Quad City Garage Policy Group

Audits of Financial Statements
with
Supplementary Information

for the years ended June 30, 2005 and 2004

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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 years ended June 30, 2005 and 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, 2005 and 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 July 22, 2005 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.

The accompanying required supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 2 through 8 and 19 through 24, 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
July 22, 2005

QUAD CITY GARAGE POLICY GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended June 30, 2005 and 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, 2005. Pleas 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)

	FY05	FY04
Current and other assets	117	123
Inventories	421	354
Capital assets	3	8
Total assets	541	490
Current and other liabilities	253	254
Total liabilities		
Net assets:		
Invested in capital assets	8	8
Restricted	0	0
Unrestricted	227	227
Total Net Assets	235	235

Overall financial position

For the year ended June 30, 2005, the QCGPG's net assets decreased by 50 percent ($235 compared to $470). Unrestricted net assets used to finance the QCGPG operations decreased by 48.9 percent ($227 compared to $445). The QCGPG has no restricted assets. The increase of $1,848 in total assets is illustrated in the Changes in Net Assets schedule below (Table 2).

Table 2
Changes in Net Assets
(000's)

	FY05	FY04
Operating Revenues		
Sale of Maintenance	3,418.7	3,130.6
Total Operating Revenue	3,418.7	3,130.6
Operating Expenses	3,394.2	3,184.1
Deficit/Surplus from Operations	24.5	(53.4)
Non-Operating Revenues		
Investment	.45	.6
Other	131.1	1.2
Total Non-Operating Revenue	131.55	1.8
Non-Operating Expenses		
Increase (Decrease) in Net Assets	156.05	(235.2)

For the year ended June 30, 2005, the QCGPG's operating revenue increased by 9 percent ($288.1 thousand). The QCGPG's revenue is based on a direct reimbursement for expenses. Therefore, the increase in revenue is attributable to increased costs due to expiring warranties and increased costs as the fleet of Citibus and MetroLINK age.

Investment income decreased 25 percent ($234) due to decreased cash balances in the operating account

Total operating expenses increased 7 percent from FY05 to FY04. A few of the significant line item increases and/or decreases were as follows: Revenue Vehicle Operations increased 37 percent ($22 thousand) due to the increase in diesel fuel cost per gallon; Maintenance Administration decreased 6 percent ($1.8 thousand) due to reorganization. Servicing of buses increased 16 percent ($4.7 thousand) due to a steady turnover of Service Worker's which had to be filled with mechanics working overtime; Maintenance of Revenue Equipment decreased 16 percent ($19.6 thousand) due to the reduction in wages and parts needed to maintain the older vehicles that were replaced;

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 1.75 percent ($60.5 thousand) below budgeted appropriations. Wages were 3.54 percent ($24.1 thousand) above budget primarily due to overtime paid to mechanics to perform service work. Fringe benefits were 8.26 percent ($49.3 thousand) below budget. This was staff, which was on unpaid leave and due to vacancies in the staffing levels as well as, personnel completing the ASE certifications. Outside services were 5.75% (26.9 thousand) above budget. Fuel was 23.9 percent ($140.3 thousand) over budget due to increase in diesel and gasoline prices. Materials and supplies were 20.64 percent ($184.8 thousand) below budget due to the replacement of older revenue vehicles. Utilities were 11.65 percent ($18.6 thousand) below budget. Miscellaneous expense were 23.6 percent ($6.6 thousand) below budget.

The QCGPG's revenue for the year was 2.97 percent ($102.5 thousand) more than budget, almost exclusively to the $125,000.00 received from Acuity for the fraud case.

Table 3
Annual Budget

	Actual	Budget
Sale of Maintenance	$ 3,418,726.00	$ 3,454,752.00
Interest	$ 451.00	$ -
Vending	$ 618.00	$ -
Misc	$ 137,482.00	$ -
Total Revenue	**$ 3,557,277.00**	**$ 3,454,752.00**
Wages	$ 704,717.00	$ 680,604.00
Fringes	$ 548,291.00	$ 597,648.00
Services	$ 496,877.00	$ 469,880.00
Fuel	$ 727,762.00	$ 587,376.00
Materials & Supplies	$ 710,776.00	$ 895,596.00
Utilities	$ 141,351.00	$ 159,996.00
Casualty/Liability and Losses	$ 24,973.00	$ 21,012.00
Misc	$ 21,524.00	$ 28,176.00
Leases	$ 17,965.00	$ 14,496.00
Total Operating Expenses w/o Depr	**$ 3,394,236.00**	**$ 3,454,784.00**

Capital Assets

A comparative analysis of the changes in the QCGPG's capital assets for the year ended June 30, 2005 is presented in Table 4. Net property, plant, and equipment decreased by $5.2 thousand. The reduction is due solely to depreciation as no Capital Assets were obtained or disposed of during 2005.

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

	FY05	FY04
Vehicle Maintenance	11.4	11.4
Installed Machinery & Equipment	80.6	80.6
Radio Equipment	0.0	0.0
Computer Equipment	0.0	0.0
Office Furniture & Equipment	69.9	69.9
	161.8	**161.8**
	-	-
Accumulated Depr	(158.7)	(153.5)
	-	-
Property, Plant, and Equipment - Net	**3.1**	**8.3**

1) **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 was 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. The employee has been charged with the embezzlement and convicted. To date the QCGPG has received 125,000.00 from the auditing firms bond company. The QCGPG is still seeking civil damages through litigation.

2) Economic Trends

As the new fleet ages and the units are no longer under warranty, the maintenance costs for both entities will more than likely continue increase. Also, 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, the inventory that was written off in FY2004 has not been billed to either entity although we have issued a summary to both entities, which we believe to be the amount attributable for each of their fleets. We hope to be able to settle this matter soon. This matter will have to be settled in order to allow the garage to have the operating capital to function more effectively.

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, 2005 and 2004

	2005	2004
ASSETS:		
Current assets:		
Cash and cash equivalents	$117,111	$30,646
Account receivable - City of Davenport	82,460	91,275
Materials and supplies inventory	421,837	352,704
Prepaid expenses and other assets	9,782	6,829
Total current assets	631,190	481,454
Capital assets:		
Property and equipment	161,867	161,867
Less accumulated depreciation and amortization	(158,660)	(153,459)
Net capital assets	3,207	8,408
Total assets	$634,397	$489,862
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued expenses	$195,548	$150,021
Due to MetroLINK	60,321	104,355
Total liabilities	$255,869	$254,376
NET ASSETS:		
Invested in capital assets	$3,207	$8,408
Unrestricted	375,321	227,078
Total net assets	$378,528	$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 years ended June 30, 2005 and 2004

	2005	2004
OPERATING REVENUE:		
Revenue from sale of maintenance services	$3,418,726	$3,130,662
OPERATING EXPENSES:		
Wages and related employee benefits:		
Wages	729,777	764,213
Paid time - holiday, sick, vacation and other	171,538	181,235
Group medical, life and disability insurance	229,030	211,108
Pensions	52,015	54,891
Social security and other payroll taxes	72,872	75,385
Worker's compensation	17,601	24,573
Other	11,804	13,291
	1,284,637	1,324,696
Other operating expenses:		
Materials and supplies consumed	679,577	584,550
Fuel and oil consumed	758,961	525,004
Contract services	496,085	421,564
Utilities	141,351	138,091
Casualty and liability insurance	23,987	18,130
Lease and rental	17,965	13,138
Depreciation	5,201	12,541
Miscellaneous	17,115	2,057
Write-off of Obsolete Inventory	0	144,372
Embezzlement Loss	0	183,571
	2,140,242	2,043,018
Total operating expenses	3,424,879	3,367,714
Operating income	(6,153)	(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

	2005	2004
NONOPERATING REVENUE:		
Other income	148,744	1,234
Interest Income	451	625
Total nonoperating revenue	149,195	1,859
Increase (Decrease) in net assets	143,042	(235,193)
BEGINNING OF YEAR NET ASSETS	235,486	470,679
END OF YEAR NET ASSETS	$378,528	$235,486

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

QUAD CITY GARAGE POLICY GROUP
Statement of Cash Flows
for the years ended June 30, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for sale of maintenance services	$3,427,541	$3,164,098
Wages and benefits paid to employees	(1,290,318)	(1,323,621)
Payments to suppliers for goods and services	(2,155,919)	(1,736,656)
Cash embezzlement	0	(183,571)
Other receipts	149,195	1,859
Net cash provided (used) by operating activities	130,499	(77,891)
CASH FLOWS PROVIDED FROM NON-CAPITAL FINANCING ACTIVITIES		
Loans from MetroLINK		104,354
Repayment of loans to MetroLINK	(44,034)	
Cash flow provided (used) by non-capital financing activities	(44,034)	104,354
NET INCREASE IN CASH AND CASH EQUIVALENTS	86,465	26,463
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	30,646	4,183
CASH AND CASH EQUIVALENTS - END OF YEAR	$117,111	$30,646
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Increase (decrease) in net assets	$143,042	$(235,193)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation	5,201	12,541
Decrease (increase) in accounts receivable	8,815	33,436
Decrease (increase) in materials and supplies inventory	(69,133)	117,424
Decrease (increase) in prepaid expenses and other assets	(2,953)	(1,481)
Increase (decrease) in accounts payable and accrued expenses	45,527	(4,618)
Net cash provided (used) by operating activities	$130,499	$(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, 2005, the carrying amount of deposits was $112,984. The Group's bank deposits are fully insured by Federal Depository Insurance up to $100,000. Management does not believe that the amount exceeding $100,000 ($12,984) was at risk as of June 30, 2005.

G. Accounts Receivable

Management believes that all accounts receivable at June 30, 2005 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	7-40 years
Office Equipment and Furniture	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, 2005 and 2004 was $31,873 and $28,927, respectively.

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, 2005.

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		158,660
Net Machinery and Equipment	$	3,207

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%
2005	51,348	5.75%

NOTE -5- CAPITAL ASSETS

Capital Assets at June 30, 2005 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Garage machinery and equipment	$ 91,986			$ 91,986
Office Furnishings and equipment	69,881			69,881
Total Capital Assets at historical cost	161,867			161,867
Less Accumulated Depreciation for:				
Garage machinery and equipment	87,483	$ 1,295		88,778
Office Furnishings and equipment	65,976	3,905		69,881
	153,459	5,200		158,660
Capital assets, net	$ 8,408	$ (5,201)		$ 3,207

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 win 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 2005 and 2004 was $17,965 and $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.

SUPPLEMENTAL INFORMATION

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget
for the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue vehicle operations:			
Fuel	$587,371	$727,762	$(140,391)
Oil	22,000	24,347	(2,347)
Anti-freeze	3,650	3,768	(118)
Tires	64,650	77,449	(12,799)
Total revenue vehicle operations	677,671	833,326	(155,655)
Maintenance administration:			
Wages	147,800	180,971	(33,171)
Social security	13,013	12,021	992
Pension	9,781	9,084	697
Health insurance	55,000	37,094	17,906
Life insurance	1,276	893	383
Disability insurance	1,746	1,202	544
Unemployment	515	504	11
Workman's compensation	391	393	(2)
Sick leave	5,475	5,560	(85)
Holiday	4,867	4,427	440
Vacation	10,144	12,112	(1,968)
Uniform allowance	0	555	(555)
Other fringe benefits	748	0	748
Casual days	1,825	2,128	(303)
Professional services	100,000	104,900	(4,900)
Temporary help	500	354	146
Miscellaneous	0	0	0
Total maintenance administration	353,081	372,198	(19,117)

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget
for the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
Service equipment:			
Wages	$100,535	$118,448	$(17,913)
Cleanup	2,723	3,135	(412)
Social security	8,425	5,965	2,460
Pension	6,332	4,470	1,862
Unemployment	723	540	183
Workman's compensation	3,943	2,713	1,230
Holiday expense	1,815	1,432	383
Uniform and tool allowance	1,922	1,496	426
Other fringe benefits	500	0	500
Break time	3,857	3,146	711
Casual days	699	632	67
Contract maintenance	169,095	179,901	(10,806)
Materials and supplies	65,000	69,972	(4,972)
Total service revenue	365,569	391,850	(26,281)
Inspection and maintenance:			
Wages	337,901	343,966	(6,065)
Cleanup	18,701	16,022	2,679
Training wages	15,000	7,660	7,340
Testing wages	8,000	0	8,000
Social security	39,214	47,288	(8,074)
Pension	29,474	35,918	(6,444)
Health insurance	195,376	159,992	35,384
Life insurance	4,087	3,152	935
Disability	5,338	4,308	1,030
Unemployment	1,928	2,016	(88)
Workman's compensation	18,351	12,817	5,534
Sick leave	25,029	26,839	(1,810)
Holiday expense	25,029	20,708	4,321
Vacation	49,043	44,389	4,654

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget
for the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
Inspection and maintenance (Continued):			
Uniform	$6,190	$5,341	$849
Tool allowance	3,200	2,781	419
Other fringe benefits	1,750	464	1,286
Break time	35,531	29,301	6,230
Casual days	8,343	6,451	1,892
Professional services	2,000	0	2,000
Contract maintenance	48,000	39,473	8,527
Parts and supplies	549,000	412,289	136,711
Miscellaneous materials and supplies	118,575	43,118	75,457
Meetings and training	0	0	0
Total inspection and maintenance	1,545,060	1,264,293	280,767
Accident repair:			
Wages	6,500	2,042	4,458
Contract maintenance	225	895	(670)
Parts	4,000	2,681	1,319
Total accident repair	10,725	5,618	5,107
Vandalism repair:			
Wages	600	56	544
Contract maintenance	0	960	(960)
Parts	1,100	872	228
Total vandalism repair	1,700	1,888	(188)
Servicing and fueling:			
Fuel and oil	6,225	6,852	(627)
Contract maintenance	5,300	25	5,275
Tires	800	0	800
Total servicing and fueling	12,325	6,877	5,448

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget
for the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
Maintenance of service vehicles:			
Wages	$4,700	$4,663	$37
Contract maintenance	850	273	577
Materials and supplies	7,500	1,883	5,617
Total maintenance of service vehicles	13,050	6,819	6,231
Maintenance of fareboxes:			
Wages	12,000	6,052	5,948
Materials and supplies	11,000	6,531	4,469
Total maintenance of fareboxes	23,000	12,583	10,417
Maintenance of shop, buildings, grounds, and equipment:			
Wages	26,132	46,762	(20,630)
Social security	2,130	4,538	(2,408)
Pension	1,601	2,543	(942)
Health insurance	9,000	21,387	(12,387)
Life insurance	426	423	3
Disability insurance	555	579	(24)
Unemployment	25	0	25
Workman's compensation	997	1,678	(681)
Sick leave	0	3,281	(3,281)
Holiday	0	8,109	(8,109)
Uniform	329	705	(376)
Tool	0	402	(402)
Other fringe benefits	25	60	(35)
Break time	1,683	3,023	(1,340)
Temporary help	500	0	500
Contract maintenance	51,500	50,846	654
Custodial services	57,680	53,036	4,644
Parts and supplies	0	937	(937)
Miscellaneous materials and supplies	30,000	43,011	(13,011)

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget
for the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
Maintenance of shop, buildings, grounds, and equipment, concluded:			
Other expenses	$0	$1,762	$(1,762)
Total maintenance of shop, building grounds, and equipment	182,583	243,082	(60,499)
Security Service:			
Contract maintenance	2,500	2,349	151
Security system	225	2,794	(2,569)
Total security services	2,725	5,143	(2,418)
Injuries and damage premiums	8,446	11,911	(3,465)
Personnel administration:			
Professional services	4,500	6,045	(1,545)
Employee physicals	0	1,039	(1,039)
Other expenses	0	1,469	(1,469)
Total personnel administration	4,500	8,553	(4,053)
General legal services	10,000	27,429	(17,429)
General insurance:			0
Premium - fire	11,536	11,133	403
Premium - fidelity	1,030	943	87
Total general insurance	12,566	12,076	490
Data processing services	0	0	0
Finance and accounting services	17,000	24,297	(7,297)
Office management - materials and supplies	19,100	17,066	2,034

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget
for the year ended June 30, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
General administration:			
Utilities	160,000	141,351	18,649
Travel	2,500	0	2,500
Miscellaneous	18,650	15,353	3,297
Lease/rental	14,500	17,965	(3,465)
Total general administration	195,650	174,669	20,981
Total budgeted expenses	$3,272,168	3,419,678	$(147,510)
Depreciation		5,201	
Total expenses		$3,424,879	

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, 2005, which collectively comprise the Quad City Garage Policy Group's basic financial statements and have issued our report thereon dated July 22, 2005. 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 Item 1 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 Members, 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
July 22, 2005

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.