization.

The defined contribution plan provides pension benefits to eligible full-time non-bargaining employees. Regular career status employees who have successfully completed the probationary period of six months or 1,000 hours of service, whichever is later, are eligible to participate.

The District makes all contributions to the plan. The District's contributions for each employee (and investment earnings allocated to the employee's account) are fully vested after five years of service. District contributions for, and investment earnings forfeited by, employees who leave employment before five years of service, are used to reduce the District's contribution requirements.

The contribution rate is 10% of employee's gross salary for non-bargaining unit employees. Covered payroll, total payroll and required contributions for 2008, 2007, and 2006 were:

	<u>Covered Payroll</u>	<u>Total Payroll</u>	<u>Required Contributions</u>
2008	\$ 3,187,180	\$ 9,010,836	\$ 318,718
2007	3,578,180	9,746,676	357,818
2006	2,927,614	8,953,243	292,761

SALEM AREA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2008 AND 2007

EMPLOYEE RETIREMENT PLANS (Continued)

Deferred Compensation Plan

The District offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their compensation until future years.

The District also offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 403B. The plan permits employees to defer a portion of their compensation until future years. There are separate plans for the bargaining and non-bargaining groups.

At June 30, 2008 and 2007, deferred compensation carried assets of \$4,054,344 and \$4,753,170 respectively at fair value, these are attributable to the accumulation of amounts deferred since the inception of the plan and investment earnings thereon, less participant withdrawals. The assets of the plan are held by the administrator for the sole benefit of the plan participants and are not considered assets and liabilities of the District.

INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2008 consisted of the following:

<u>Transfer to:</u>	<u>Transfer from:</u>			<u>Total</u>
	<u>General</u>	<u>Special Transportation</u>	<u>Reserve Operations</u>	
General	\$	\$ 182,820	\$ 3,507,562	\$ 3,690,382
Capital Improvement	988,834	-	-	988,834
Special Transportation	2,996,799	-	-	2,996,799
	<u>\$ 3,985,633</u>	<u>\$ 182,820</u>	<u>\$ 3,507,562</u>	<u>\$ 7,676,015</u>

Transfers are used to (1) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) use unrestricted reserve funds.

EXPENDITURES IN EXCESS OF APPROPRIATIONS

Oregon law prohibits expenditures of a fund in excess of Board of Directors approved appropriations. The District's Board of Directors approves appropriations by major division for all funds.

SALEM AREA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2008 AND 2007

EXPENDITURES IN EXCESS OF APPROPRIATIONS (Continued)

Actual expenditures in the following funds exceeded budgeted disbursements during 2008, as follows:

General Fund		
Transportation development	\$	205,938
Transportation services		17,833
Other payments		7,210
Special Transportation Fund		
Travel trainer		2,364
Contracted transportation		92,344
Cherry lift		570,261
CARTS planning and development		191,571
Transfers		180,820

Because of these overexpenditures, the District may not be in compliance with ORS 294.435.

At June 30, 2008, the following funds had deficit fund balances:

Capital Improvement Fund	\$	4,190
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CONTINGENCIES

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance to minimize its exposure to these risks. Settled claims have not exceeded this commercial coverage for any of the past three years.

Under the terms of federal and state grants, periodic audits are required and costs may be questioned as not being appropriate under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. District management believes disallowance, if any, will be immaterial.

SUPPLEMENTARY INFORMATION

SALEM AREA MASS TRANSIT DISTRICT**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - BUDGETARY (NON-GAAP) BASIS - GENERAL FUND
YEAR ENDED JUNE 30, 2008**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Local Revenue				
Current tax revenue	\$ 8,354,255	\$ 8,354,255	\$ 8,396,445	\$ 42,190
Prior tax revenue	276,669	276,669	155,153	(121,516)
Passenger fares - cash	1,236,412	1,236,412	1,237,515	1,103
Passenger fares - passes	985,711	985,711	1,097,266	111,555
State employee bus pass	115,200	115,200	112,000	(3,200)
State shuttle service	271,993	271,993	262,736	(9,257)
Special pass programs	24,000	24,000	52,749	28,749
Courthouse Square parking	25,000	25,000	28,723	3,723
Investment income	49,565	49,565	257,594	208,029
Bus advertising	188,500	188,500	188,250	(250)
Energy Tax Credit	250,000	250,000	260,771	10,771
Miscellaneous	40,000	40,000	54,510	14,510
Rental income	45,900	45,900	60,199	14,299
<i>Total Local Revenue</i>	11,863,205	11,863,205	12,163,911	300,706
State Revenue				
Public transit - operating	4,106,002	4,106,002	4,122,808	16,806
<i>Total State Revenue</i>	4,106,002	4,106,002	4,122,808	16,806
Federal Revenue				
FTA Section 9 - operating	3,516,835	3,516,835	3,979,420	462,585
FTA Section 8 - planning	80,792	80,792	147,790	66,998
New Freedoms	61,392	61,392	-	(61,392)
FTA Section 3037	265,737	265,737	404,078	138,341
Rideshare/Vanpool	255,016	255,016	198,328	(56,688)
<i>Total Federal Revenue</i>	4,179,772	4,179,772	4,729,616	549,844
<i>Total Revenues</i>	20,148,979	20,148,979	21,016,335	867,356
EXPENDITURES				
Operations Department-Direct and Support				
Personal services - direct	7,507,123	7,507,123	7,644,977	(137,854)
Personal services - support	1,257,000	1,257,000	886,165	370,835
Materials and services	157,300	157,300	70,420	86,880
<i>Total Operations Department</i>	8,921,423	8,921,423	8,601,562	319,861

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
EXPENDITURES (Continued)				
General Manager's Office				
Personal services	\$ 232,655	\$ 232,655	\$ 219,926	\$ 12,729
Materials and services	65,900	65,900	15,644	50,256
<i>Total General Manager's Office</i>	298,555	298,555	235,570	62,985
Board of Directors/Budget Committee				
Materials and services	61,200	61,200	26,292	34,908
<i>Total Board of Directors/Budget Committee</i>	61,200	61,200	26,292	34,908
Human Resources				
Personal services	569,505	569,505	484,365	85,140
Materials and services	108,542	108,542	101,667	6,875
<i>Total Human Resources</i>	678,047	678,047	586,032	92,015
Finance				
Personal services	736,696	736,696	705,914	30,782
Materials and services	54,790	54,790	60,828	(6,038)
<i>Total Finance</i>	791,486	791,486	766,742	24,744
Transportation Development				
Personal services	477,113	477,113	546,563	(69,450)
Materials and services	160,500	160,500	296,988	(136,488)
<i>Total Transportation Development</i>	637,613	637,613	843,551	(205,938)
Transportation Services				
Personal services	179,925	179,925	357,340	(177,415)
Materials and services	166,900	166,900	7,318	159,582
<i>Total Transportation Services</i>	346,825	346,825	364,658	(17,833)
Maintenance Department				
Personal services	2,072,947	2,072,947	1,913,776	159,171
Materials and services	2,592,704	2,592,704	2,384,665	208,039
<i>Total Maintenance Department</i>	4,665,651	4,665,651	4,298,441	367,210

SALEM AREA MASS TRANSIT DISTRICT**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -****BUDGET AND ACTUAL - BUDGETARY (NON-GAAP) BASIS - GENERAL FUND (Continued)****YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual	Variance
	Original	Final		
EXPENDITURES (Continued)				
Customer Services Department				
Personal services	\$ 457,816	\$ 457,816	\$ 456,389	\$ 1,427
Materials and services	6,000	6,000	4,447	1,553
<i>Total Customer Services Department</i>	463,816	463,816	460,836	2,980
General Services				
Personal services	37,531	37,531	63,248	(25,717)
Materials and services	537,988	537,988	490,643	47,345
Capital outlay			903	(903)
<i>Total General Services</i>	575,519	575,519	554,794	20,725
Facilities				
Personal services	393,219	393,219	403,798	(10,579)
Materials and services	348,375	348,375	301,191	47,184
<i>Total Facilities</i>	741,594	741,594	704,989	36,605
Information Systems				
Personal services	200,028	200,028	200,921	(893)
Materials and services	98,432	98,432	87,754	10,678
Capital outlay	-	-	9,016	(9,016)
<i>Total Information Systems</i>	298,460	298,460	297,691	769
Other Payments				
Council of Governments	20,158	20,158	27,368	(7,210)
Contingency	750,000	-	-	-
<i>Total Other</i>	770,158	20,158	27,368	(7,210)
<i>Total Expenditures</i>	19,250,347	18,500,347	17,768,526	731,821

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES OVER (UNDER)				
EXPENDITURES	\$ 898,632	\$ 1,648,632	\$ 3,247,809	\$ 1,599,177
OTHER FINANCING SOURCES (USES)				
Transfers in	2,887,151	2,887,151	3,690,382	803,231
Transfers out	(3,938,247)	(4,478,521)	(3,985,633)	492,888
<i>Total Other Financing Sources (Uses)</i>	<u>(1,051,096)</u>	<u>(1,591,370)</u>	<u>(295,251)</u>	<u>1,296,119</u>
NET CHANGE IN FUND BALANCE	(152,464)	57,262	2,952,558	2,895,296
FUND BALANCE, Beginning of year	<u>1,770,423</u>	<u>1,770,423</u>	* 1,258,715	<u>(511,708)</u>
FUND BALANCE, End of year	<u>\$ 1,617,959</u>	<u>\$ 1,827,685</u>	<u>\$ 4,211,273</u>	<u>\$ 2,383,588</u>

* The beginning fund balance was changed by \$465,767 from the prior year balance due to an error in the financial statements for the year ended June 30, 2007.

As previously stated	\$ 1,724,482
Correction of an error in the budgetary statements	<u>(465,765)</u>
As restated	<u>\$ 1,258,717</u>

SALEM AREA MASS TRANSIT DISTRICT**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -****BUDGET AND ACTUAL - BUDGETARY (NON-GAAP) BASIS - CAPITAL IMPROVEMENT FUND**

YEAR ENDED JUNE 30, 2008

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Local Revenue				
Business Energy Tax Credit (BETC)	\$ -	\$ 198,360	\$ 199,110	\$ 750
Bike/Pedestrian	259,000	259,000	3,000	(256,000)
<i>Total Local Revenue</i>	259,000	457,360	202,110	(255,250)
State Revenue				
Connect Oregon	3,000,000	3,000,000	-	(3,000,000)
State Discretionary - STG	2,148,823	2,148,823	-	(2,148,823)
<i>Total State Revenue</i>	5,148,823	5,148,823	-	(5,148,823)
Federal Revenue				
FTA Section 9	3,998,193	3,998,193	5,629,186	1,630,993
FTA Section 7 STP	3,622,277	3,622,277	4,212	(3,618,065)
FTA Section 10	1,207,716	1,207,716	260,041	(947,675)
FTA Section 3037	-	-	48,344	48,344
<i>Total Federal Revenue</i>	8,828,186	8,828,186	5,941,783	(2,886,403)
<i>Total Revenues</i>	14,236,009	14,434,369	6,143,893	(8,290,476)
EXPENDITURES				
Capital Outlay				
Office Equipment/Software	44,000	44,000	47,934	(3,934)
Facilities Improvement/Expansion	3,595,296	3,595,296	1,309,647	2,285,649
Buses and equipment	6,380,364	6,380,364	5,371,250	1,009,114
Transit Centers/Other Capital	6,128,500	6,128,500	-	6,128,500
<i>Total Expenditures</i>	16,148,160	16,148,160	6,728,831	9,419,329
REVENUES OVER (UNDER) EXPENDITURES	(1,912,151)	(1,713,791)	(584,938)	1,128,853
OTHER FINANCING SOURCES (USES)				
Transfers in	1,912,151	1,912,151	988,834	(923,317)
<i>Total Other Financing Sources (Uses)</i>	1,912,151	1,912,151	988,834	(923,317)
NET CHANGE IN FUND BALANCE	-	198,360	403,896	205,536
FUND BALANCE, Beginning of year	(313,586)	(313,586)	(408,086)	(94,500)
FUND BALANCE, End of year	\$ (313,586)	\$ (115,226)	\$ (4,190)	\$ 111,036

SALEM AREA MASS TRANSIT DISTRICT**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -****BUDGET AND ACTUAL - BUDGETARY (NON-GAAP) BASIS - SPECIAL TRANSPORTATION FUND**

YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State Revenue				
Special transportation	\$ 626,930	\$ 626,930	\$ 736,083	\$ 109,153
STG	164,044	164,044	87,797	(76,247)
<i>Total State Revenue</i>	790,974	790,974	823,880	32,906
Federal Revenue				
OMAP	4,411,947	4,411,947	3,126,994	(1,284,953)
DD53 Cherrylift	400,000	400,000	741,520	341,520
FTA Section 5310	282,881	282,881	460,881	178,000
FTA Section 5311	492,019	492,019	566,893	74,874
Federal 3037 JARC	61,000	61,000	61,000	-
<i>Total Federal Revenue</i>	5,647,847	5,647,847	4,957,288	(690,559)
<i>Total Revenues</i>	6,438,821	6,438,821	5,781,168	(657,653)
EXPENDITURES				
Travel Trainer				
Personal services	74,541	74,541	92,749	(18,208)
Materials and services	20,692	20,692	4,848	15,844
Contracted Transportation				
Materials and services	495,298	495,298	587,641	(92,344)
CherryLift and Special Transportation				
Personal services	208,077	208,077	232,194	(24,117)
Materials and services	2,648,316	3,125,330	3,671,474	(546,144)
CARTS Planning and Development				
Personal services	102,018	102,018	112,067	(10,049)
Materials and services	817,952	817,952	999,474	(181,522)
DMAP Brokerage				
Personal services	402,072	402,072	278,880	123,192
Materials and services	4,009,875	4,009,875	3,664,413	345,462
<i>Total Expenditures</i>	8,778,841	9,255,855	9,643,740	(387,886)

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES OVER (UNDER)				
EXPENDITURES	\$ (2,340,020)	\$ (2,817,034)	\$ (3,862,572)	\$ (1,045,538)
OTHER FINANCING SOURCES (USES)				
Transfers in	2,016,315	2,566,370	2,996,799	430,429
Transfers out	(2,000)	(2,000)	(182,820)	(180,820)
<i>Total Other Financing Sources (Uses)</i>	2,014,315	2,564,370	2,813,980	249,610
NET CHANGE IN FUND BALANCE	(325,705)	(252,664)	(1,048,592)	(795,929)
FUND BALANCE, Beginning of year	-	-	2,143,335	2,143,335
FUND BALANCE, End of year	\$ (325,705)	\$ (252,664)	\$ 1,094,743	\$ 1,347,406

SALEM AREA MASS TRANSIT DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - BUDGETARY (NON-GAAP) BASIS - FACILITY MAINTENANCE FUND

YEAR ENDED JUNE 30, 2008

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Local Revenue				
Earnings on investments	\$ 9,000	\$ 9,000	\$ 8,265	\$ (735)
EXPENDITURES	-	-	-	-
NET CHANGE IN FUND BALANCE	9,000	9,000	8,265	(735)
FUND BALANCE, Beginning of year	-	-	183,681	183,681
FUND BALANCE, End of year	\$ 9,000	\$ 9,000	\$ 191,946	\$ 182,946

SALEM AREA MASS TRANSIT DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - BUDGETARY (NON-GAAP) BASIS - RESERVE FOR OPERATIONS FUND

YEAR ENDED JUNE 30, 2008

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES	\$ -	\$ -	\$ -	\$ -
EXPENDITURES	-	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	-	-	-	-
OTHER FINANCING SOURCES (USES)				
Transfers out	(3,507,562)	(3,507,562)	(3,507,562)	-
NET CHANGE IN FUND BALANCE	(3,507,562)	(3,507,562)	(3,507,562)	-
FUND BALANCE, Beginning of year	3,507,562	3,507,562	3,507,562	-
FUND BALANCE, End of year	\$ -	\$ -	\$ -	\$ -

SALEM AREA MASS TRANSIT DISTRICT
RECONCILIATIONS
YEARS ENDED JUNE 30, 2008 AND 2007

RECONCILIATION OF FUND BALANCES - BUDGETARY BASIS - TO THE
STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<i>Fund Balance Budgetary Basis:</i>		
General fund	\$ 4,211,273	\$ 1,258,717
Special transportation fund	1,094,743	2,143,335
Capital projects fund	(4,190)	(408,086)
Facility maintenance fund	191,946	183,681
Reserve for operations fund	-	3,507,562
<i>GAAP Basis Adjustments:</i>		
Capital assets	44,716,347	40,277,163
Accumulated depreciation on capital assets	(16,766,761)	(16,662,723)
Property taxes receivable	525,800	454,422
Cash with County Treasurer	-	56,950
	<u>\$ 33,969,158</u>	<u>\$ 30,811,021</u>

RECONCILIATION OF THE SCHEDULES OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGETARY BASIS - TO THE STATEMENTS
OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<i>Net Change in Fund Balance:</i>		
General fund	\$ 2,952,558	\$ 275,531
Special transportation fund	(1,048,592)	1,801,679
Capital projects fund	403,896	(94,500)
Facility maintenance fund	8,265	9,042
Reserve for operations fund	(3,507,562)	-
<i>GAAP Basis Adjustments:</i>		
Capitalized capital assets	6,847,720	1,111,571
Accumulated depreciation on capital assets	(2,512,574)	(1,644,803)
Property taxes accrued	14,426	24,173
	<u>\$ 3,158,137</u>	<u>\$ 1,482,693</u>
<i>Change in Net Assets</i>	<u>\$ 3,158,137</u>	<u>\$ 1,482,693</u>

SALEM AREA MASS TRANSIT DISTRICT**SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES OF TAXES UNCOLLECTED**

YEAR ENDED JUNE 30, 2008

Tax Year	Uncollected Balance July 1, 2007	2007-08 Levy	Discounts & Adjustments	Turnovers	Uncollected Balance June 30, 2008
2007-08	\$	\$ 8,920,000	\$ (243,203)	\$ (8,353,566)	\$ 323,231
2006-07	266,698	53	(2,566)	(160,095)	104,090
2005-06	91,122	-	(1,278)	(38,453)	51,391
2004-05	51,150	-	(612)	(27,778)	22,760
2003-04	24,623	-	(590)	(18,019)	6,014
2002-03	6,262	-	(317)	(808)	5,137
Prior Years	14,731	-	(1,903)	349	13,177
Total	\$ 454,586	\$ 8,920,053	\$ (250,469)	\$ (8,598,370)	\$ 525,800

RECONCILIATION OF REVENUE

Cash collections by County Treasurer, above	\$ 8,598,370
Collections in lieu of property taxes and other adjustments, net	(46,772)
<i>Total Revenue (Budgetary Basis)</i>	8,551,598
Accrual of receivables	
June 30, 2007	(511,372)
June 30, 2008	525,800
<i>Total Revenue (GAAP Basis)</i>	\$ 8,566,026

SALEM AREA MASS TRANSIT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

<i>Pass-Through Grantor/Number</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Grantor/Number</i>	<i>Program/Award Amount</i>	<i>Expenditures</i>
U S Dept of Transportation				
5307 Maint Facility Expansion	20.507	OR03-0120	\$ 2,429,445	\$ 771,454
Replacement bus	20.507	OR04-0005	380,714	380,714
5309B 07/08 PT/Admin Expansion	20.500	OR04-0014	836,000	-
Transit Station South	20.500	OR15-X001	750,000	66,770
JARC	20.507	OR37-X003-02	1,294,397	109,344
JARC 06/07/08	20.507	OR37-X011	654,332	404,078
New Freedom 06/07/08	20.521	OR57-X004	176,798	-
PM,ADA,TE & Capital	20.507	OR90-X107-05	6,074,545	240,000
Replacement Bus	20.507	OR90-X119-01	613,753	142,377
PM,ADA,Ops,Pavers	20.500	OR90-X142-01	3,516,835	116,196
Keizer Transit Station	20.500	OR90-X144	249,000	59,823
Replacement bus	20.507	OR90-X145	530,000	530,000
5307 PM, ADA Service, Purchase Bus	20.507	OR90-X154	3,867,436	3,867,436
Replacement bus	20.507	OR95-X005	2,220,065	2,220,065
STP Bus Stops, Shelters	20.507	OR95-X015	538,380	-
STP Approx 5 Replacement Buses	20.507	OR95-X018	1,500,286	1,217,983
			25,631,986	10,126,240
<i>Passed through Oregon Department of Transportation</i>				
FTA Section 5310				
Vanpool	20.509	22659	-	31,907
CARTS	20.513	22666	480,000	-
CARTS Shelters/Signs	20.513	22667	120,781	114,387
Preventive Maintenance	20.513	22668	36,000	-
Preventive Maintenance	20.513	22670	32,203	-
Purchase buses	20.513	22670/22671	231,504	-
Preventive Maintenance	20.513	24364	40,379	30,908
CARTS	20.513	24379	565,762	282,881
Wheels	20.513	24380	264,000	132,000
Mobility Management	20.513	24381	206,877	103,438
Travel Trainer	20.513	24382	170,903	87,797
CARTS Vehicle Replacement	20.513	24384	107,676	-
Cherry Lift Vehicle Replacement	20.513	24458	385,839	260,041
Cherry Lift Vehicle Replacement	20.513	24458	385,839	33,821
			3,027,763	1,077,180
FTA Section 5311				
Contracted Transportation	20.513	23335	277,736	-
CARTS Preventive Maintenance	20.513	24383	40,379	18,259
CARTS Preventive Maintenance	20.513	24383	40,379	22,120
CARTS Rural	20.513	23994	291,076	291,076
			649,570	331,455
<i>Passed through Mid-Willamette Valley Council of Governments</i>				
FTA Section 5303				
Transportation Planning	20.505	-	86,589	86,589
Total Federal Awards			\$ 29,395,908	\$ 11,621,464

See notes to schedule of expenditures of federal awards.

SALEM AREA MASS TRANSIT DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2008

Purpose of the Schedule

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) is a supplementary schedule to the District's financial statements and is presented for purposes of additional analysis. Because the Schedule presents only a selected portion of the activities of the District, it is not intended to and does not present either the financial position or the results of operations of the District.

SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Federal Financial Assistance

Pursuant to the Single Audit Act of 1984 and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations. Accordingly, non-monetary federal assistance, including federal surplus property, is included in federal financial assistance and, therefore, is reported on the Schedule, if applicable. Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between the state and federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

Major Programs

The Single Audit Act of 1984 and OMB Circular A-133 establish criteria to be used in defining major federal financial assistance programs. Major programs for the District are those programs selected for testing by the auditor using a risk-assessment model, as well as certain minimum expenditure requirements, as outlined in OMB Circular A-133. Programs with similar requirements may be grouped into a cluster for testing purposes.

Reporting Entity

The reporting entity is fully described in the notes to the financial statements. Additionally, the Schedule includes all federal programs administered by the District for the year ended June 30, 2008.

Revenue and Expenditure Recognition

The receipts and expenditures of federal awards are accounted for under the accrual basis of accounting.

SALEM AREA MASS TRANSIT DISTRICT
AUDITOR'S COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS
YEAR ENDED JUNE 30, 2008

Oregon Administrative Rules 162-10-050 through 162-10-320 incorporated in the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required statements and schedules are set forth in the preceding sections of this report. Required comments and disclosures related to our audit of such statements and schedules are as follows.

We have audited the financial statements of Salem Area Mass Transit District (the District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 27, 2009. 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.

Significant Accounting Policies

The significant accounting policies followed in preparing the District's financial statements are summarized in the notes to the general purpose financial statements.

Organization and Fund Structure

The organization and fund structure of the District is documented on the title page and in the notes to the basic financial statements.

Internal Control Over Financial Reporting

Our report relating to internal control over financial reporting is presented separately.

Accounting and Internal Control Structure

Our reports relating to accounting and internal control systems are contained in the Single Audit Section of this comprehensive annual financial report. We also issued our separate control deficiencies letter to management.

Adequacy of Accounting Records

The District's accounting records were reasonably maintained and adequate to support our audit of the basic financial statements.

Indebtedness

The District had no bonded indebtedness at June 30, 2008.

Adequacy of Collateral Securing Depository Balances

ORS 295 provides that each depository, throughout the period of its possession of public fund deposits, shall maintain on deposit with its custodians, at its own expense, securities having a value not less than 25% of the certificates of participation issued by the pool manager for funds in excess of those insured by the Federal Deposit Insurance Corporation. Our review of the adequacy of collateral securing depository balances indicated the collateral was not sufficient during the year ended June 30, 2008.

SALEM AREA MASS TRANSIT DISTRICT
AUDITOR'S COMMENTS AND DISCLOSURES (Continued)
YEAR ENDED JUNE 30, 2008

Investments

Our review of deposit and investment balances indicated that the District was in compliance with ORS 295, as it pertains to investment of public funds, during the year ended June 30, 2008.

Budget Compliance

The District appears to have complied in all material respects with Local Budget Law (ORS 294.305 to 294.520) in the preparation, adoption and execution of its budget and tax levy for the year ended June 30, 2008, and the preparation and adoption of its budget for the year ending June 30, 2009, except as noted.

A description of the budgeting process is included in the notes to the basic financial statements.

Insurance Policies and Fidelity Bonds

We have reviewed the District's insurance coverage at June 30, 2008. We ascertained that such policies appeared to be in force and in compliance with legal requirements. We are not competent by training to comment on the adequacy of the insurance policies covering District property at June 30, 2008.

Public Contracting and Purchasing

Our review of the District's public contracting, purchasing procedures and construction of public improvement requirements (ORS 279) indicated that the District was in compliance.

Programs Funded from Outside Sources

Our reports on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* and compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 are presented separately.

Programs Funded From Outside Sources

We have reviewed the District's compliance with appropriate laws, rules, and regulations pertaining to material programs funded wholly or partially by other governmental agencies. The District is in compliance with the guidelines in all material aspects.

Financial Reporting Requirements

We have reviewed financial reports and other data relating to material programs funded wholly or partially by other governmental agencies. This data, filed with other governmental agencies, is in agreement with and supported by the accounting records.


SALEM AREA MASS TRANSIT DISTRICT
AUDITOR'S COMMENTS AND DISCLOSURES (Continued)
YEAR ENDED JUNE 30, 2008

Highway Funds

The District does not receive funding from taxes on motor vehicle fuel.

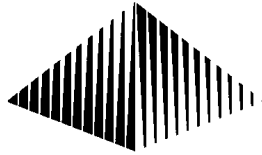
This report is intended for the information of the Board of Directors and management of Salem Area Mass Transit District, the Secretary of State Audits Division and grantor agencies, and is not intended to be and should not be used by anyone other than these specified parties.

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By: 

Charles A. Swank, Shareholder

March 27, 2009



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200 Salem, Oregon 97301
(503) 581-7788

***REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS***

Board of Directors
Salem Area Mass Transit District
Marion County, Oregon

We have audited the basic financial statements of Salem Area Mass Transit District, as of and for the year ended June 30, 2008, and have issued our report thereon dated March 27, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Salem Area Mass Transit District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Salem Area Mass Transit District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Salem Area Mass Transit District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

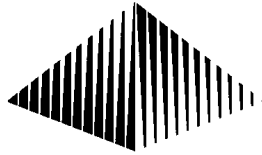
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Salem Area Mass Transit District's financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors and management of Salem Area Mass Transit District, the Secretary of State Audits Division and grantor agencies, and is not intended to be and should not be used by anyone other than these specified parties.


CERTIFIED PUBLIC ACCOUNTANTS
March 27, 2009



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200 Salem, Oregon 97301
(503) 581-7788

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Salem Area Mass Transit District
Marion County, Oregon

Compliance

We have audited the compliance of Salem Area Mass Transit District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Salem Area Mass Transit District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Salem Area Mass Transit District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control over Compliance

The management of Salem Area Mass Transit District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the

effectiveness of Salem Area Mass Transit District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. We noted no matters involving the internal control over noncompliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors and management of Salem Area Mass Transit District, the Secretary of State Audits Division and grantor agencies, and is not intended to be and should not be used by anyone other than these specified parties.


CERTIFIED PUBLIC ACCOUNTANTS
March 27, 2009

SALEM AREA MASS TRANSIT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issues:	Unqualified
Internal control reporting:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weaknesses?	No
• Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of major program:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.500	U.S. Department of Transportation Urban Mass Transportation Capital Improvement Grants
20.507	U.S. Department of Transportation Urban Mass Transportation Capital and Operating Assistance Formula Grants

Dollar threshold used to distinguish between type A and type B programs:	\$348,644
Auditee qualified as low-risk auditee?	Yes

FINANCIAL STATEMENT FINDINGS

None.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.