QUAD CITY GARAGE POLICY GROUP

AUDITS OF FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

McGOVERN & GREENE LLP
Certified Public Accountants & Consultants

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Quad City Garage Policy Group

Audits of Financial Statements
with
Supplementary Information

<u>for the year ended June 30, 2004</u>

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Contents

McGOVERN & GREENE LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

The Board of Members
Quad City Garage Policy Group
Rock Island, Illinois

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Quad City Garage Policy Group as of and for the year ended June 30, 2004, which collectively comprise the Group's general-purpose financial statements as listed in the table of contents. These financial statements are the responsibility of the Quad City Garage Policy Group'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Quad City Garage Policy Group, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2004 on our consideration of the Quad City Garage Policy Group's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

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The accompanying required supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 18 through 23, are not a required part of the basic financial statements but are 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 express no opinion on it.

McGovern & Greene LLP

Chicago, Illinois
October 19, 2004, except for Notes 1-2 and 6-10, as to which the date is July 31, 2006.

QUAD CITY GARAGE POLICY GROUP

Management's Discussion and Analysis

for the year ended June 30, 2004

About the Financial Statements of Quad City Garage Policy Group

This section of the financial report presents our discussion and analysis of the group's financial performance during the fiscal year end June 30, 2004. Please read it in conjunction with the group's financial statements. The financial statements of the Quad City Garage Policy Group are presented on an accrual basis. Accounting principles used are similar to principles applicable in the private sector. The QCGPG's basic financial statements consist of a Statement of Net Assets, the Statement of Revenue, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These statements are the measures used to evaluate the short-term and long-term outlook of the QCGPG's finances and are used in conjunction with the Annual Budget, which is the QCGPG's financial plan for the fiscal year.

Statement of Net Assets

The Statement of Net Assets presents the assets and liabilities of the QCGPG similar to the private sector on an accrual basis. Revenues and expenses are recognized when incurred rather than when cash is paid or received. The difference between assets and liabilities as reflected on the Statement of Net Assets represents the financial position of the QCGPG or the net assets. A comparative analysis of the QCGPG's net assets is presented below (Table 1).

Table 1
Net Assets
(000's)

	FY04
Current and other assets	$ 128
Inventories	353
Capital assets	8
Total assets	489
Current and other liabilities	254
Total liabilities	254
Net assets:	
Invested in capital assets	8
Restricted	0
Unrestricted	227
Total Net Assets	$ 235

Overall Financial Position

For the year ended June 30, 2004, the QCGPG's net assets decreased by 50 percent ($235 compared to $470). Unrestricted net assets used to finance the QCGPG operations decreased by 49.6 percent ($227 compared to $450). The QCGPG has no restricted assets. The decrease of $235.2 in total assets is illustrated in the Changes in Net Assets schedule below (Table 2).

Table 2
Changes in Net Assets
(000's)

	FY04
Operating Revenues	
Sale of Maintenance	$ 3,130.6
Total Operating Revenue	3,130.6
Operating Expenses	3,367.7
Deficit/Surplus from Operations	(237.1)
Non-Operating Revenues	
Investment	.6
Other	1.3
Total Non-Operating Revenue	1.9
Increase (Decrease) in Net Assets	$ (235.2)

For the year ended June 30, 2004, the QCGPG's operating revenue decreased by 9 percent ($327.2 thousand). The QCGPG's revenue is based on a direct reimbursement for expenses. Therefore, the reduction in revenue is attributable to MetroLINK's replacement of twenty-nine (29) revenue vehicles, CitiBus' replacement of twelve (12) revenue vehicles, and reductions in staff.

Investment income decreased 27.2 percent ($234) due to decreased cash balances in the operating account. However, the lower interest rate earned on the QCGPG's cash balances also contributed.

Total operating expenses decreased 2.1 percent from FY04 to FY03. A few of the significant line item increases and/or decreases were as follows: Revenue Vehicle Operations increased 3.1 percent ($17 thousand) due to the increase in diesel fuel cost per gallon; Maintenance Administration increased 17.6 percent ($58 thousand) due to a new contract with First Transit for a Maintenance Manager due to a staff member retiring; Inspection and Maintenance of Revenue Equipment decreased 23.4 percent ($387 thousand) due to the reduction in wages and parts needed to maintain the older vehicles that were replaced; Maintenance of Service Vehicles decreased 83.1 percent ($33 thousand) due to the replacement of service vehicles; Maintenance of Shop, Building, Grounds, and Equipment increased 11.9 percent ($23 thousand) due to repairs to the HVAC system; and General Administration decreased 15.8 percent ($28 thousand) due to the entities reducing it's office supply purchases.

Budgetary Highlights

A comparative analysis of the QCGPG's actual expense results compared to budget is presented below (Table 3). The QCGPG's actual appropriations of expenditures for the year were 5.1 percent ($172.6 thousand) below budgeted appropriations. Wages were 4.8 percent ($38.9 thousand) below budget due to a reallocation of wage expense from payroll accruals. Fringe benefits were 11.1 percent ($70.2 thousand) below budget. This was due to a reallocation of wage expense from payroll accruals and a reduction in fringes based on a percentage of wages and health insurance reduction due to staff reductions and no personnel completing the ASE certifications. Fuel was 13.0 percent ($60.6 thousand) over budget due to increase in diesel and gasoline prices. Materials and supplies were 32.8 percent ($285.0 thousand) below budget due to the replacement of older revenue vehicles. Utilities were 1.9 percent ($2.6 thousand) above budget due to increased natural gas prices. Miscellaneous expense were 90.3 percent ($19.5 thousand) below budget to the budget being based on fraudulent numbers.

The QCGPG's revenue for the year was 7.4 percent ($251.0 thousand) less than budget.

Table 3
Annual Budget
(000's)

	Budget	Actual
Sale of Maintenance	$ 3,383.4	$ 3,130.6
Interest	0	.6
Vending	0	0
Misc	0	1.2
Total Revenue	**3,383.4**	**3,132.4**
Wages	803.1	764.2
Fringes	630.6	560.4
Services	423.7	421.6
Fuel	464.4	525.0
Materials & Supplies	869.6	584.6
Utilities	135.5	138.1
Casualty/Liability and Losses	20.4	18.1
Misc	21.6	2.1
Leases	14.5	13.1
Embezzlement Loss		183.6
Total Operating Expenses without Depreciation and Inventory Write-off	**$ 3,383.4**	**$ 3,210.8**

Capital Assets

A comparative analysis of the changes in the QCGPG's capital assets for the year ended June 30, 2004 is presented in Table 4. Net property, plant, and equipment decreased by $12.5 thousand. A physical inventory was conducted in FY04 and most of the reductions listed are due to disposals in prior years. The reduction in the asset categories was not recorded until FY04.

Vehicle maintenance decreased 63.4% ($19.7 thousand) due to the disposal of a transmission test stand, paint sprayer, and air jack. Installed Machinery & Equipment decreased 18.9% due to the disposal of a Bozke Dozer, El Combo, and miscellaneous other items, too numerous to mention. Radio equipment decreased 100% ($3.7 thousand) due to the disposal of remote radio sets and base unit antenna. Computer equipment decreased 100% due to the disposal of five (5) desktop computers, one (1) laptop computer, and two (2) printers. Office furniture and equipment decreased 6.3% ($4.7 thousand) due to disposal of chairs, bookcases, tables and numerous smaller items too numerous to mention. Accumulated depreciation decreased by $41.2 thousand.

Table 4
Capital assets at Year-End
(000's)

	FY04
Vehicle Maintenance	$ 11.4
Installed Machinery & Equipment	80.6
Radio Equipment	0.0
Computer Equipment	0.0
Office Furniture & Equipment	69.9
	161.9
Accumulated Depreciation	(153.5)
Property, Plant, and Equipment - Net	**$ 8.4**

Obsolete Materials Inventory

During the June 30th, 2004 physical inventory, obsolete parts inventory was identified. These parts are for revenue vehicles either disposed of or scheduled for disposal. The purchased value of the parts is $144,372. However, these parts have no market value and have been written off in this current year.

Fraudulent Transactions

In December 2003, management discovered that an employee of the Quad City Garage Policy Group (QCGPG) was embezzling funds. Upon verification, the employee was terminated. The embezzlement loss for FY2004 is approximately $183,600. The QCGPG has referred the case over to the Federal Bureau of Investigation (FBI); filed a claim with its insurance carrier, and is seeking civil damages. To date, the QCGPG has not received any type of retribution funds.

Economic Trends

Due to the forty-one (41) replacement vehicles purchased by the two (2) entities in 2003 and 2004, labor and materials and supplies for vehicle maintenance should be steady in FY05. However, due to the age of the maintenance facility, wages, fringes, contract maintenance as well as materials and supplies for building maintenance may increase. In addition, due to obsolete inventory, each entity may have to "cost share" re-stocking parts inventory for cash flow necessity.

Contacting the QCGPG's Management

The financial reports of the QCGPG provide an overview for the public of the financial accountability the QCGPG maintains for the resources received. Further questions concerning this report should be directed to Matt Bean, Director of Maintenance (Quad City Garage Policy Group), 2929 5th Ave., Rock Island, IL 61201.

QUAD CITY GARAGE POLICY GROUP
Statement of Net Assets
at June 30, 2004

	2004
ASSETS:	
Current assets:	
Cash and cash equivalents	$30,646
Account receivable - City of Davenport	91,275
Materials and supplies inventory	352,704
Prepaid expenses and other assets	6,829
Total current assets	481,454
Capital assets:	
Property and equipment	161,867
Less accumulated depreciation and amortization	(153,459)
Net capital assets	8,408
Total assets	$489,862
LIABILITIES:	
Current liabilities:	
Accounts payable and accrued expenses	$150,021
Due to MetroLINK	104,355
Total liabilities	$254,376
NET ASSETS:	
Invested in capital assets	$8,408
Unrestricted	227,078
Total net assets	$235,486

The accompanying notes are an integral part of this financial statement.

QUAD CITY GARAGE POLICY GROUP
Statement of Revenue, Expenses, and Changes in Net Assets
for the year ended June 30, 2004

	2004
OPERATING REVENUE:	
Revenue from sale of maintenance services	$3,130,662
OPERATING EXPENSES:	
Wages and related employee benefits:	
Wages	764,213
Paid time - holiday, sick, vacation and other	181,235
Group medical, life and disability insurance	211,108
Pensions	54,891
Social security and other payroll taxes	75,385
Worker's compensation	24,573
Other	13,291
	1,324,696
Other operating expenses:	
Materials and supplies consumed	584,550
Fuel and oil consumed	525,004
Contract services	421,564
Utilities	138,091
Casualty and liability insurance	18,130
Lease and rental	13,138
Depreciation	12,541
Miscellaneous	2,057
Write-off of Obsolete Inventory	144,372
Embezzlement Loss	183,571
	2,043,018
Total operating expenses	3,367,714
Operating income	(237,052)

The accompanying notes are an integral part of this financial statement.

QUAD CITY GARAGE POLICY GROUP
Statement of Revenue, Expenses, and Changes in Net Assets
for the year ended June 30, 2004

	2004
NONOPERATING REVENUE:	
Other income	1,234
Interest Income	625
Total nonoperating revenue	1,859
Increase (Decrease) in net assets	(235,193)
BEGINNING OF YEAR NET ASSETS	470,679
END OF YEAR NET ASSETS	$235,486

The accompanying notes are an integral part of this financial statement.

QUAD CITY GARAGE POLICY GROUP
Statement of Cash Flows
for the year ended June 30, 2004

	2004
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received for sale of maintenance services	$3,164,098
Wages and benefits paid to employees	(1,323,621)
Payments to suppliers for goods and services	(1,736,656)
Cash embezzlement	(183,571)
Other receipts	1,859
Net cash provided (used) by operating activities	(77,891)
CASH FLOWS PROVIDED FROM NON-CAPITAL FINANCING ACTIVITIES	
Loans from MetroLINK	104,354
Repayment of loans to MetroLINK	
Cash flow provided (used) by non-capital financing activities	104,354
NET INCREASE IN CASH AND CASH EQUIVALENTS	26,463
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	4,183
CASH AND CASH EQUIVALENTS - END OF YEAR	$30,646
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Increase (decrease) in net assets	$(235,193)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:	
Depreciation	12,541
Decrease (increase) in accounts receivable	33,436
Decrease (increase) in materials and supplies inventory	117,424
Decrease (increase) in prepaid expenses and other assets	(1,481)
Increase (decrease) in accounts payable and accrued expenses	(4,618)
Net cash provided (used) by operating activities	$(77,891)

The accompanying notes are an integral part of this financial statement.

NOTE 1 – REPORTING ENTITY

The Quad City Garage Policy Group ("Group") was formed by the City of Davenport, Iowa and the Rock Island County, Illinois Metropolitan Mass Transit District ("Metrolink") under Chapters 34, 85, and 127 of the Illinois Revised Statutes and Chapter 28E of the Iowa Code in 1979. The purpose of the Group is to provide joint maintenance and storage facilities for transit revenue vehicles. The Group uses a facility located in Rock Island at 2929 Fifth Avenue. The facility has approximately 75,000 square feet and is jointly owned, 58% by Metrolink and 42% by the City of Davenport. The facility is used by the Group rent free.

The Group is a jointly governed entity administered by a Board of Members ("Board") that acts as the authoritative and legislative body of the entity. The Board is comprised of six board members, three members are appointed by Metrolink and three members are appointed by the City of Davenport, Iowa. Each board member serves a term of one year; there are no term limits for reappointment. At each meeting there are four voting members – two from Metrolink and two from City of Davenport. In addition, there is one alternate member and one Chairperson.

The Board annually appoints the Chairperson of the Board from existing board members. The Chairperson's responsibilities are to preside at all meetings of the Board; be the chief officer of the Group; perform all duties commonly incident to the presiding officer of a board, commission or business organization and exercise supervision over the business of the Group, its officers and employees.

The Board contracts for a Manager of the Group. The contract for the Manager is passed by resolution of the Board. The Manager's main responsibility is acting as chief executive officer of the Group as prescribed by the Board.

In accordance with the requirements of Statement No. 14, The Financial Reporting Entity, of the Governmental Accounting Standards Board (GASB), the financial statements must present the Group (the primary government and its component units). Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Funding of Operations

The Group is subsidized by MetroLINK and the City of Davenport, Iowa based upon the amended Joint Ownership Agreement and Operating Rules for the Group dated May 23, 2000. The agreement has a term of 10 years ending June 20, 2010 and may be renewed or amended at anytime. In the event that the agreement is not renewed or amended upon its expiration, liquidation of all assets shall be made within 90 days.

B. Financial Reporting

In 2004, the Group implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Statements – and Management's Discussion and Analysis for State and Local Governments* (Statement 34). 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* (Statement 37), and 38, *Certain Financial Statement Note Disclosures* (Statement 38), which establish the financial reporting standards for all state and local governmental entities.

The accompanying financial statements have been prepared using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flow. The financial statements of the Group consist of one fund classified as an enterprise fund for financial reporting purposes.

C. Accounting for Proprietary Fund Activities

The Group has chosen the option to apply all relevant Governmental Accounting Standards Board (GASB) pronouncements, all 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 or contradict GASB pronouncement to the enterprise fund activities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

E. Cash and Cash Equivalents

Cash and cash equivalents to include all bank accounts with less than three months maturity.

F. Cash Deposits

The Group maintains its cash deposits at one Illinois financial institution. At June 30, 2004, the carrying amount of deposits was $27,463. The Group's bank deposits are fully insured by Federal Depository Insurance up to $100,000.

G. Accounts Receivable

Management believes that all accounts receivable at June 30, 2004 were fully collectible; therefore, no allowance for doubtful accounts was recorded.

H. Materials Inventory

Materials inventory is stated at the lower of cost (weighted average method) or market and include items to support the Group's operations.

I. Capital Assets

Capital assets are stated at historical cost. An asset is capitalized if the cost is greater than $5,000 and has a useful life greater than one year.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation is provided on the straight-line method at rates that are designed to amortize the original cost of the property over its estimated useful life. The major categories of Group property in service and their estimated useful lives are as follows at June 30:

	Estimated useful life
Vehicle Maintenance – Group	5-10 years
Installed Machinery and Equipment	5-40 years
Office Equipment and Furniture	5-7 years

J. Compensated Absences

Employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. Accumulated vacation at June 30, 2004 approximated $28,927.

Two other types of compensated absences that the Group provides are sick leave and holiday hours. Sick leave automatically terminates on the day an employee quits or is terminated. However, if an employee retires, he or she is entitles to 70% of accumulated sick leave hours in excess of 720 up to 2,400 hours, as computed at his or her straight-time hourly rate. Holiday hours are lost at the end of the year if not taken. The Group did not have any vested sick leave at June 30, 2004.

K. Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used by the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use or external restrictions by creditors, grantors, laws or regulations of the other governments.

L. Operating and Non-Operating Revenues

Operating revenues consist of sales of maintenance services to MetroLINK and the City of Davenport as described in the amended Joint Ownership Agreement and Operating Rules.

Non-operating revenues consist of miscellaneous receipts from sales of obsolete parts and insurance reimbursement as described in Note 10.

NOTE 3 – MACHINERY AND EQUIPMENT

Machinery and equipment are summarized by major classifications as follows:

Vehicle Maintenance - Group	$	11,350
Installed Machinery and Equipment		80,636
Office Equipment and Furniture		69,881
Total Cost		161,867
Less Accumulated Depreciation		153,459
Net Machinery and Equipment	$	8,408

NOTE 4 – PENSION AND RETIREMENT BENEFITS

The Group contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50302-9117.

Plan members are required to contribute 3.70% of their annual salary and the Group is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Group's contributions to IPERS for the years ended June 30 were as follows:

	Contribution	
	Amount	Percentage
1998	$ 38,998	5.75%
1999	42,271	5.75%
2000	45,085	5.75%
2001	47,897	5.75%
2002	49,233	5.75%
2003	54,825	5.75%
2004	54,891	5.75%

NOTE 5- CAPITAL ASSETS

Capital Assets at June 30, 2004 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Garage machinery and equipment	$ 134,083		$ 42,097	$ 91,986
Office Furnishings and equipment	81,526		11,645	69,881
Total Capital Assets at historical cost	215,609		53,742	161,867
Less Accumulated Depreciation for:				
Garage machinery and equipment	125,474	$ 4,106	42,097	87,483
Office Furnishings and equipment	69,186	8,435	11,645	65,976
	194,660	12,541	53,742	153,459
Capital assets, net	$ 20,949	$ (12,541)	$ 0	$ 8,408

NOTE 6 – JOINT VENTURES

The Group was created by virtue of a Joint Venture Agreement in April of 1979 for the purpose overseeing and operating a joint maintenance and storage facility for transit revenue vehicles and related equipment owned and/or operated by the Davenport Department of Municipal Transportation (Citibus) and Rock Island County Metropolitan Mass Transit District (dba MetroLINK) by the virtue of the powers granted to them by Chapter 34, Sections 3001 – 3005, Chapter 85 Section 1021 and Chapter 127, Sections 741 – 748, Illinois Revised Statutes, 1973; and Chapter 28E, Code of Iowa, 1979.

NOTE 7 – ENTITY RISK MANAGEMENT

The Group is exposed to various risks of loss during its operations. The Group maintains insurance coverage to protect against losses related to real and personal property, general liabilities, crime, automobile liabilities, workers' compensation and catastrophes. Management does not believe the uninsured risks are significant.

In the normal course of business, the Group may become a party to lawsuits in which they defend or settle such actions. When actions are deemed probably of settlement or loss, estimated provisions for losses are provided in the combined financial statements.

NOTE 8 – OPERATING LEASES

The Group leases office copiers on an annual basis. There is no commitment for future rental payments. Rent expense for these copies for 2004 was $13,139.

NOTE 9 – OBSOLETE MATERIALS INVENTORY

Management identified $144,372 in obsolete parts inventory associated with vehicles no longer in service in 2004. The obsolete inventory has no market value and has been written off to other operating expenses in 2004.

NOTE 10 – EMBEZZLEMENT LOSS

A former employee embezzled approximately $800,000 from the Group beginning in 2001 until its discovery in December 2003. The embezzlement loss attributed to fiscal 2004 is $183,571. The Group filed a claim with its insurance carrier; and received $125,000 in 2005, which represented the full policy limit of coverage for employee dishonesty. This amount has been accounted for in non-operating revenue. A civil lawsuit has also been filed against the Group's previous auditing firm for failure to detect the embezzlement.

SUPPLEMENTARY INFORMATION

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget
for the year ended June 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue vehicle operations:			
Fuel	$436,000	$500,596	$(64,596)
Oil	22,021	19,137	2,884
Anti-freeze	3,622	2,432	1,190
Tires	60,795	52,672	8,123
Total revenue vehicle operations	522,438	574,837	(52,399)
Maintenance administration:			
Wages	207,575	188,269	19,306
Social security	18,345	15,336	3,009
Pension	18,345	11,499	6,846
Health insurance	60,086	39,211	20,875
Life insurance	1,239	1,139	100
Disability insurance	1,654	1,673	(19)
Unemployment	500	458	42
Workman's compensation	12,000	768	11,232
Sick leave	4,500	6,314	(1,814)
Holiday	8,208	5,582	2,626
Vacation	15,417	15,994	(577)
Uniform allowance	1,142	800	342
Other fringe benefits	0	260	(260)
Casual days	2,266	2,393	(127)
Professional services	62,000	92,233	(30,233)
Temporary help	500	10,066	(9,566)
Miscellaneous	0	(1,752)	1,752
Total maintenance administration	413,777	390,243	23,534

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget
for the year ended June 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
Service equipment:			
Wages	$92,180	$108,631	$(16,451)
Cleanup	2,814	3,063	(249)
Social security	7,267	5,743	1,524
Pension	5,462	4,148	1,314
Unemployment	702	524	178
Workman's compensation	5,000	4,225	775
Holiday expense	1,760	1,878	(118)
Uniform and tool allowance	1,500	1,276	224
Other fringe benefits	500	110	390
Break time	2,817	3,065	(248)
Casual days	165	729	(564)
Contract maintenance	173,762	159,184	14,578
Materials and supplies	65,000	37,026	27,974
Total service equipment	358,929	329,602	29,327
Inspection and maintenance:			
Wages	422,469	378,829	43,640
Cleanup	17,772	17,196	576
Training wages	15,584	10,907	4,677
Testing wages	8,000	0	8,000
Social security	43,570	46,626	(3,056)
Pension	32,749	35,294	(2,545)
Health insurance	199,394	144,197	55,197
Life insurance	3,095	3,778	(683)
Disability	5,055	4,997	58
Unemployment	1,658	1,478	180
Workman's compensation	15,787	17,840	(2,053)
Sick leave	37,018	22,685	14,333
Holiday expense	23,983	22,159	1,824
Vacation	39,493	46,333	(6,840)

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget
for the year ended June 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
Inspection and maintenance (continued):			
Uniform	$6,261	$4,905	$1,356
Tool allowance	3,400	2,967	433
Other fringe benefits	1,580	1,608	(28)
Break time	33,674	31,895	1,779
Casual days	7,763	9,877	(2,114)
Professional services	2,000	0	2,000
Contract maintenance	49,155	31,395	17,760
Parts and supplies	549,000	367,719	181,281
Miscellaneous materials and supplies	119,093	64,398	54,695
Meetings and training	0	962	(962)
Total inspection and maintenance	1,637,553	1,268,045	369,508
Accident repair:			
Wages	5,000	5,721	(721)
Contract maintenance	224	0	224
Parts	3,000	3,233	(233)
Total accident repair	8,224	8,954	(730)
Vandalism repair:			
Wages	734	262	472
Contract maintenance	0	0	0
Parts	1,100	92	1,008
Total vandalism repair	1,834	354	1,480
Servicing and fueling:			
Fuel and oil	6,373	5,271	1,102
Contract maintenance	5,272	3,886	1,386
Tires	800	133	667
Total servicing and fueling	12,445	9,290	3,155

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget
for the year ended June 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
Maintenance of service vehicles:			
Wages	$6,700	$4,417	$2283
Contract maintenance	2,550	358	2192
Materials and supplies	7,500	1,882	5,618
Total maintenance of service vehicles	16,750	6,657	10,093
Maintenance of fareboxes:			
Wages	13,553	7,845	5,708
Materials and supplies	11,800	8,182	3,618
Total maintenance of fareboxes	25,353	16,027	9,326
Maintenance of shop, buildings, grounds, and equipment:			
Wages	10,750	39,073	(28,323)
Social security	1,000	5,219	(4,219)
Pension	538	3,950	(3,412)
Health insurance	2,500	15,297	(12,797)
Life insurance	75	353	(278)
Disability insurance	75	463	(388)
Unemployment	25	1	24
Workman's compensation	500	1,740	(1,240)
Sick leave	765	2,705	(1,940)
Holiday	925	7,156	(6,231)
Uniform	125	574	(449)
Tool	50	502	(452)
Other fringe benefits	25	289	(264)
Break time	600	2,470	(1,870)
Temporary help	500	0	500
Contract maintenance	50,000	50,810	(810)
Custodial services	56,000	50,487	5,513
Parts and supplies	0	360	(360)
Miscellaneous materials and supplies	24,000	32,201	(8,201)

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget
for the year ended June 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
Maintenance of shop, buildings, grounds, and equipment (continued):			
Other expenses	$0	$2,047	$(2,047)
Total maintenance of shop, building grounds, and equipment	148,453	215,697	(67,244)
Security service:			
Contract maintenance	3,500	1,716	1,784
Security system	219	0	219
Total security services	3,719	1,716	2,003
Injuries and damage premiums	8,200	5,994	2,206
Personnel administration:			
Professional services	0	568	(568)
Employee physicals	4,000	1,689	2,311
Other expenses	0	1,528	(1,528)
Total personnel administration	4,000	3,785	215
General legal services	100	4,844	(4,744)
General insurance:			0
Premium - fire	11,200	11,665	(465)
Premium - fidelity	1,000	471	529
Total general insurance	12,200	12,136	64
Data processing services	325	0	325
Finance and accounting services	13,580	12,800	780
Office management - materials and supplies	23,922	14,220	9,702

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget
for the year ended June 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
General administration:			
Utilities	$135,550	$138,091	$(2,541)
Travel	3,342	0	3,342
Miscellaneous	18,215	800	17,415
Lease/rental	14,500	13,138	1,362
Total general administration	171,607	152,029	19,578
Total budgeted expenses	$3,383,409	3,027,230	$356,179
Depreciation		12,541	
Embezzlement loss		183,571	
Write-off of obsolete inventory		144,372	
Total expenses		$3,367,714	

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards

The Board of Members
Quad City Garage Policy Group
Rock Island, Illinois

We have audited the financial statements of the governmental activities of Quad City Garage Policy Group as of and for the year ended June 30, 2004, which collectively comprise the Quad City Garage Policy Group's basic financial statements and have issued our report thereon dated October 19, 2004. 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.

Internal Control over Financial Reporting
In planning and performing our audit, we considered Quad City Garage Policy Group's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Quad City Garage Policy Group's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable condition is described in the accompanying schedule of findings and questioned costs as Items 1 and 2 on page 26.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable condition described above, we consider Item 1 to be a material weakness.

Compliance
As part of obtaining reasonable assurance about whether Quad City Garage Policy Group's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct 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 solely for the information and use of the Board of Trustees, management and pass-through entities is not intended to be and should not be used by anyone other than these specified parties.

McGovern & Greene LLP

Chicago, Illinois
October 19, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Item 1 – Lack of Internal Controls over Materials Inventory

Our audit found that a basic internal control of segregation of duties was not adequate over the Group's materials inventory. Segregation of duties requires that the functions of authorizing the procurement of an asset; custody of that asset; and recording of the asset should be separated. We found that the Group has one individual that is responsible for ordering, receiving, reconciling and adjusting the perpetual inventory system.

The current policy is that all purchases and adjustments require approval of the Group's manager. On a monthly basis, the Financial Specialist reconciles the inventory to the extended price book and general ledger. All discrepancies, are investigated, documented and if necessary, corrected. Despite these control procedures, the current controls can be circumvented and thus, are not adequate.

Additionally, our audit testing revealed that the unit prices in the perpetual inventory system did not agree with the supporting invoices. This is because the purchase orders do not contain the current unit price. The correct unit price is not changed in the perpetual inventory system until the actual invoice is received. This is a problem because if work is completed and billed out prior to the invoice being received, the part may be billed at an incorrect price. Management is addressing this issue by ensuring all purchase orders reflect current unit prices. Furthermore, a three-way match of purchase orders versus receiving documents versus invoices is not being performed. This is important because it ensures that all expenses are bona fide and were properly authorized prior to payment of invoice.

We recommend that the Group segregate the duties over inventory control by having the Administrative Assistant responsible for all inventory adjustments. Another control we recommend would be for the general manager to review the Audit Log on a monthly basis to identify any unapproved entries to the inventory system. In addition, the purchase orders in the perpetual inventory system must contain the correct unit prices and a three-way match should be performed as a final control.

Item 2 – Lack of Segregation of Duties over Bank Accounts

The Group's bank accounts are being reconciled by an individual, who is not independent of the payable, cash receipts and billing functions. This lack of segregation of duties in reconciling the Group's bank accounts makes the accounts susceptible to theft. Bank reconciliations must be performed monthly by a party independent of the accounting function. Furthermore, the bank statements should be received by this same independent individual to ensure that the statements have not been altered in any way. The reconciliation should also ensure that all vendors paid are on an approved vendor list and all payments to employees are bona fide. We recommend that the Group appoint or contract with an independent individual to reconcile the bank accounts and review the payees.