

***SALEM AREA MASS TRANSIT DISTRICT  
MARION COUNTY, OREGON  
FINANCIAL STATEMENTS AND  
ADDITIONAL INFORMATION  
Years Ended June 30, 2010 and 2009***

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***SALEM AREA MASS TRANSIT DISTRICT  
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***SALEM AREA MASS TRANSIT DISTRICT***  
***DISTRICT OFFICIALS***  
***JUNE 30, 2010***

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**Board of Directors**

**Term Expires**

Shelley Hanson, President

June 2013

Kate Tarter, Vice-President

June 2011

Robert Krebs, Secretary

June 2013

Ron Christopher, Treasurer

June 2013

Marcia Kelley

June 2011

Jerry Thompson

June 2011

Joe Green

June 2011

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***ADMINISTRATIVE***

Allan Pollock, General Manager  
925 Commercial St., SE Suite 100  
Salem, Oregon 97302-4317



## 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 Directors  
Salem Area Mass Transit District  
Salem, Oregon

We have audited the balance sheets, statements of 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, 2010 and 2009, 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 opinions 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 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2010 and 2009, and the changes in financial position and 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 4, 2011 on our consideration of the 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 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 consists 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

As discussed in subsequent events footnote to the financial statements, the District is a partial owner of the Courthouse Square building and transit mall which was determined to be unsafe to occupy. The value of the building and transit mall may be impaired. The District has not recorded an impairment at ending June 30, 2010.

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

By:   
Charles A. Swank, A Shareholder  
March 4, 2011

## **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, 2010. 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 eighth 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, 2010, increased \$2.6 million from \$34.5 million to \$37.1 million, or 7.5 percent, from the prior year. This increase is largely due to increased federal assistance.

The District's total assets increased from \$38 million to \$42.8 million.

The District's total liabilities increased by \$2.0 million.

Operating revenue, decreased \$1.1 million from \$3.2 million to \$2.1 million, or 35 percent, from the prior year. This change is due to reduced ridership and service reductions. Non-operating revenues, net, increased \$5.8 million from the prior year, largely because of an increase in federal receipts. Operating expenses remained consistent, increasing \$312 thousand from the prior year.

	<i>June 30,</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
<b><i>Assets</i></b>			
Current and restricted assets	\$ 15,370,036	\$ 9,902,524	\$ 11,263,617
Capital assets, net of depreciation	<u>27,433,790</u>	<u>28,131,954</u>	<u>27,949,586</u>
	<u>42,803,826</u>	<u>38,034,478</u>	<u>39,213,203</u>
<b><i>Liabilities</i></b>	<u>5,654,757</u>	<u>3,568,478</u>	<u>5,244,045</u>
<b><i>Net Assets</i></b>			
Invested in capital assets	27,433,790	28,131,954	27,949,586
Restricted for capital projects and special transportation	6,058,918	4,727,824	4,543,842
Unrestricted	<u>3,656,361</u>	<u>1,606,321</u>	<u>1,475,730</u>
<b><i>Total Net Assets</i></b>	<u><u>\$ 37,149,069</u></u>	<u><u>\$ 34,466,099</u></u>	<u><u>\$ 33,969,158</u></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>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
Operating revenues	\$ 2,095,166	\$ 3,231,769	\$ 2,762,266
Non-operating revenues	<u>31,155,068</u>	<u>25,271,554</u>	<u>24,145,653</u>
<b><i>Total Revenues</i></b>	33,250,234	28,503,322	26,907,919
Total operating expenses	(33,300,243)	(32,987,998)	(29,805,952)
Capital contributions	<u>2,732,979</u>	<u>4,981,617</u>	<u>6,056,170</u>
Changes in net assets	2,682,970	496,941	3,158,137
<b><i>Total Net Assets, beginning of year</i></b>	<u>34,466,099</u>	<u>33,969,158</u>	<u>30,811,021</u>
<b><i>Total Net Assets, end of year</i></b>	<u><u>\$ 37,149,069</u></u>	<u><u>\$ 34,466,099</u></u>	<u><u>\$ 33,969,158</u></u>

The District's total revenue increased \$4.7 million, or 16.5 percent, during FY 2009-2010.

## **Capital Assets**

At June 30, 2010, the District had invested \$46 million in capital assets (\$47.2 million at June 30, 2009). Accumulated depreciation at June 30, 2010 was \$18.5 million (\$19 million at June 30, 2009).

## **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  
925 Commercial Street SE, Suite 100  
Salem, Oregon 97302-4173

**SALEM AREA MASS TRANSIT DISTRICT**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and investments	\$ 4,157,383	\$ 1,081,890
Receivables		
Property tax	719,239	633,518
Miscellaneous	2,199,901	1,921,144
Prepaid expenses	179,639	102,335
Inventories	736,906	689,602
	<u>7,993,068</u>	<u>4,428,489</u>
<b>Restricted Assets</b>		
Cash and investments	565,823	251,328
Federal grants receivable	5,294,425	4,875,526
State grants receivable	1,516,720	347,181
	<u>7,376,968</u>	<u>5,474,035</u>
<b>Capital Assets</b>		
Land	242,394	242,394
Buildings	18,980,873	18,873,370
Buses and equipment	26,135,723	27,422,692
Construction in progress	663,494	682,152
	<u>46,022,484</u>	<u>47,220,608</u>
Less accumulated depreciation	(18,588,694)	(19,088,654)
	<u>27,433,790</u>	<u>28,131,954</u>
<b>Total Assets</b>	<u>\$ 42,803,826</u>	<u>\$ 38,034,478</u>

	<u>2010</u>	<u>2009</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable from unrestricted assets	\$ 300,042	\$ 144,345
Accounts payable from restricted assets	1,318,050	746,212
Accrued payroll liabilities	1,957,139	1,312,209
Accrued compensated absences	1,037,932	958,680
Deferred revenue	227,728	-
<i>Total Current Liabilities</i>	<u>4,840,891</u>	<u>3,161,446</u>
<b>Noncurrent Liabilities</b>		
Net OPEB Liability	813,866	406,933
<i>Total Liabilities</i>	<u>5,654,757</u>	<u>3,568,379</u>
<b>Net Assets</b>		
Investment in capital assets	27,433,790	28,131,954
Restricted for capital projects and special transportation	6,058,918	4,727,824
Unrestricted	3,656,361	1,606,321
<i>Total Net Assets</i>	<u>37,149,069</u>	<u>34,466,099</u>
<i>Total Liabilities and Net Assets</i>	<u>\$ 42,803,826</u>	<u>\$ 38,034,478</u>

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, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>OPERATING REVENUES</b>		
Passenger fares	\$ 2,095,166	\$ 3,231,769
<b>OPERATING EXPENSES</b>		
Personal services	15,408,544	14,351,777
Materials and services	15,143,728	15,770,114
Depreciation	2,341,038	2,459,175
OPEB expense	406,933	406,933
<i>Total Operating Expenses</i>	<u>33,300,243</u>	<u>32,987,999</u>
<b>OPERATING LOSS</b>	(31,205,077)	(29,756,230)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Property taxes	9,461,631	9,076,275
State assistance	7,764,506	6,286,707
Federal assistance	13,010,303	9,173,937
Investment income	32,217	111,844
Other revenues	886,411	652,090
Other expenses	-	(29,299)
<i>Total Non-operating Revenues</i>	<u>31,155,068</u>	<u>25,271,554</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>2,732,979</u>	<u>4,981,617</u>
<b>CHANGE IN NET ASSETS</b>	2,682,970	496,941
<b>TOTAL NET ASSETS, Beginning of year</b>	<u>34,466,099</u>	<u>33,969,158</u>
<b>TOTAL NET ASSETS, End of year</b>	<u>\$ 37,149,069</u>	<u>\$ 34,466,099</u>

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

**SALEM AREA MASS TRANSIT DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received for services	\$ 2,044,137	\$ 3,221,846
Cash paid to suppliers for goods and services	(14,540,801)	(16,895,167)
Cash paid to employees for services	(14,684,362)	(14,922,589)
	<hr/>	<hr/>
<i>Net cash used for operating activities</i>	(27,181,026)	(28,595,909)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Property taxes received	9,375,911	8,968,558
State assistance received	6,594,967	6,204,796
Federal assistance received	12,591,404	9,025,480
Other nonoperating revenues	886,411	622,791
	<hr/>	<hr/>
<i>Net cash provided by noncapital financing activities</i>	29,448,693	24,821,625
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Federal assistance received	2,732,979	4,981,617
Acquisition of capital assets	(1,642,875)	(2,641,543)
	<hr/>	<hr/>
<i>Net cash provided by capital financing activities</i>	1,090,104	2,340,074
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	32,217	111,844
	<hr/>	<hr/>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	3,389,988	(1,322,366)
<b>CASH AND INVESTMENTS, Beginning of year</b>	1,333,218	2,655,584
	<hr/>	<hr/>
<b>CASH AND INVESTMENTS, End of year</b>	<u>\$ 4,723,206</u>	<u>\$ 1,333,218</u>

	<u>2010</u>	<u>2009</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (31,205,077)	\$ (29,756,230)
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</i>		
Depreciation	2,341,038	2,459,175
OPEB expense	406,933	406,933
<i>Changes in operating assets and liabilities:</i>		
(Increase) decrease in accounts receivable	(278,757)	132,202
(Increase) decrease in prepaid expenses	(77,304)	96,614
(Increase) decrease in inventories	(47,304)	147,996
Increase (decrease) in accounts payable	727,535	(1,369,664)
Increase (decrease) in payroll liabilities	644,930	(543,610)
Increase (decrease) in compensated absences payable	79,252	(27,202)
Increase(Decrease) in deferred revenue	227,728	(142,124)
<i>Net cash used for operating activities</i>	<u>\$ (27,181,026)</u>	<u>\$ (28,595,909)</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, 2010 AND 2009**

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**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 taxes and charge fares to pay for the operations of the District. The District is also authorized to issue general obligation bonds 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, 2010 AND 2009**

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**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.

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.

**SALEM AREA MASS TRANSIT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*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, 2010 AND 2009**

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**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 liability; 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 improvements fund, special transportation fund, and facility maintenance 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, 2010 AND 2009**

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**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 and 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.

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.

**SALEM AREA MASS TRANSIT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

**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, 2010 and 2009 the carrying value of cash and investments and fair value are approximately equal. Cash and investments are comprised of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
<b>Cash</b>		
Cash on hand	\$ 3,442	\$ 3,446
Deposits with financial institutions	571,469	59,618
<b>Investments</b>		
Local Government Investment Pool	4,148,295	1,270,155
	<u>4,723,206</u>	<u>1,333,218</u>
<i>Total Cash and Investments</i>	<u>\$ 4,723,206</u>	<u>\$ 1,333,218</u>
Unrestricted cash and investments	\$ 4,157,383	\$ 1,081,890
Restricted cash and investments	565,823	251,328
	<u>4,723,206</u>	<u>1,333,218</u>
<i>Total Cash and Investments</i>	<u>\$ 4,723,206</u>	<u>\$ 1,333,218</u>

*Deposits*

At year end, the book balance of the District's bank deposits (checking accounts) was \$571,469 and \$59,618 and the bank balance was \$574,981 and \$1,510,666 respectively. The difference is due to transactions in process. Of these deposits, \$250,000 was covered by federal depository insurance. The remaining amount is collateralized in accordance with Oregon Revised Statutes.

*Custodial Risk – Deposits*

Custodial credit risk is the risk of loss of funds due to the event of a bank failure. In order to minimize this risk, state statutes require that banks holding public funds become members of the Public Funds Collateralization Program (PFCP), a multiple financial institution collateral pool created by the Office of the State Treasurer. To qualify, participating banks must pledge collateral against any public fund deposits in excess of deposit insurance. The amount of collateral is set by the PFCP between 10 and 110 percent of each bank's public funds deposits based on their net worth and level of capitalization. Although the PFCP creates a shared liability structure for participating bank depositories, it does not guarantee that all funds are 100 percent protected. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities.

*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

**SALEM AREA MASS TRANSIT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

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***CASH AND INVESTMENTS (Continued)***

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, 2010 and 2009, 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.

***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 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, 2010 AND 2009**

**RESTRICTED ASSETS**

Restricted assets are restricted for capital outlay and special transportation.

	<u>Total Restricted Assets</u>	<u>Less Current Liabilities Payable</u>	<u>Net Restricted Assets (Liabilities)</u>
<b>2010</b>			
<b>Restricted for Operating Capital</b>			
Cash and investments	\$ 49,236	\$ -	\$ 49,236
Federal grants receivable	5,018,686	(62,889)	4,955,797
State grants receivable	365,327	(160,664)	204,663
<i>Total Restricted for Operating Capital</i>	<u>5,433,249</u>	<u>(223,553)</u>	<u>5,209,696</u>
<b>Restricted for Special Transportation</b>			
Cash and investments	516,587	-	516,587
Federal grants receivable	275,739	-	275,739
State grants receivable	1,151,393	(1,094,497)	56,896
<i>Total Restricted for Special Transportation</i>	<u>1,943,719</u>	<u>(1,094,497)</u>	<u>849,222</u>
	<u>\$ 7,376,968</u>	<u>\$ (1,318,050)</u>	<u>\$ 6,058,918</u>
<b>2009</b>			
<b>Restricted for Operating Capital</b>			
Cash and investments	\$ 195,801	\$ -	\$ 195,801
Federal grants receivable	4,617,024	(154,895)	4,462,129
State grants receivable	-	(120,236)	(120,236)
<i>Total Restricted for Operating Capital</i>	<u>4,812,825</u>	<u>(275,131)</u>	<u>4,537,694</u>
<b>Restricted for Special Transportation</b>			
Cash and investments	55,527	-	55,527
Federal grants receivable	258,503	-	258,503
State grants receivable	347,181	(471,081)	(123,900)
<i>Total Restricted for Special Transportation</i>	<u>661,211</u>	<u>(471,081)</u>	<u>190,130</u>
	<u>\$ 5,474,036</u>	<u>\$ (746,212)</u>	<u>\$ 4,727,824</u>

**SALEM AREA MASS TRANSIT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

**CAPITAL ASSETS**

The changes in capital assets for the fiscal year ended June 30, 2010 are as follows:

	<i>Balance June 30, 2009</i>	<i>Additions</i>	<i>Transfers</i>	<i>Retirements</i>	<i>Balance June 30, 2010</i>
Land	\$ 242,394	\$ -	\$ -	\$ -	\$ 242,394
Buildings	18,873,370	107,503	-	-	18,980,873
Buses	24,178,897	1,467,277	-	(3,339,958)	22,306,216
Equipment	3,243,795	161,492	424,220	-	3,829,507
Work in progress	682,152	405,562	(424,220)	-	663,494
	<u>47,220,608</u>	<u>2,141,834</u>	<u>-</u>	<u>(3,339,958)</u>	<u>46,022,484</u>
Accumulated depreciation	(19,088,654)	(2,341,038)	-	2,840,999	(18,588,694)
	<u>(19,088,654)</u>	<u>(2,341,038)</u>	<u>-</u>	<u>2,840,999</u>	<u>(18,588,694)</u>
<b>Total</b>	<b>\$ 28,131,954</b>	<b>\$ (199,204)</b>	<b>\$ -</b>	<b>\$ (498,959)</b>	<b>\$ 27,433,790</b>

The changes in capital assets for the fiscal year ended June 30, 2009 are as follows:

	<i>Balance June 30, 2008</i>	<i>Additions</i>	<i>Transfers</i>	<i>Retirements</i>	<i>Balance June 30, 2009</i>
Land	\$ 242,394	\$ -	\$ -	\$ -	242,394
Buildings	15,525,655	1,962,157	1,385,558	-	18,873,370
Buses	24,175,253	140,925	-	(137,281)	24,178,897
Equipment	3,148,170	95,625	-	-	3,243,795
Work in progress	1,624,875	442,836	(1,385,558)	-	682,152
	<u>44,716,347</u>	<u>2,641,543</u>	<u>-</u>	<u>(137,281)</u>	<u>47,220,608</u>
Accumulated depreciation	(16,766,761)	(2,459,175)	-	137,281	(19,088,654)
	<u>(16,766,761)</u>	<u>(2,459,175)</u>	<u>-</u>	<u>137,281</u>	<u>(19,088,654)</u>
<b>Total</b>	<b>\$ 27,949,586</b>	<b>\$ 182,368</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 28,131,954</b>

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, 2010 AND 2009**

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**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 \$861,566 and \$837,223, for the bargaining unit and \$294,417 and \$270,653, for the non-bargaining unit for the years ended June 30, 2010 and 2009 respectively.

The benefit payable at a participant's normal retirement date will be equal to the excess of 1.64% 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.

The annual required contributions were determined as part of the July 1, 2006 and 2008 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 8.25% to 4.0% 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.

**SALEM AREA MASS TRANSIT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

**EMPLOYEE RETIREMENT PLANS (Continued)**

*Defined Contribution Plan (Continued)*

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 2010, 2009, and 2008 were:

	<u>Covered Payroll</u>	<u>Total Payroll</u>	<u>Required Contributions</u>
2010	\$ 3,219,383	\$ 9,620,539	\$ 321,939
2009	3,330,483	9,178,982	330,048
2008	3,187,180	9,010,836	318,718

*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.

At June 30, 2010 and 2009, deferred compensation carried assets of \$4,674,875 and \$4,212,805 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.

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.

**OTHER POST-EMPLOYMENT BENEFITS**

*Plan Description*

The District administers a single-employer defined benefit healthcare plan per the requirements of collective bargaining agreements. The plan provides an explicit employer benefit of up to the cost per month per pre-Medicaid retiree toward postretirement healthcare insurance for eligible retirees, and at cost for retiree spouses, through the District's group health insurance plans, which cover both active and retired participants. The level of benefits provided by the plan are the same as those afforded to active employees. This level of coverage is provided to retirees until they become eligible for Medicare, typically age 65.

**SALEM AREA MASS TRANSIT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

**EMPLOYEE RETIREMENT PLANS (Continued)**

*Other Post-employment Benefits (Continued)*

The District's post-retirement healthcare plan was established in accordance with Oregon Revised Statutes (ORS) 243.303. ORS stipulate that for the purpose of establishing healthcare premiums, the rate must be based on all plan members, including both active employees and retirees and their spouses. The difference between retiree claims costs (which because of the effect of age is generally higher in comparison to all plan members) and the amount of retiree healthcare premiums represents the District's implicit employer contribution.

The District has not established a trust fund to supplement the costs for the net other post-employment benefit (OPEB) obligation. No stand alone financial report is generated for the plan.

At the July 1, 2008 actuarial valuation date, there were 12 retirees receiving benefits under the plan and 195 active employees who meet the criteria, but have not yet retired.

*Funding Policy*

The District collects insurance premiums, net of applied explicit benefits, from all retirees each month. The District then pays health insurance premiums for all retirees at the blended rate for each family classification. The required contribution to the plan included the employer's pay-as-you-go amount, an amount paid by retirees and an additional amount calculated to prefund future benefits as determined by the actuary. The District has elected to not pre-fund the actuarially determined future cost.

*Annual OPEB Cost and Net OPEB Obligation*

The District's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the guidelines of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the fiscal year ending June 30, 2010, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 598,005
Interest earned on net OPEB obligation	-
Adjustment to the annual required contribution	-
	<hr/>
Annual OPEB cost (expense)	598,005
Estimated benefit payments	191,072
	<hr/>
Increase in net OPEB obligation	406,933
Net OPEB obligation, beginning of year	406,933
Net OPEB obligation, end of year	<u><u>\$ 813,866</u></u>

**SALEM AREA MASS TRANSIT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

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**EMPLOYEE RETIREMENT PLANS (Continued)**

*Annual OPEB Cost and Net OPEB Obligation (Continued)*

The District's percentage of annual OPEB cost contributed to the plan for fiscal year ending June 30, 2010 was 32.0%.

Information for preceding years is not presented as fiscal year ended June 30, 2009 is the year of implementation of GASB 45.

*Funding Status and Funding Progress*

As of July 1, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$3,846,335, and the actuarial value of assets was \$0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,846,335. The annual payroll of active employees covered by the plan (covered payroll) was \$9,389,595 and the ratio of the UAAL to the covered payroll was 41%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and the new estimates are made about the future.

*Actuarial Methods and Assumptions*

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

*Actuarial Methods and Assumptions (Continued)*

The July 1, 2008 actuarial valuation used the projected unit credit cost method, an assumed 4.5% rate of return, and a healthcare cost inflation trend of 10.3% premiums for fiscal year 2009, 8.8% after the second year, 7.2% after the third year, 6.4% for the 4<sup>th</sup> year, 5.9% for the 5<sup>th</sup> year and slowly decreasing to an ultimate rate of 4.9% in 2050 and beyond. Retirement and withdrawal rates are the same as those used by the District in the actuarial valuations of retirement benefits. The discount rate is selected based on the expected long-term annual investment returns for Oregon's Local Government Investment Pool and comparable investment vehicles. The unfunded actuarially accrued liability is amortized as a level percent of payroll over 15 years

**SALEM AREA MASS TRANSIT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

**INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2010 consisted of the following:

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.

<u>Transfer to:</u>	<u>Transfer from:</u>			<u>Total</u>
	<u>General</u>	<u>Capital Improvements</u>	<u>Special Transportation</u>	
General	\$ -	4,027	2,000	\$ 6,027
Capital Improvement	287,347	-	-	287,347
Special Transportation	1,909,234	-	-	1,909,234
	<u>\$ 2,196,581</u>	<u>\$ 4,027</u>	<u>\$ 2,000</u>	<u>\$ 2,202,608</u>

**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.

**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.

Actual expenditures in the following funds exceeded budgeted disbursements this year, as follows:

General Fund	
Operations	\$ 169,590
Customer Service	20,489
Facilities	14,091

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

**SALEM AREA MASS TRANSIT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

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***SUBSEQUENT EVENTS***

*Courthouse Square*

The Transit District and Marion County are the owners of the condominium units in a multiple use complex that includes a bus mall, passenger waiting area, retail space, parking garage, hearing room and administrative offices. The District and County are members of a condominium association that is responsible for operating and managing the common areas of the condominium.

In June 2010, the District received an engineering opinion that the bus mall may be in danger of collapse. The bus mall was closed on July 2, and moved to a temporary location.

In July 2010, the District received an engineering report indicating the building was not safe to occupy. On July 30, the City of Salem issued an order requiring evacuation of the building within 60 days. The District has leased office space in a temporary location for its administrative offices.

The District and the County have recovered \$1,864,118 from claims against the contractor and architect for the project, which are not recorded in the District's financial statements. The available options will be reviewed by the District and the County with the input of a task force of elected officials and public members. The depreciated cost of the District's ownership of the Courthouse Square building was approximately \$8,700,000 at June 30, 2010.

Under the condominium agreement, the District's share of the building and parking garage is approximately 19% and the District's share of mall slab costs is approximately 59%. However, this generalized share is a simplistic assessment of the ultimate allocation of actual cost responsibility for either remediation or replacement.

*Vendor Litigation*

A lawsuit was filed against the District by Oregon Housing and Associated Services (OHAS) seeking recovery of \$700,010, alleged to be due under a contract between the District and OHAS. The District has denied the claim and has filed a counter-claim seeking recovery of \$478,148 alleged to be owed to the District from OHAS. A trial date has not been set and discovery is not complete. In view of the uncertainties inherent in any litigated matter, it is not possible to express an opinion on the probability of a favorable or an unfavorable outcome.

The District follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" (ASC 855). ASC 855 establishes accounting and disclosure requirements for subsequent events. Management has evaluated subsequent events through March 4, 2011, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

***SUPPLEMENTARY INFORMATION***

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**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, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
<b>Local Revenue</b>				
Current tax revenue	\$ 8,996,137	\$ 8,996,137	\$ 9,117,288	\$ 121,151
Prior tax revenue	201,028	201,028	258,622	57,594
Passenger fares - cash	1,608,464	1,208,464	1,002,815	(205,649)
Passenger fares - passes	1,497,924	1,197,924	1,062,151	(135,773)
State employee bus pass	146,995	-	-	-
State shuttle service	284,150	-	-	-
Special pass programs	54,300	29,253	29,258	5
Courthouse Square parking	28,000	24,000	26,892	2,892
Investment income	50,000	25,000	31,019	6,019
Bus advertising	195,000	195,000	197,500	2,500
Energy Tax Credit	604,056	539,357	1,025,334	485,977
Miscellaneous	434,780	356,882	507,736	150,854
Rental income	50,000	44,000	39,018	(4,982)
<b>Total Local Revenue</b>	<b>14,150,834</b>	<b>12,817,045</b>	<b>13,297,633</b>	<b>480,588</b>
<b>State Revenue</b>				
Public transit - operating	4,120,000	4,320,000	4,660,624	340,624
<b>Federal Revenue</b>				
FTA Section 9 - operating	3,992,070	4,792,070	4,768,766	(23,304)
FTA Section 8 - planning	80,792	80,792	99,725	18,933
ARRA Funds	-	516,435	516,435	-
FTA Section 3037	225,000	225,000	225,000	-
Rideshare/Vanpool	238,914	238,914	209,262	(29,652)
DMAP Reimbursement	170,000	170,000	115,265	(54,735)
<b>Total Federal Revenue</b>	<b>4,706,776</b>	<b>6,023,211</b>	<b>5,934,453</b>	<b>(88,758)</b>
<b>Total Revenues</b>	<b>22,977,610</b>	<b>23,160,256</b>	<b>23,892,710</b>	<b>732,454</b>
<b>EXPENDITURES</b>				
<b>Operations Department-Direct and Support</b>				
Personal services - direct	8,177,953	8,753,611	9,042,639	(289,028)
Personal services - support	454,428	531,519	470,049	61,470
Materials and services	104,300	107,300	49,332	57,968
<b>Total Operations Department</b>	<b>8,736,681</b>	<b>9,392,430</b>	<b>9,562,020</b>	<b>(169,590)</b>

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>EXPENDITURES (Continued)</b>				
<b>General Manager's Office</b>				
Personal services	\$ 343,805	\$ 319,472	\$ 303,557	\$ 15,915
Materials and services	65,940	66,240	36,874	29,366
<i>Total General Manager's Office</i>	409,745	385,712	340,431	45,281
<b>Board of Directors/Budget Committee</b>				
Materials and services	47,500	48,000	14,304	33,696
<b>Human Resources</b>				
Personal services	497,115	507,818	464,776	43,042
Materials and services	174,900	203,950	161,574	42,376
<i>Total Human Resources</i>	672,015	711,768	626,350	85,418
<b>Finance</b>				
Personal services	663,760	692,442	593,570	98,872
Materials and services	92,250	92,250	74,155	18,095
<i>Total Business Services</i>	756,010	784,692	667,725	116,967
<b>Transportation Development</b>				
Personal services	330,164	585,778	421,301	164,477
Materials and services	222,290	342,290	337,883	4,407
<i>Total Transportation Development</i>	552,454	928,068	759,184	168,884
<b>Transportation Services</b>				
Personal services	154,393	191,057	127,424	63,633
Materials and services	231,213	231,213	173,272	57,941
<i>Total Transportation Services</i>	385,606	422,270	300,696	121,574
<b>Maintenance Department</b>				
Personal services	2,071,779	2,015,292	2,053,738	(38,446)
Materials and services	2,302,050	2,302,050	1,823,667	478,383
<i>Total Maintenance Department</i>	4,373,829	4,317,342	3,877,405	439,937

**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, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>EXPENDITURES (Continued)</b>				
<b>Customer Services Department</b>				
Personal services	\$ 393,763	\$ 426,651	\$ 442,861	\$ (16,210)
Materials and services	3,500	3,500	7,779	(4,279)
<i>Total Customer Services Department</i>	397,263	430,151	450,640	(20,489)
<b>General Services</b>				
Personal services	100,000	100,000	85,853	14,147
Materials and services	617,165	617,165	596,821	20,344
<i>Total General Services</i>	717,165	717,165	682,673	34,490
<b>Facilities</b>				
Personal services	435,763	438,640	460,726	(22,086)
Materials and services	308,500	308,500	300,505	7,995
<i>Total Facilities</i>	744,263	747,140	761,231	(14,091)
<b>Information Systems</b>				
Personal services	232,635	275,657	219,808	55,849
Materials and services	109,910	109,910	96,447	13,463
<i>Total Information Systems</i>	342,545	385,567	316,255	69,312
<b>Other Payments</b>				
Contingency	750,000	472,794	-	472,794
<i>Total Expenditures</i>	18,885,076	19,743,099	18,358,915	1,384,184
<b>REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>	4,092,534	3,417,157	5,533,795	2,116,638
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	2,000	2,000	6,027	4,027
Transfers out	(4,027,470)	(3,502,932)	(2,196,581)	1,306,351
<i>Total Other Financing Sources (Uses)</i>	(4,025,470)	(3,500,932)	(2,190,554)	1,310,378
<b>NET CHANGE IN FUND BALANCE</b>	67,064	(83,775)	3,343,240	3,427,015
<b>FUND BALANCE, Beginning of year</b>	4,518,631	5,500,000	5,475,485	(24,515)
<b>FUND BALANCE, End of year</b>	\$ 4,585,695	5,416,225	\$ 8,818,725	\$ 3,402,500

**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, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
<i>Local Revenue</i>				
Bike/Pedestrian	\$ -	\$ -	\$ 15,618	\$ 15,618
<i>State Revenue</i>				
Connect Oregon	2,492,652	2,492,652	174,248	(2,318,404)
<i>Federal Revenue</i>				
FTA Section 5307	2,548,323	2,548,323	223,236	(2,325,087)
FTA Section 5310	-	-	91,977	91,977
FTA Section 5316	-	-	27,435	27,435
FTA Section 5309	506,899	506,899	86,002	(420,897)
Federal ARRA Funds	5,798,545	5,798,545	1,251,588	(4,546,957)
<i>Total Federal Revenue</i>	<u>8,853,767</u>	<u>8,853,767</u>	<u>1,680,238</u>	<u>(7,173,529)</u>
<i>Total Revenues</i>	<u>11,346,419</u>	<u>11,346,419</u>	<u>1,870,104</u>	<u>(9,476,315)</u>
<b>EXPENDITURES</b>				
<i>Capital Outlay</i>				
Office Equipment/Software	250,000	250,000	-	250,000
Facilities Improvement/Expansion	-	-	295,256	(295,256)
Buses and equipment	10,968,982	10,968,982	1,615,411	9,353,571
Transit Centers/Other Capital	164,166	164,166	242,758	(78,592)
<i>Total Expenditures</i>	<u>11,383,148</u>	<u>11,383,148</u>	<u>2,153,425</u>	<u>9,229,723</u>
<b>REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>	(36,729)	(36,729)	(283,320)	(246,591)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	763,440	763,440	287,347	(476,093)
Transfers out	-	-	(4,027)	4,027
<i>Total Other Financing Sources (Uses)</i>	<u>763,440</u>	<u>763,440</u>	<u>283,320</u>	<u>(472,066)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>726,711</u>	<u>726,711</u>	<u>-</u>	<u>(726,711)</u>
<b>FUND BALANCE, Beginning of year</b>	<u>17,126</u>	<u>17,126</u>	<u>14,021</u>	<u>(3,105)</u>
<b>FUND BALANCE, End of year</b>	<u>\$ 743,837</u>	<u>\$ 743,837</u>	<u>\$ 14,021</u>	<u>\$ (729,816)</u>

**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, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
<b>Local Revenue</b>				
BETC	\$ -	-	302,095	302,095
Fares	-	-	943	943
<i>Total State Revenue</i>	-	-	303,038	303,038
<b>State Revenue</b>				
Special transportation fund	604,935	604,935	709,737	104,802
STG/STO	-	622,856	473,984	(148,872)
<i>Total State Revenue</i>	604,935	1,227,791	1,183,721	(44,070)
<b>Federal Revenue</b>				
DMAP	5,704,182	5,704,182	5,013,668	(690,514)
DD53 Cherrylift	750,000	750,000	1,106,531	356,531
FTA Section 5310	643,186	1,066,719	499,930	(566,789)
FTA Section 5311	300,000	300,000	317,275	17,275
Federal ARRA	103,000	103,000	66,443	(36,557)
<i>Total Federal Revenue</i>	7,500,368	7,923,901	7,003,847	(920,054)
<i>Total Revenues</i>	8,105,303	9,151,692	8,490,606	(661,086)
<b>EXPENDITURES</b>				
<b>Travel Trainer/Mobility Management</b>				
Personal services	94,710	186,572	83,475	103,097
Materials and services	17,850	28,150	6,388	21,762
<b>Contracted Transportation</b>				
Materials and services	1,372,804	1,919,002	1,108,776	810,226
<b>CherryLift and Special Transportation</b>				
Personal services	223,264	225,502	235,939	(10,437)
Materials and services	3,579,140	3,544,495	3,471,903	72,592
<b>CARTS/STF Coordination</b>				
Personal services	137,883	139,252	116,394	22,858
Materials and services	104,500	104,500	4,181	100,319
<b>DMAP Brokerage</b>				
Personal services	283,136	285,827	248,482	37,345
Materials and services	5,421,046	5,502,748	4,764,394	738,354
<i>Total Expenditures</i>	11,234,333	11,936,048	10,039,932	1,896,116

<b>REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>	(3,129,030)	(2,784,356)	(1,549,326)	(2,557,202)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	3,234,030	3,089,355	1,909,234	(1,180,121)
Transfers out	(2,000)	(2,000)	(2,000)	-
<i>Total Other Financing Sources (Uses)</i>	<u>3,232,030</u>	<u>3,087,355</u>	<u>1,907,234</u>	<u>(1,180,121)</u>
<b>NET CHANGE IN FUND BALANCE</b>	103,000	302,999	357,908	54,909
<b>FUND BALANCE, Beginning of year</b>	<u>1,254,832</u>	<u>1,104,832</u>	<u>422,252</u>	<u>(682,580)</u>
<b>FUND BALANCE, End of year</b>	<u>\$ 1,357,832</u>	<u>\$ 1,407,831</u>	<u>\$ 780,160</u>	<u>\$ (627,671)</u>

**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, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
<i>Local Revenue</i>				
Earnings on investments	\$ 10,000	\$ 10,000	\$ 1,198	\$ (8,802)
<b>EXPENDITURES</b>	-	-	-	-
<b>NET CHANGE IN FUND BALANCE</b>	10,000	10,000	1,198	(8,802)
<b>FUND BALANCE, Beginning of year</b>	211,946	211,946	195,802	(16,144)
<b>FUND BALANCE, End of year</b>	\$ 221,946	\$ 221,946	\$ 197,000	\$ (24,946)

**SALEM AREA MASS TRANSIT DISTRICT**  
**RECONCILIATIONS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

**RECONCILIATION OF FUND BALANCES - BUDGETARY BASIS - TO THE**  
**STATEMENTS OF NET ASSETS**

*June 30,*

	<u>2010</u>	<u>2009</u>
<i>Fund Balance Budgetary Basis:</i>		
General fund	\$ 8,818,725	\$ 5,475,485
Special transportation fund	780,160	422,252
Capital projects fund	14,021	14,021
Facility maintenance fund	197,000	195,802
<i>GAAP Basis Adjustments:</i>		
Capital assets	46,022,484	47,220,608
Accumulated depreciation on capital assets	(18,588,693)	(19,088,654)
Property taxes receivable	719,239	633,518
OPEB Liability	(813,866)	(406,933)
 <i>Equity GAAP Basis</i>	 <u>\$ 37,149,069</u>	 <u>\$ 34,466,099</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,*

	<u>2010</u>	<u>2009</u>
<i>Net Change in Fund Balance:</i>		
General fund	\$ 3,343,240	\$ 1,264,212
Special transportation fund	357,908	(672,491)
Capital projects fund	-	18,211
Facility maintenance fund	1,198	3,856
<i>GAAP Basis Adjustments:</i>		
Capitalized capital assets	2,141,834	2,641,543
Accumulated depreciation on capital assets	(2,341,038)	(2,459,175)
Retirement of capital assets	(498,959)	-
OPEB Liability	(406,933)	(406,933)
Property taxes accrued	85,720	107,718
 <i>Change in Net Assets</i>	 <u>\$ 2,682,970</u>	 <u>\$ 496,941</u>

**SALEM AREA MASS TRANSIT DISTRICT**  
**SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES OF TAXES UNCOLLECTED**  
**YEAR ENDED JUNE 30, 2010**

<i>Tax Year</i>	<i>Uncollected Balance July 1, 2009</i>	<i>Add to Rolls 2009-10 Levy</i>	<i>Discounts &amp; Adjustments</i>	<i>Turnovers</i>	<i>Uncollected Balance June 30, 2010</i>
2009-10	\$ -	\$ 9,648,987	\$ (267,420)	\$ (8,976,407)	\$ 405,160
2008-09	405,205	-	(7,532)	(209,580)	188,093
2007-08	133,291	-	(1,952)	(52,039)	79,300
2006-07	57,617	-	(2,480)	(28,081)	27,056
2005-06	19,819	-	(2,494)	(11,111)	6,214
2004-05	5,795	-	(1,807)	(226)	3,762
2003-04	4,371	-	(1,702)	(89)	2,580
Prior Years	7,420	-	137	(483)	7,074
<b>Total</b>	<b>\$ 633,518</b>	<b>\$ 9,648,987</b>	<b>\$ (285,250)</b>	<b>\$ (9,278,016)</b>	<b>\$ 719,239</b>

**RECONCILIATION OF REVENUE**

Cash collections by County Treasurer, above	\$ 9,278,016
Collections in lieu of property taxes and other adjustments, net	97,894
<i>Total Revenue (Budgetary Basis)</i>	<u>9,375,910</u>
Accrual of receivables	
June 30, 2009	(633,518)
June 30, 2010	719,239
<i>Total Revenue (GAAP Basis)</i>	<u>\$ 9,461,631</u>



## GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
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### **INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS**

Board of Directors  
Salem Area Mass Transit District  
Salem, Oregon

We have audited the basic financial statements of Salem Area Mass Transit District (the District) as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated March 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

#### **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements 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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**
- **Accountability for collecting or receiving money by elected officials – no money was collected or received by elected officials.**

In connection with our testing nothing came to our attention that caused us to believe the District was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations except as follows:

1. The District exceeded appropriated expenditures as noted in the notes to the financial statements.

2. Under ORS 150-294.361(1), the estimate of beginning cash balances for the ensuing year must be reasonable. The District's estimated beginning fund balance for the fiscal year ending June 30, 2011 in the Capital Projects and Special Transportation funds exceeded the actual as follows:

<i>Fund</i>	<i>Estimated Beginning Balance</i>	<i>Actual Balance</i>	<i>Dollar Variance</i>	<i>Percentage Variance</i>
Capital Improvement	\$ 346,849	\$ 14,021	\$ 332,828	2374%
Special Transportation	1,387,613	780,160	607,453	78%

3. The financial statements were not filed with the State of Oregon on a timely basis.

**OAR 162-10-0230 Internal Control**

In planning and performing our audit, we considered the 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 the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

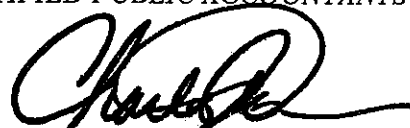
~~Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.~~

A deficiency in internal control 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 and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors and management of the District and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

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

By: \_\_\_\_\_



Charles A. Swank, A Shareholder  
March 4, 2011